

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2012

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2012

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION:	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to the financial statements	5 - 9
Independent auditors' report on supplementary information	10
Schedule of functional expenses	11
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	12 - 13

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL

We have audited the accompanying statement of financial position of Harlem Village Academy Leadership Charter School (the "School") (a not-for-profit corporation) as of June 30, 2012, and the related statements of activities and cash flows for the year 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 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 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 the School as of June 30, 2012, and the changes in its net assets and 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 11, 2012 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 grants. 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 audit.


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

New York, New York
October 11, 2012

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 349,887
Grants and contracts receivable	31,596
Prepaid expenses	46,246
Due from related parties	278,319
Note receivable - related party	<u>750,000</u>

Total current assets 1,456,048

Property and equipment, net of accumulated
depreciation and amortization of \$182,912 206,493

TOTAL ASSETS \$ 1,662,541

LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 115,010
Accrued payroll and payroll taxes	265,357
Refundable advances	<u>1,773</u>

Total current liabilities 382,140

Unrestricted net assets 1,280,401

TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS \$ 1,662,541

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Revenue and support:

State and local per pupil operating revenue	\$ 5,596,855
Federal grants	172,256
State and city grants	31,408
Grant from network	470,000
Interest income	<u>2,728</u>

Total revenue and support	<u>6,273,247</u>
---------------------------	------------------

Expenses:

Program services	
Regular education	4,774,269
Special education	323,253
Supplemental education	<u>635,065</u>
Total program services	5,732,587
Management and general	<u>529,437</u>

Total expenses	<u>6,262,024</u>
----------------	------------------

Change in unrestricted net assets	11,223
-----------------------------------	--------

Unrestricted net assets - beginning of year	<u>1,269,178</u>
---	------------------

Unrestricted net assets - end of year	<u><u>\$ 1,280,401</u></u>
---------------------------------------	----------------------------

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in unrestricted net assets	\$ 11,223
Adjustments to reconcile change in unrestricted net assets (used in) operating activities:	
Depreciation and amortization	71,708
Changes in certain assets and liabilities:	
(Increase) in grants and contracts receivable	(18,713)
(Increase) in prepaid expenses	(5,658)
(Increase) in due from/(to) related parties	(366,067)
(Decrease) in accounts payable and accrued expenses	(7,011)
Increase in accrued payroll and payroll taxes	13,213
(Decrease) in refundable advances	<u>(34,620)</u>
NET CASH (USED IN) OPERATING ACTIVITIES	(335,925)
CASH FLOWS FROM INVESTING ACTIVITY	
Purchases of property and equipment	<u>(150,062)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(485,987)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>835,874</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 349,887</u></u>

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Nature of Organization

Harlem Village Academy Leadership Charter School (the "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 388 students in grades five to eleven during the 2011-2012 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 School has periodically applied for and received renewals of its charter. During the year ended June 30, 2011, the State University of Trustees granted the School an additional renewal for a period of five years, extending the charter through July 31, 2015. The School expects to continue to apply for renewals as needed, consistent with standard New York charter school practice.

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 is subject to income taxes only on net unrelated business income. The School did not have net unrelated business income for the year ended June 30, 2012.

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.

IRS Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School are no longer subject to examination for the fiscal years ended June 30, 2008, and prior.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") 958-205 Under ASC 958-205; the School is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These net assets classifications are described as follows:

Unrestricted

Net assets of the School whose use has not been restricted by an outside grantor or by law are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by grantor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions.

Permanently Restricted

Net assets of the School are those whose use has been permanently limited by grantor-imposed restrictions with no time restriction. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the grantors.

The School had no temporarily or permanently restricted net assets at June 30, 2012.

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 government 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 agencies.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

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.

