

Sisulu-Walker Charter School of Harlem, Inc.

**Financial Statements
and
Independent Auditors' Report**

June 30, 2011

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

We have audited the accompanying statement of financial position of Sisulu-Walker Charter School of Harlem, Inc. as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, 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* and should be considered in assessing the results of our audit.

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 10 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.

New City, New York
October 26, 2011

Sisulu-Walker Charter School of Harlem, Inc.
Statement of Financial Position
June 30, 2011

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 251,203
Due from Government Agencies (Note 3)	95,689
Accounts Receivable	3,060
Prepaid Expenses	<u>67,078</u>

Total Current Assets	<u>417,030</u>
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Fixed Assets

Leasehold Improvements	77,145
Equipment, Furniture and Fixtures	<u>515,808</u>
	592,953
Less: Accumulated Depreciation	<u>(491,073)</u>

Total Fixed Assets	<u>101,880</u>
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Other Assets

Security Deposits	<u>37,500</u>
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Total Other Assets	<u>37,500</u>
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Total Assets	<u><u>\$ 556,410</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable and Accrued Expenses	\$ 70,697
Accrued Payroll and Related Expenses	190,253
Deferred Revenue	36,768
Capital Lease Obligation, Current Portion (Note 6)	<u>17,844</u>

Total Current Liabilities	<u>315,562</u>
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Long-Term Liabilities

Capital Lease Obligation, Net of Current Portion (Note 6)	<u>4,072</u>
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Total Long-Term Liabilities	<u>4,072</u>
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Total Liabilities	<u>319,634</u>
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Net Assets

Unrestricted Net Assets	<u>236,776</u>
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Total Net Assets	<u>236,776</u>
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Total Liabilities and Net Assets	<u><u>\$ 556,410</u></u>
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Sisulu-Walker Charter School of Harlem, Inc.
Statement of Activities
For the year ended June 30, 2011

<u>PUBLIC SUPPORT AND REVENUE</u>	Unrestricted	Temporarily Restricted	Total
Resident Student Enrollment	\$ 3,581,113	\$ -	\$ 3,581,113
Food Service	-	111,406	111,406
Federal Funding	-	201,814	201,814
State Funding	-	19,948	19,948
Corporate Contributions	500	-	500
Interest Income	505	-	505
	<u>3,582,118</u>	<u>333,168</u>	<u>3,915,286</u>
Total Public Support and Revenue	<u>3,582,118</u>	<u>333,168</u>	<u>3,915,286</u>
Net Assets Released From Restrictions	<u>333,168</u>	<u>(333,168)</u>	<u>-</u>
Total Support and Revenue	<u>3,915,286</u>	<u>-</u>	<u>3,915,286</u>
<u>EXPENSES</u>			
<u>Program Services</u>			
Regular Education	3,185,941	-	3,185,941
Special Education	191,618	-	191,618
	<u>3,377,559</u>	<u>-</u>	<u>3,377,559</u>
<u>Supporting Services</u>			
Management and General	645,559	-	645,559
	<u>4,023,118</u>	<u>-</u>	<u>4,023,118</u>
Total Expenses	<u>4,023,118</u>	<u>-</u>	<u>4,023,118</u>
Change in Unrestricted Net Assets	(107,832)	-	(107,832)
Net Assets, Beginning of Year	344,608	-	344,608
Net Assets, End of Year	<u>\$ 236,776</u>	<u>\$ -</u>	<u>\$ 236,776</u>

Sisulu-Walker Charter School of Harlem, Inc.
Statement of Cash Flows
For the year ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Unrestricted Net Assets	\$ (107,832)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation	29,836
Changes in Assets and Liabilities	
(Increase) / Decrease in:	
Due from Government Agencies	90,206
Accounts Receivable	(3,060)
Prepaid Expenses	(24,090)
Increase / (Decrease) in:	
Accounts Payable and Accrued Expenses	(60,897)
Accrued Payroll and Related Expenses	(72,839)
Deferred Revenue	14,783
Total Adjustments	<u>(26,061)</u>
Net Cash Used In Operating Activities	<u>(133,893)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Equipment, Furniture and Fixtures	<u>(10,413)</u>
Net Cash Used In Investing Activities	<u>(10,413)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Capital Lease Obligation	<u>(17,578)</u>
Net Cash Used In Financing Activities	<u>(17,578)</u>

NET DECREASE IN CASH	(161,884)
CASH - BEGINNING OF YEAR	<u>413,087</u>
CASH - END OF YEAR	<u><u>\$ 251,203</u></u>

Supplemental Disclosures:

Cash paid during the year for interest	<u><u>\$ -</u></u>
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Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2011

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 2010, the School operated grades kindergarten through fourth. 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.

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 2011 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.

Income Tax Status

The School is a not-for-profit corporation organized under the laws of the State of New York. It is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code.

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 – PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT

Under the School's Charter School Agreement and the Charter School Act, the School is entitled to received 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, 2011, \$95,689 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 \$44,562 for 2011. 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.

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2011

NOTE 5 – MANAGEMENT FEE

Victory Schools, Inc. (VSI) manages the operations of the School under a management agreement entered into by the School and VSI. The agreement was executed in January 2007. Per the terms of the agreement, VSI assumes responsibility for task and functions associated with the educational services to be provided to the children enrolled as students as the School in accordance with the terms of the Charter and the Charter Schools Act, subject to the appropriate oversight from the School's Board of Trustees.

In providing the above services, VSI is paid a management 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 dollars (\$1,000) (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.

VSI is entitled to receive the management fees on a bi-monthly basis. Any VSI fee, or portion thereof, not paid within thirty (30) days of its due date shall bear interest at an annualized rate of 7.5% per annum on the outstanding past due amount, provided such past due payments are not as a result of the Harlem School District's failure to timely remit the Adjusted Expense Per Pupil to the Charter School.

