

Harlem Village Academy East Charter School

Financial Statements

June 30, 2018

Independent Auditors' Report

Board of Trustees Harlem Village Academy East Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Harlem Village Academy East Charter School (the "School") (formerly "Harlem Village Academy Leadership Charter School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2018, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 17, 2018

Harlem Village Academy East Charter School

Statement of Financial Position June 30, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 208,338
Grants and contracts receivable	718,825
Prepaid expenses and other current assets	498
Due from related party	<u>649,415</u>
Total Current Assets	1,577,076

Property and equipment, net	171,160
Note receivable - related party	<u>750,000</u>

\$ 2,498,236

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 215,088
Accrued payroll and payroll taxes	467,378
Due to related party	<u>461,614</u>
Total Liabilities	1,144,080

Net assets, unrestricted	<u>1,354,156</u>
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\$ 2,498,236

Harlem Village Academy East Charter School

Statement of Activities Year Ended June 30, 2018

REVENUE AND SUPPORT

State and local per pupil operating revenue	\$ 12,679,992
Federal grants	663,708
State and city grants	55,583
Grant from Network	714,203
Donated services	<u>114,048</u>
Total Revenue and Support	<u>14,227,534</u>

EXPENSES

Program Services	
Regular education	11,803,414
Special education	1,456,237
Supplemental education	<u>248,643</u>
Total Program Services	13,508,294
Supporting Services	
Management and general	<u>709,681</u>
Total Expenses	<u>14,217,975</u>

Change in Net Assets	9,559
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NET ASSETS, UNRESTRICTED

Beginning of year	<u>1,344,597</u>
End of year	<u>\$ 1,354,156</u>

Harlem Village Academy East Charter School

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services				Management and General	Total
	Regular Education	Special Education	Supplemental Education	Total		
Salaries and benefits	\$ 9,550,304	\$ 1,290,781	\$ 4,071	\$ 10,845,156	\$ 500,015	\$ 11,345,171
Consultants	9,628	25,000	-	34,628	-	34,628
Contracted services - temporary	58,794	7,946	25	66,765	3,080	69,845
Audit fees	-	-	-	-	15,000	15,000
Legal fees	-	-	-	-	123,790	123,790
Books and curriculum materials	281,115	-	-	281,115	-	281,115
Recruiting and marketing	18,028	-	-	18,028	-	18,028
Student testing	18,697	-	-	18,697	-	18,697
Staff development	537,949	-	-	537,949	-	537,949
Field trips	-	-	69,093	69,093	-	69,093
After school activities	-	-	175,038	175,038	-	175,038
Supplies and materials	190,978	25,812	79	216,869	10,000	226,869
Office and postage	17,883	2,417	8	20,308	936	21,244
Insurance	110,935	14,994	47	125,976	5,809	131,785
Repairs and maintenance	51,014	6,895	22	57,931	2,671	60,602
Facilities expense	321,244	43,418	137	364,799	16,820	381,619
Depreciation and amortization	226,605	30,627	97	257,329	11,864	269,193
Food and travel	32,528	-	-	32,528	16,470	48,998
Equipment and furniture	26,427	3,572	11	30,010	1,384	31,394
Technology and communication	325,681	1,315	4	327,000	509	327,509
Miscellaneous	25,604	3,460	11	29,075	1,333	30,408
Total Expenses	<u>\$ 11,803,414</u>	<u>\$ 1,456,237</u>	<u>\$ 248,643</u>	<u>\$ 13,508,294</u>	<u>\$ 709,681</u>	<u>\$ 14,217,975</u>

See notes to financial statements

Harlem Village Academy East Charter School

Statement of Cash Flows Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 9,559
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	269,193
Changes in operating assets and liabilities	
Grants and contracts receivable	(55,657)
Prepaid expenses and other current assets	489
Due from related party	(649,415)
Accounts payable and accrued expenses	147,765
Accrued payroll and payroll taxes	(55,812)
Due to related party	<u>(609,990)</u>
Net Cash from Operating Activities	(943,868)

CASH FLOWS FROM INVESTING ACTIVITY

Purchases of property and equipment	<u>(157,086)</u>
Net Change in Cash and Cash Equivalents	(1,100,954)

CASH AND CASH EQUIVALENTS

Beginning of year	<u>1,309,292</u>
End of year	<u>\$ 208,338</u>

Harlem Village Academy East Charter School

Notes to Financial Statements

June 30, 2018

1. Organization and Tax Status

Harlem Village Academy East Charter School (the "School") (formerly "Harlem Village Academy Leadership Charter School") is a New York State, not-for-profit corporation and was incorporated on September 13, 2002 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School is dedicated to providing a high quality college preparatory education to primarily disadvantaged students. Classes commenced in East Harlem, New York, in September 2005 and the School provided education to approximately 729 students in grades kindergarten through twelve during the 2017-2018 school year.