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. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	3 years
Furniture and fixtures	5 years or related lease
Software	3 years
Leasehold improvements	useful life or related lease

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal and city entitlements and grants. The School anticipates collecting these receivables before June 30, 2013.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2012:

Equipment	\$ 260,900
Furniture and fixtures	64,553
Software	3,999
Leasehold improvements	<u>59,953</u>
	389,405
Less: Accumulated depreciation and amortization	<u>182,912</u>
	<u>\$ 206,493</u>

Depreciation and amortization expense was \$71,708 for the year ended June 30, 2012. In addition, depreciation expense was allocated to the School from a related party in the amount of \$46,247 bringing total depreciation and amortization expense to \$117,955.

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Harlem Village Academies (the "Network"), a New York State not-for-profit corporation and Harlem Village Academy Charter School, a charter school with common management. The Network supports the School by providing educational and operating materials, training, financial support and other services. During the start up phase of the School, the Network received and disbursed funding for start up costs associated with the School.

On May 21, 2010, the School signed a promissory note for \$750,000 with the Network. The note is to be paid back to the School by May 31, 2013 (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 anytime upon five (5) days advance written notice to the School.

For operational efficiency and purchasing power, the School shares certain expenses with the Network and Harlem Village Academy Charter School. At June 30, 2012, the balance due from related parties was \$278,319; this balance consists of \$188,284 due to Harlem Village Academy Charter School and \$466,603 due from the Network.

During the year ended June 30, 2012, the Network granted \$470,000 to support the School's operations.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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 under a program from The New York City Department of Education. If this program were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSE

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 8 - SUBSEQUENT EVENT

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"), is in the process of completing the building of a new school facility to be used by both the School and Harlem Village Academy Charter School (the "Schools"). Civic Builders, a non-profit charter school developer, is serving as developer of the project under an agreement with the Network. SCA will own the school portion of the building post-completion. SCA will own the school portion of the building post-completion. SCA will lease it to Civic Builders, which will sublease it to HVA 125 LLC. Under the sublease terms, the Schools that occupy the premises will be 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. The lease and sublease will have at least a 30 year term, which may be extended by the Network under certain conditions.

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL

We have audited the financial statements of Harlem Village Academy Leadership Charter School as of and for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the 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.


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

New York, New York
October 11, 2012

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Program Services			Management and	Total
	Regular Education	Special Education	Supplemental Education	General	
Salaries and benefits	\$ 3,881,213	\$ 284,065	\$ 453,829	\$ 423,995	\$ 5,043,102
Consultants	-	107	-	27,061	27,168
Contracted services - Temporary	19,912	1,457	2,328	2,177	25,874
Audit fees	-	-	-	12,500	12,500
Legal fees	-	-	-	3,244	3,244
Books and curriculum materials	118,562	-	-	-	118,562
Recruiting and marketing	9,796	-	-	-	9,796
Student testing	36,942	-	-	-	36,942
Staff development	108,215	-	-	-	108,215
Field trips	-	-	93,566	-	93,566
After school activities	-	-	25,234	-	25,234
Supplies and materials	110,353	8,077	12,904	12,055	143,389
Printing and postage	16,977	1,243	1,985	1,855	22,060
Insurance	32,809	2,401	3,836	3,585	42,631
Telephone and communication	62,285	4,559	7,283	6,803	80,930
Repairs and maintenance	14,676	1,074	1,716	1,603	19,069
Facilities expense	151,715	11,066	17,679	16,516	196,976
Depreciation and amortization	90,779	6,644	10,615	9,917	117,955
Food and travel	8,003	-	-	4,306	12,309
Equipment and furniture	23,533	1,722	2,752	2,569	30,576
Technology costs	76,897	-	-	-	76,897
Miscellaneous	11,602	838	1,338	1,251	15,029
Total	\$ 4,774,269	\$ 323,253	\$ 635,065	\$ 529,437	\$ 6,262,024

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

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
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL

We have audited the financial statements of Harlem Village Academy Leadership Charter School (the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 11, 2012. 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

In planning and performing our audit, 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 would not necessarily identify all deficiencies in internal control that might be 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 OF
HARLEM VILLAGE ACADEMY LEADERSHIP 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 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*.

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
October 11, 2012