

Sisulu-Walker Charter School of Harlem, Inc.

**Financial Statements
and
Independent Auditors' Report**

June 30, 2016

Sisulu-Walker Charter School of Harlem, Inc.

Financial Statements

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Independent Auditors' Report

To the Board of Trustees of
Sisulu-Walker Charter School of Harlem, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Sisulu-Walker Charter School of Harlem, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities 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.

Auditor's 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 auditor's 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 Sisulu-Walker Charter School of Harlem, Inc. as of June 30, 2016, and the changes 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 Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Sisulu-Walker Charter School of Harlem, Inc.'s 2015 financial statements, and our report dated October 21, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016, on our consideration of Sisulu-Walker Charter School of Harlem, Inc.'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 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 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 Sisulu-Walker Charter School of Harlem, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Vargas & Rivera, LLP". The signature is written in a cursive, flowing style.

New City, New York

October 28, 2016

Sisulu-Walker Charter School of Harlem, Inc.
Statement of Financial Position
June 30, 2016
(With Summarized Comparative Information For June 30, 2015)

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current Assets		
Cash	\$ 680,298	\$ 490,249
Due from Government Agencies (Note 3)	113,249	11,336
Prepaid Expenses	<u>26,083</u>	<u>39,784</u>
Total Current Assets	<u>819,630</u>	<u>541,369</u>
Fixed Assets		
Leasehold Improvements	106,435	77,145
Equipment, Furniture and Fixtures	<u>685,721</u>	<u>598,603</u>
	792,156	675,748
Less: Accumulated Depreciation	<u>(644,348)</u>	<u>(613,135)</u>
Total Fixed Assets	<u>147,808</u>	<u>62,613</u>
Other Assets		
Security Deposits	<u>37,500</u>	<u>37,500</u>
Total Other Assets	<u>37,500</u>	<u>37,500</u>
Total Assets	<u><u>\$ 1,004,938</u></u>	<u><u>\$ 641,482</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 217,468	\$ 34,733
Accrued Payroll and Related Expenses	<u>216,760</u>	<u>206,648</u>
Total Current Liabilities / Total Liabilities	434,228	241,381
<u>Net Assets</u>	<u>570,710</u>	<u>400,101</u>
Total Liabilities and Net Assets	<u><u>\$ 1,004,938</u></u>	<u><u>\$ 641,482</u></u>

Sisulu-Walker Charter School of Harlem, Inc.
Statement of Activities
For the year ended June 30, 2016
(With Summarized Comparative Information For The Year Ended June 30, 2015)

<u>PUBLIC SUPPORT AND REVENUE</u>	Unrestricted	Temporarily Restricted	<u>2016</u>	<u>2015</u>
Resident Student Enrollment	\$ 3,486,432	\$ -	\$ 3,486,432	\$ 3,524,878
Federal Funding	-	144,825	144,825	110,300
State Funding	-	69,934	69,934	19,437
Corporate Contributions	8,085	-	8,085	57,483
Interest Income	327	-	327	359
	<u>3,494,844</u>	<u>214,759</u>	<u>3,709,603</u>	<u>3,712,457</u>
Total Public Support and Revenue				
Net Assets Released From Restrictions	<u>214,759</u>	<u>(214,759)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,709,603</u>	<u>-</u>	<u>3,709,603</u>	<u>3,712,457</u>
<u>EXPENSES</u>				
<u>Program Services</u>				
Regular Education	2,241,050	-	2,241,050	2,358,717
Special Education	<u>813,920</u>	<u>-</u>	<u>813,920</u>	<u>357,127</u>
	<u>3,054,970</u>	<u>-</u>	<u>3,054,970</u>	<u>2,715,844</u>
<u>Supporting Services</u>				
Management and General	<u>484,024</u>	<u>-</u>	<u>484,024</u>	<u>812,455</u>
Total Expenses	<u>3,538,994</u>	<u>-</u>	<u>3,538,994</u>	<u>3,528,299</u>
Change in Unrestricted Net Assets	170,609	-	170,609	184,158
Net Assets, Beginning of Year	<u>400,101</u>	<u>-</u>	<u>400,101</u>	<u>215,943</u>
Net Assets, End of Year	<u>\$ 570,710</u>	<u>\$ -</u>	<u>\$ 570,710</u>	<u>\$ 400,101</u>

