

HARLEM LINK CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
HARLEM LINK CHARTER SCHOOL

We have audited the accompanying statements of financial position of Harlem Link Charter School (the "School") (a not-for-profit corporation) as of June 30, 2011 and 2010 and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior period summarized comparative information has been derived from the School's 2010 financial statements and, in our report dated September 24, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 audits 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 audits provide 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 the School as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years 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 September 30, 2011 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 to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the 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 read in conjunction with this report in considering the results of our audits.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
September 30, 2011

HARLEM LINK CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,767,903	\$ 1,123,640
Investment in marketable securities	-	225
Accounts and contracts receivable	162,677	411,952
Prepaid expenses	<u>70,307</u>	<u>37,516</u>
Total current assets	2,000,887	1,573,333
Property and equipment, net of accumulated depreciation and amortization of \$182,529 and \$155,160, respectively	53,955	81,324
Prepaid expenses	-	31,088
Restricted cash	<u>75,008</u>	<u>75,000</u>
TOTAL ASSETS	<u><u>\$ 2,129,850</u></u>	<u><u>\$ 1,760,745</u></u>
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 50,097	\$ 61,250
Accrued payroll and payroll taxes	375,867	400,917
Refundable advances	<u>5,841</u>	<u>6,793</u>
Total current liabilities	431,805	468,960
Unrestricted net assets	<u>1,698,045</u>	<u>1,291,785</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 2,129,850</u></u>	<u><u>\$ 1,760,745</u></u>

The accompanying notes are an integral part of the financial statements.

HARLEM LINK CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	<u>2011</u>	<u>2010</u>
Revenue and other support:		
Public school district		
Resident student enrollment	\$ 3,998,919	\$ 3,738,151
Students with disabilities	458,605	650,542
Grants and contracts		
State and local	14,061	213,033
Federal - Title and IDEA	296,714	199,350
Total revenue and other support	<u>4,768,299</u>	<u>4,801,076</u>
Expenses:		
Program services		
Regular education	3,512,642	3,622,815
Special education	346,138	356,160
Total program services	<u>3,858,780</u>	<u>3,978,975</u>
Supporting services		
Management and general	495,601	417,023
Fundraising	64,848	33,192
Total expenses	<u>4,419,229</u>	<u>4,429,190</u>
Surplus from operations	349,070	371,886
Support and other revenue:		
Contributions		
Foundations	2,246	1,226
Individuals	51,607	46,402
Corporations	1,700	150
Investment income, net	112	17,239
Other income	1,525	5,275
Total support and other revenue	<u>57,190</u>	<u>70,292</u>
Changes in unrestricted net assets	406,260	442,178
Unrestricted net assets - beginning of year		
As previously reported	1,291,785	909,706
Prior period adjustment	-	(60,099)
Balance at beginning of year, as restated	<u>1,291,785</u>	<u>849,607</u>
Unrestricted net assets - end of year	<u>\$ 1,698,045</u>	<u>\$ 1,291,785</u>

The accompanying notes are an integral part of the financial statements.

HARLEM LINK CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 406,260	\$ 442,178
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	27,369	29,155
Prior period adjustment	-	(60,099)
Unrealized gain	-	(67)
Changes in certain assets and liabilities:		
Decrease (Increase) in accounts and contracts receivable	249,275	(210,146)
(Increase) Decrease in prepaid expenses	(1,703)	25,107
(Decrease) Increase in accounts payable and accrued expenses	(11,153)	12,217
(Decrease) Increase in accrued payroll and payroll taxes	(25,050)	89,041
(Decrease) in refundable advances	(952)	(19,965)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>644,046</u>	<u>307,421</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment in marketable securities	225	-
Purchase of property and equipment	-	(33,997)
(Increase) in restricted cash	(8)	(75,000)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>217</u>	<u>(108,997)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	644,263	198,424
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,123,640</u>	<u>925,216</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,767,903</u></u>	<u><u>\$ 1,123,640</u></u>

NONCASH INVESTING ACTIVITIES:

For the year ended June 30, 2010, the School received a stock donation valued at \$12,470. The sale of the securities resulted in a realized gain/(loss) of \$67 and (\$159) for the years ended June 30, 2011 and 2010, respectively.

The accompanying notes are an integral part of the financial statements.

HARLEM LINK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Harlem Link Charter School (the "School") is a New York State, non-for-profit educational corporation that was incorporated on September 10, 2004 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on September 10, 2004, valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School renewed its charter for an additional three-year term. The School's mission is to provide its students with a solid foundation for academic success. The School provided education to approximately 296 students in kindergarten through fifth grade in the 2010-2011 academic year.

The School shares space with a New York City public school beginning in May 2005. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as a School described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii). The School did not have net unrelated business income for the years ended June 30, 2011 and 2010.

The School's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

Unrestricted

Unrestricted net assets of the School are assets whose use has not been restricted by an outside donor or by law. The unrestricted net assets represent the portion of expendable funds that are available for the support of the operations of the School.

HARLEM LINK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Temporarily Restricted

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time or period or for a specific purpose. Temporarily restricted gifts are recorded as additions to temporarily restricted net assets in the period received. When restricted net assets are expended for their stipulated purpose, temporarily restricted net assets become unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets are those contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled or otherwise removed by actions of the School. The income derived from these permanently restricted funds is usually classified as unrestricted and can be used for the general purpose of the School.