The Board of Trustees of the State University of New York originally approved the application for the School on September 13, 2002. The Board of Trustees approved and issued several renewals to the School's charter expiring on July 31, 2020. On April 24, 2018, the Board of Trustees of School's authorizer, The State University of New York Charter Schools Institute, approved a revision to the School's charter to change the School's name from Harlem Village Academy Leadership Charter School to Harlem Village Academy East Charter School.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Harlem Village Academy East Charter School

Notes to Financial Statements

June 30, 2018

2. Summary of Significant Accounting Policies (*continued*)

Net Assets Presentation (continued)

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2018.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid financial instruments with maturities of three months or less at the time of purchase.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Equipment	3 years
Furniture and fixtures	5 years
Software	3 years

Harlem Village Academy East Charter School

Notes to Financial Statements

June 30, 2018

2. Summary of Significant Accounting Policies (*continued*)

Property and Equipment (continued)

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the year ended June 30, 2018.

Revenue and Support

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current period activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Donated Services

The School recognizes contributions of services if they create or enhance nonfinancial assets, require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the School, and are measurable.

One entity provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at a fair value of \$114,048. The value of these services is allocated to management and general services and the accompanying statements of activities and functional expenses.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

Harlem Village Academy East Charter School

Notes to Financial Statements

June 30, 2018

2. Summary of Significant Accounting Policies (*continued*)

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 17, 2018.

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

4. Related Party Transactions (not disclosed elsewhere)

The School is an affiliate of Harlem Village Academies (the "Network"), a New York State not-for-profit corporation and Harlem Village Academy West Charter School ("HVAW"), a charter school with common management and Board of Trustees. The School was not required to consolidate with HVAW as the School does not have an economic interest in the net assets of HVAW. The Network supports the School by providing educational and operating materials, training, financial support and other services.

On May 21, 2010, the School signed a promissory note for \$750,000 with the Network. The note was due May 31, 2013. The Board of Trustees approved an extension to September 30, 2021 (Repayment Date). If the note is repaid on or before the Repayment Date, there will be no interest accrued on the note. If the note is paid back after the Repayment Date, the Network shall pay interest at the lower of ten percent (10%) per annum or the maximum rate per annum permitted by applicable law on the outstanding principal amount of the note. The note may be repaid by the Network in whole or in part, without premium or penalty, at any time upon five (5) days advance written notice to the School.

For operational efficiency and purchasing power, the School shares certain expenses with HVAW and the Network. At June 30, 2018, the balance due to HVAW was \$461,614 and the balance due from the Network was \$649,415.

During the year ended June 30, 2018, the Network granted \$714,203 to support the School's operations.

Harlem Village Academy East Charter School

Notes to Financial Statements

June 30, 2018

5. Related Party Transactions (not disclosed elsewhere) (*continued*)

The Network, with partial funding through a grant from the New York City Department of Education (which grant is administered by the School Construction Authority or “SCA”), completed the building of a new school facility in August 2012 to be used by both the School and HVAW (the “Schools”). The High School opened in August 2012. Civic Builders, a non-profit charter school developer, served as developer of the project under a development agreement with the Network. On June 23, 2017, the conveyance of the school portion of the building to SCA was completed, SCA leased it to Civic Builders, which subleased it to HVA 125 LLC, a limited liability company in which the Network is the sole member. Under the sublease terms, the Schools that occupy the premises are required to meet certain academic performance targets, which are less rigorous than the targets of the Schools’ authorizer. There is no rent, but the School will pay operating expenses and fund a replacement reserve maintained by the Network. The lease and sublease have at least a 30 year term, which may be extended by the Network under certain conditions.

6. Property and Equipment

Property and equipment consists of the following at June 30, 2018:

Equipment	\$ 1,132,170
Furniture and fixtures	263,714
Software	3,999
Leasehold improvements	<u>737,723</u>
	2,137,606
Accumulated depreciation and amortization	<u>(1,966,446)</u>
	<u>\$ 171,160</u>

Depreciation and amortization expense was \$224,775 for the year ended June 30, 2018. Depreciation expense in the amount of \$44,418 was allocated from HVAW, resulting in the School’s total depreciation and amortization expense of \$269,193.

7. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 4% of the participant’s annual compensation. Employee match for the year ended June 30, 2018 amounted to \$165,762.

Harlem Village Academy East Charter School

Notes to Financial Statements June 30, 2018

8. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At June 30, 2018, the School did not maintain any cash with an institution in excess of FDIC limits.

9. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the year ended June 30, 2018, the School received approximately 89% of its total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

10. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards**

Independent Auditors' Report

**Board of Trustees
Harlem Village Academy East Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harlem Village Academy East Charter School (the "School") (formerly "Harlem Village Academy Leadership Charter School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 17, 2018