Sisulu-Walker Charter School of Harlem, Inc.
Statement of Cash Flows
For the year ended June 30, 2016
(With Summarized Comparative Information For The Year Ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Resident Student Enrollment	\$ 3,481,614	\$ 3,539,775
Receipts from Grants and Contributions	125,748	230,817
Receipts from Other Revenue	327	359
Payments to Employees	(2,193,833)	(2,220,702)
Payments to Vendors and Suppliers	<u>(1,107,398)</u>	<u>(1,273,561)</u>
Net Cash Provided by Operating Activities	<u>306,458</u>	<u>276,688</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payments for Leasehold Improvements	(29,290)	-
Purchases of Equipment, Furniture and Fixtures	<u>(87,118)</u>	<u>(16,464)</u>
Net Cash Used In Investing Activities	<u>(116,408)</u>	<u>(16,464)</u>
NET INCREASE IN CASH	190,050	260,224
CASH - BEGINNING OF YEAR	<u>490,249</u>	<u>230,025</u>
CASH - END OF YEAR	<u><u>\$ 680,299</u></u>	<u><u>\$ 490,249</u></u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Change in Unrestricted Net Assets	<u>\$ 170,609</u>	<u>\$ 184,158</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	31,213	22,382
Changes in Assets and Liabilities (Increase) / Decrease in:		
Due from Government Agencies	(101,913)	58,493
Prepaid Expenses	13,701	1,829
Increase / (Decrease) in:		
Accounts Payable and Accrued Expenses	182,736	(17,519)
Accrued Payroll and Related Expenses	10,112	28,739
Management Fee Payable	<u>-</u>	<u>(1,394)</u>
Total Adjustments	<u>135,849</u>	<u>92,530</u>
Net Cash Provided by Operating Activities	<u><u>\$ 306,458</u></u>	<u><u>\$ 276,688</u></u>

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2016

NOTE 1 - ORGANIZATION

Sisulu-Walker Charter School of Harlem, Inc. (the "School") is a charter school for children located in Harlem, New York. In fiscal year 2014, the School operated grades kindergarten through fifth. It educates children in a completely nondiscriminatory and secular basis. The founders and supporters of the School believe that access to a public education of high quality for all children is the foremost issue. The School was chartered during August 1999 and the first classes were offered during the 1999-2000 school year. Charter was renewed in 2016 and extended thru 2021.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The net assets of the School and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the School and/or the passage of time.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in The United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

The School records contributions received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulation time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All contributions received in the year ended 2016 were unrestricted.

Recognition of Revenue

Government contract revenue is recognized as earned in the period services are provided and costs are incurred.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the School considers all highly liquid investments available for current use with an initial period of three months or less to be cash equivalents.

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax Exempt Status

The School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income. The School has filed for and received income tax exemptions in the jurisdictions where it is required to do so.

The School files the Form 990 in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2016, the School is no longer subject to U.S. Federal income tax examinations by tax authorities for the years ended prior to June 30, 2013. The tax returns for the years ended June 30, 2013 through June 30, 2015 are still subject to potential audit by the IRS. Management of the School believes it has no material uncertain tax positions and, accordingly it has not recognized any liability for unrecognized tax benefits.

Leasehold Improvements Furniture and Fixtures, and Equipment

Leasehold improvements, furniture and equipment are valued at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets or the term of the lease agreement. Normal replacement and maintenance costs are charged to earnings as incurred, and major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss for the period. The School capitalizes assets with cost of \$500 and over. Depreciation is calculated based on the useful lives of the assets as follows: Leasehold Improvements 5 Years, Equipment and Furniture 3 - 7 Years.

Functional Allocation of Expenses

Expenses relating to more than one function are allocated to program service and management and general based on employee time estimates or other appropriate usage factors.

Contributed Services

Contributed services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

A number of volunteers have made a contribution of their time to the School to develop academic and other programs and to serve on the board of trustees. The value of this contributed time is not reflected in the financial statements as such services either do not require specialized skills or would not typically be purchased had they not been provided as donations.

Comparative Financial Information

The June 30, 2015 financial statements include certain prior year summarized comparative information in total but not by net asset class. As a result, the June 30, 2015 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2015 information should be read in conjunction with the School's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2016

NOTE 3 – DUE FROM GOVERNMENT AGENCIES

Under the School's Charter School Agreement and the Charter School Act, the School is entitled to receive funding from both State and Federal sources that are available to public schools. These funds include State pupil enrollment funds and Federal food subsidies and Title I, IIA, IID, IV and V funds. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school district of the children enrolled in the school. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly. As of June 30, 2016, \$113,249 is due from government agencies.

NOTE 4 – DEFINED CONTRIBUTION PLAN

The School offers a 401(k) plan (the "Plan") for substantially all of its employees. Employees are eligible for the plan immediately upon employment and participation in the Plan is voluntary. Employees may contribute up to 15% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The School matches the employee contribution 100% up to 4% of the employee's annual compensation. The School's contribution recognized in the statement of activities was \$33,254 for 2016. The Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

NOTE 5 – CONSULTANTS - EDUCATION

In January 2007, the School entered into an agreement with Victory Schools, Inc. (VSI) d/b/a Victory Education Partners (VEP) to provide services related to certain education and operational aspects of the School. Victory serves as an advisor regarding functions associated with the educational services to be provided to the students at the School and consults with the School with respect to its legal and operational compliance in accordance with the terms of the charter and the Charter School Act. In providing the above services, VEP is paid a service fee in the amount equal to the product of the total full-time equivalent enrollment of students in the Charter School as defined under Section 119.1 of the New York State Commissioner of Education Regulations multiplied by one thousand four hundred seventy-nine dollars (\$1,511) (The "Per Pupil Fee"). The Per Pupil Fee shall be increased or decreased each year by the percentage increase or decrease in the Final Adjusted Per Pupil for charter schools in the New York City school district as calculated by the New York State Education Department annually. For the fiscal year ended June 30, 2016, VEP earned a fee of \$354,832.