The School has no temporarily or permanently restricted net assets at June 30, 2011 and 2010.

Revenue and Support

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 year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

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.

Use of Estimates

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 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

HARLEM LINK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Furniture and fixtures	7 years
Computer equipment	5 years
Software	5 years

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Refundable Advances

The School records certain government grants and contracts as refundable advances and deferred revenue until related services are performed, at which time it is recognized as revenue.

Reclassifications

Certain 2010 accounts have been reclassified to the 2011 Financial Statements presentation. The reclassification has no effect on 2010 total assets, liabilities, net assets, and change in net assets.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

HARLEM LINK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
- Level 2 – Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly including inputs in markets that are not considered to be active.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The primary uses of fair value measures in the School's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of investments.

Investments held by the School at June 30,:

<u>Description</u>	<u>2011</u>		<u>2010</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Unrestricted:				
<u>Level 1</u>				
Equity securities	\$ -	\$ -	\$ 225	\$ 158

Investment income at June 30,:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 45	\$ 17,331
Realized gain/(loss)	67	(159)
Unrealized gain	-	67
Net investment income	<u>\$ 112</u>	<u>\$ 17,239</u>

HARLEM LINK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30,:

	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$ 17,517	\$ 17,517
Computer equipment	198,889	198,889
Software	<u>20,078</u>	<u>20,078</u>
	236,484	236,484
Less: Accumulated depreciation and amortization	<u>182,529</u>	<u>155,160</u>
	<u>\$ 53,955</u>	<u>\$ 81,324</u>

Depreciation and amortization expense was \$27,369 and \$29,155 for the years ended June 30, 2011 and 2010, respectively.

NOTE 5 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. 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.

NOTE 6 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue 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.

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 8 - PENSION PLAN

The School provides a pension plan qualified under Internal Revenue Code 403(b) for the benefit of its eligible employees. Under the plan, the School is not required to match employee contributions. For the years ended June 30, 2011 and 2010, the School did not match contributions.

HARLEM LINK CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 9 - PRIOR PERIOD ADJUSTMENT

During the 2009-2010 fiscal year, the School determined that revenues recorded under various government grants and contracts for the year ended June 30, 2009 were overstated by \$29,457. The School's prepaid expense for uniforms as of June 30, 2009 was overstated by \$5,679. In addition, property and equipment as of June 30, 2009 was overstated by \$22,848, and accounts payable as of June 30, 2009 was understated by \$2,115. Accordingly, an adjustment of \$60,099 was made to net assets at June 30, 2010.

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through September 30, 2011, the date the financial statements were available to be issued.

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
HARLEM LINK CHARTER SCHOOL

Our report on our audits of the basic financial statements of Harlem Link Charter School (a not-for-profit corporation) for years ended June 30, 2011 and 2010 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
September 30, 2011

HARLEM LINK CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2011						
	Program Services			Supporting Services			
	Regular Education	Special Education	Total	Management and General	Fundraising	Total	2010
Personnel services costs							
Administrative staff personnel	\$ -	\$ 16,380	\$ 16,380	\$ 266,244	\$ 22,328	\$ 304,952	\$ 251,638
Instructional personnel	2,429,164	222,992	2,652,156	-	-	2,652,156	2,582,055
Total salaries and staff	2,429,164	239,372	2,668,536	266,244	22,328	2,957,108	2,833,693
Fringe benefits and payroll taxes	613,099	60,415	673,514	67,196	5,635	746,345	654,082
Legal services	-	-	-	2,630	-	2,630	8,855
Accounting/Audit services	-	-	-	20,200	-	20,200	27,000
Other purchased/Professional/Consulting services	120,376	11,862	132,238	30,046	-	162,284	198,947
Building and land rent/Lease	1,695	167	1,862	186	15	2,063	1,965
Repairs and maintenance	11,734	1,156	12,890	-	-	12,890	157,211
Insurance	27,499	2,710	30,209	3,014	253	33,476	29,201
Supplies and materials	82,161	8,096	90,257	22,565	-	112,822	100,876
Equipment/Furnishings	6,526	643	7,169	715	60	7,944	38,451
Staff development	74,819	7,373	82,192	2,570	-	84,762	174,585
Marketing/Recruitment	-	-	-	35,214	36,350	71,564	18,343
Technology	20,940	2,063	23,003	23,003	-	46,006	29,147
Food service	26,265	2,588	28,853	4,966	-	33,819	32,871
Student services	32,046	3,158	35,204	-	-	35,204	36,270
Office expense	43,835	4,320	48,155	12,038	-	60,193	54,116
Other	-	-	-	2,550	-	2,550	4,422
Depreciation and amortization	22,483	2,215	24,698	2,464	207	27,369	29,155
Total	<u>\$ 3,512,642</u>	<u>\$ 346,138</u>	<u>\$ 3,858,780</u>	<u>\$ 495,601</u>	<u>\$ 64,848</u>	<u>\$ 4,419,229</u>	<u>\$ 4,429,190</u>

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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
HARLEM LINK CHARTER SCHOOL

We have audited the financial statements of Harlem Link Charter School (“the School”) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 30, 2011. We conducted our audits 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

In planning and performing our audits, we considered the School’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 the School’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School’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 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.

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 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.

TO THE BOARD OF TRUSTEES
HARLEM LINK CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 audits, 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*.

We noted certain matters that we reported to the management of the School in a separate letter dated September 30, 2011.

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


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
September 30, 2011