NOTE 6 – CAPITAL LEASE

The School has entered into a capital equipment lease expiring in September 2012. The aggregate lease payments were discounted at the inception of the lease and the net present value was recorded as a liability. The fair value of the related equipment was recorded as an asset and is amortized over the life of the related leases.

Future minimum lease payments and the present value of payments under the capital lease obligations are as follows:

Year Ending June 30,	
2012	\$ 17,844
2013	4,072
	<u>21,916</u>
Less Current Portion	(17,844)
Long-Term Portion	<u>\$ 4,072</u>

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2011

NOTE 7 – COMMITMENTS AND CONTINGENCIES

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.

Audits by Funding Sources

The School participates in a number of Federal and State programs. These programs require that the School complies with certain requirement 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 result of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

NOTE 8 – CONCENTRATION OF RISK

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 26, 2011, for these financial statements.

Supplemental Information

Sisulu-Walker Charter School of Harlem, Inc.
Schedule of Functional Expenses
For the year ended June 30, 2011

	Regular Education	Special Education	Total Programs	Support Services	Total
<u>Personnel Service Costs</u>					
Salaries					
Administrative Staff Personnel	\$ 412,157	\$ 24,789	\$ 436,946	\$ -	\$ 436,946
Instructional Personnel	1,287,400	77,430	1,364,830	-	1,364,830
Non-Instructional Personnel	-	-	-	112,042	112,042
Total Personnel Costs	<u>1,699,557</u>	<u>102,219</u>	<u>1,801,776</u>	<u>112,042</u>	<u>1,913,818</u>
Fringe Benefits	299,265	17,999	317,264	19,729	336,993
Payroll Taxes and Related Expenses	<u>162,752</u>	<u>9,789</u>	<u>172,541</u>	<u>10,729</u>	<u>183,270</u>
Total Personnel and Related Expenses	<u>2,161,574</u>	<u>130,007</u>	<u>2,291,581</u>	<u>142,500</u>	<u>2,434,081</u>
<u>Operating Expenses</u>					
Management Fee (Note 5)	-	-	-	391,095	391,095
Consultants - Education	105,944	6,372	112,316	6,984	119,300
Legal	-	-	-	2,655	2,655
Food	116,353	6,998	123,351	7,671	131,022
Insurance	17,504	1,053	18,557	32,933	51,490
Supplies and Materials	70,745	4,255	75,000	4,664	79,664
Technology	22,033	1,325	23,358	1,452	24,810
Occupancy	423,957	25,499	449,456	27,949	477,405
Utilities	61,837	3,719	65,556	4,077	69,633
Staff Development	36,671	2,206	38,877	2,418	41,295
Marketing and Recruitment	2,216	133	2,349	146	2,495
Auditing Fees	-	-	-	10,000	10,000
Office Expenses	15,678	943	16,621	1,034	17,655
Maintenance and Repairs	63,439	3,815	67,254	4,182	71,436
Equipment and Furnishings	13,635	820	14,455	899	15,354
Depreciation	26,495	1,594	28,089	1,747	29,836
Other Expenses	<u>47,860</u>	<u>2,879</u>	<u>50,739</u>	<u>3,153</u>	<u>53,892</u>
Total Operating Expenses	<u>1,024,367</u>	<u>61,611</u>	<u>1,085,978</u>	<u>503,059</u>	<u>1,589,037</u>
TOTAL EXPENSES	<u>\$ 3,185,941</u>	<u>\$ 191,618</u>	<u>\$ 3,377,559</u>	<u>\$ 645,559</u>	<u>\$ 4,023,118</u>



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

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

We have audited the financial statements of Sisulu-Walker Charter School of Harlem, Inc. as of and for the year ended June 30, 2011 and have issued our report thereon dated October 26, 2011. 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.

Internal Control over Financial Reporting

Management of Sisulu-Walker Charter School of Harlem, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sisulu-Walker Charter School of Harlem, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sisulu-Walker Charter School of Harlem, Inc.'s internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2011-01.

We noted certain matters that we reported to management of Sisulu-Walker Charter School of Harlem, Inc. in a separate letter dated October 26, 2011.

Sisulu-Walker Charter School of Harlem, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Sisulu-Walker Charter School of Harlem, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, the New York City Department of Education, the Charter Schools Institute of the State University of New York, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vargas & Rivera, LLP

New City, New York

October 26, 2011



Sisulu-Walker Charter School of Harlem, Inc.
Schedule of Findings and Responses
For the year ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	_____ Yes <input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	_____ Yes <input checked="" type="checkbox"/> No

Section II - Financial Statement Findings

Finding 2011-1

Criteria:

In accordance with New York City Department of Education (NYCDOE), schools are to maintain student files containing documentation supporting verifiable legal residence. Upon registration, proof of residence will be verified by any two acceptable documents established by NYCDOE.

Statement of Condition:

The student files tested did not have the required proof of residence information. Out of the forty-one files tested, eleven were in full compliance, twenty-five had one acceptable document, and five did not have acceptable documents.

Context:

A sample of forty-one student files were selected to verify the registration documents were complete.

Effect:

Noncompliance with provisions of the NYCDOE for determining and establishing verifiable legal residence.

Cause:

Quality review procedures not consistently or adequately maintained by charter school staff or management agent engaged to assist in providing administrative and accounting services for the charter school.

Recommendation:

Establish and maintain quality review procedures to ensure that each student file maintained by the school is adequately supported by required documentation needed to establish and determine verifiable legal residency.

Management's Response and Corrective Action Plan:

Management agrees with the finding and is in the process of updating all student files.