NOTE 6 – COMMITMENTS

Occupancy Lease

The School is paying rent for space for classroom instruction and administration activity under a month-to-month lease. Monthly rental payments total \$39,784. For the fiscal year ended June 30, 2016, rent expense paid was \$477,405.

Operating Lease

The School entered into an operating lease agreement for equipment on September 2, 2012. The lease expires on December 2, 2015, and calls for monthly payments of \$1,769.50 beginning October 2, 2012. Future minimum rental payments under the terms of this lease are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2016	\$ 10,617
	<u>\$ 10,617</u>

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2016

NOTE 7 – CONTINGENCY

The School participates in a number of Federal and State programs. These programs require the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the program in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for such liability that may result has been made in the accompanying financial statements.

NOTE 8 – CONCENTRATIONS

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at major financial institutions which, at times may exceed the Federal Deposit Insurance Corporation insured limit of \$250,000 and Due from Government Agencies. Management believes that there is little risk in any losses and has not experienced any losses in such accounts. Management also believes that credit risk with respect to Due from Government Agencies is limited since the amounts are due from local and federal government programs.

The School is dependent on various government agencies for funding, and is responsible for meeting the requirements of such agencies. If the school was to lose students or the related government funding, it could have a substantial effect on its ability to continue operations.

NOTE 9 – SUBSEQUENT EVENTS

The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 28, 2016, for these financial statements.

Supplemental Information

Sisulu-Walker Charter School of Harlem, Inc.
Schedule of Functional Expenses
For the year ended June 30, 2016
(With Summarized Comparative Information For The Year Ended June 30, 2015)

	Regular Education	Special Education	Total Programs	Support Services	2016	2015
<u>Personnel Service Costs</u>						
Salaries						
Administrative Staff Personnel	\$ 163,908	\$ 102,442	266,350	\$ 143,419	\$ 409,769	417,749
Instructional Personnel	910,967	300,843	1,211,810	-	1,211,810	1,205,639
Non-Instructional Personnel	-	-	-	189,636	189,636	201,540
Total Personnel Costs	1,074,875	403,285	1,478,160	333,055	1,811,215	1,824,928
Fringe Benefits	122,152	45,831	167,983	16,299	184,282	198,990
Payroll Taxes	116,128	43,571	159,699	15,495	175,194	185,597
Retirement Benefits	22,043	8,270	30,313	2,941	33,254	39,926
Total Personnel and Related Expenses	1,335,198	500,957	1,836,155	367,790	2,203,945	2,249,441
<u>Operating Expenses</u>						
Consultants - Education (Note 5)	249,176	93,489	342,665	33,247	375,912	367,316
Legal	-	-	-	-	-	29,344
Food	6,530	923	7,453	-	7,453	-
Insurance	46,346	17,389	63,735	6,184	69,919	48,283
Supplies and Materials	89,506	15,429	104,935	1,586	106,521	98,754
Technology	10,380	3,895	14,275	1,385	15,660	33,611
Occupancy	317,994	119,309	437,303	42,430	479,733	480,284
Utilities	37,302	13,995	51,297	4,977	56,274	73,754
Student Services	32,204	10,301	42,505		42,505	14,202
Staff Development	17,112	4,441	21,553	1,154	22,707	16,410
Marketing and Recruitment	17,654	3,158	20,812	378	21,190	5,867
Auditing Fees	-	-	-	14,000	14,000	12,000
Office Expenses	28,080	10,535	38,615	3,747	42,362	46,590
Maintenance and Repairs	18,192	6,826	25,018	2,427	27,445	6,181
Equipment and Furnishings	1,623	609	2,232	217	2,449	4,025
Depreciation	20,691	7,763	28,454	2,761	31,215	22,381
Other Expenses	13,062	4,901	17,963	1,741	19,704	19,856
Total Operating Expenses	905,852	312,963	1,218,815	116,234	1,335,049	1,278,858
TOTAL EXPENSES	\$ 2,241,050	\$ 813,920	\$ 3,054,970	\$ 484,024	\$ 3,538,994	3,528,299



**Independent Auditors' 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***

To the Board of Trustees of
Sisulu-Walker Charter School of Harlem, Inc.
New York, New York

We have audited, 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, the financial statements of Sisulu-Walker Charter School of Harlem, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016 and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sisulu-Walker Charter School of Harlem, Inc.'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 Sisulu-Walker Charter School of Harlem, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Sisulu-Walker Charter School of Harlem, Inc.'s financial statements are free of 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vargas & Rivera, LLP

New City, New York

October 28, 2016