

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

FINANCIAL STATEMENTS

JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Harlem Village Academy Leadership Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2015, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2015, 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 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 the School's internal control over financial reporting and compliance.


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

New York, New York
September 24, 2015

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 410,860
Grants and contracts receivable	294,944
Prepaid expenses	<u>121,828</u>
Total current assets	<u>827,632</u>
Property and equipment, net of accumulated depreciation and amortization of \$1,107,846	
	656,150
Note receivable - related party	<u>750,000</u>
Total other assets	<u>1,406,150</u>
TOTAL ASSETS	<u><u>\$ 2,233,782</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 166,095
Accrued payroll and payroll taxes	477,478
Due to related parties	258,334
Refundable advances	<u>6,365</u>
Total current liabilities	908,272
Unrestricted net assets	<u>1,325,510</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 2,233,782</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 ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Revenue and support:	
State and local per pupil operating revenue	\$ 12,385,770
Federal grants	421,137
State and city grants	59,431
Donated services	155,000
Grant from network	32,000
Interest income	<u>3,858</u>
Total revenue and support	<u>13,057,196</u>
Expenses:	
Program services:	
Regular education	10,659,746
Special education	1,057,086
Supplemental education	<u>650,296</u>
Total program services	12,367,128
Supporting services:	
Management and general	<u>681,031</u>
Total expenses	<u>13,048,159</u>
Change in unrestricted net assets	9,037
Unrestricted net assets - beginning of year	<u>1,316,473</u>
Unrestricted net assets - end of year	<u><u>\$ 1,325,510</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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in unrestricted net assets	\$ 9,037
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	380,246
Changes in certain assets and liabilities:	
Decrease in grants and contracts receivable	40,491
(Increase) in prepaid expenses	(62,174)
(Decrease) in accounts payable and accrued expenses	(130,971)
Increase in accrued payroll and payroll taxes	69,393
(Decrease) in due to related parties	(565,307)
Increase in refundable advances	<u>278</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	(259,007)
 CASH FLOWS FROM INVESTING ACTIVITY:	
Purchases of property and equipment	<u>(212,897)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(471,904)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>882,764</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u><u>\$ 410,860</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, 2015

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 792 students in grades kindergarten through second and five through twelve during the 2014-2015 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, 2015, the State University of Trustees granted the School an additional renewal for a period of five years, extending the charter through July 31, 2020. 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, 2015.

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, 2011, and prior.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015.

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, 2015

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
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, 2016.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2015:

Equipment	\$ 770,585
Furniture and fixtures	251,689
Software	3,999
Leasehold improvements	<u>737,723</u>
	1,763,996
Less: Accumulated depreciation and amortization	<u>(1,107,846)</u>
	<u>\$ 656,150</u>

Depreciation and amortization expense was \$380,246 for the year ended June 30, 2015. In addition, depreciation expense was allocated to the School from a related party in the amount of \$52,914 bringing total depreciation and amortization expense to \$433,160.

NOTE 4 - 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 5 - 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 was due May 31, 2013. The Board of Trustees approved an extension to September 30, 2018 (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, 2015, the balance due to related parties was \$258,334; this balance consists of \$205,381 due to Harlem Village Academy Charter School and \$52,953 due to the Network.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

The Network, with partial funding through a grant from the New York City Department of Education (which grant is administered by the School Construction Authority or “SCA”), completed the building of a new school facility in August, 2012 to be used by both the School and Harlem Village Academy Charter School (the “Schools”). The High School opened in 2012. Civic Builders, a non-profit charter school developer, served as developer of the project under a development agreement with the Network. Upon conveyance of the school portion of the building to the SCA, the SCA will lease it to Civic Builders, which will sublease it to HVA 125 LLC, a limited liability company in which the Network is the sole member. Under the sublease terms, the Schools that occupy the premises 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.

NOTE 6 - 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 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 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 605, “Accounts for Contributions Received and Contributions Made”, if the services (a) create or enhance non-financial assets of (b) require specialized skills, are performed by people with those skills, and would otherwise be purchases by the School.

One entity donated professional services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at fair market value of \$155,000 for the year ended June 30, 2015.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 - RETIREMENT PLAN

The School maintains a pension plan qualified under the Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School will match employee contributions up to 4% of annual compensation. Pension expense for the year ended June 30, 2015 amounted to \$178,447.

NOTE 10 - SUBSEQUENT EVENTS

The School has evaluated its subsequent events through September 24, 2015, the date that the accompanying financial statements were issued. The School has no material events requiring disclosure.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services				Management and General	Total
	Regular Education	Special Education	Supplemental Education	Total		
Salaries and benefits	\$ 7,931,207	\$ 865,107	\$ 127,923	\$ 8,924,237	\$ 551,629	\$ 9,475,866
Consultants	434,435	37,794	-	472,229	-	472,229
Contracted services - temporary	212,800	23,211	3,432	239,443	14,801	254,244
Audit fees	-	-	-	-	15,000	15,000
Legal fees	-	-	-	-	5,155	5,155
Books and curriculum materials	192,010	-	-	192,010	-	192,010
Recruiting and marketing	53,117	-	-	53,117	-	53,117
Student testing	67,952	-	-	67,952	-	67,952
Staff development	289,552	-	-	289,552	-	289,552
Field trips	-	-	84,558	84,558	-	84,558
After school activities	-	-	415,016	415,016	-	415,016
Supplies and materials	299,161	32,631	4,826	336,618	20,807	357,425
Printing and postage	5,008	546	81	5,635	349	5,984
Insurance	91,230	9,951	1,471	102,652	6,345	108,997
Repairs and maintenance	18,927	2,064	305	21,296	1,318	22,614
Facilities expense	319,977	34,902	5,162	360,041	22,254	382,295
Depreciation and amortization	362,550	39,546	5,848	407,944	25,216	433,160
Food and travel	59,398	-	-	59,398	10,930	70,328
Equipment and furniture	90,410	9,862	1,458	101,730	6,288	108,018
Technology and communication	218,515	-	-	218,515	-	218,515
Miscellaneous	13,497	1,472	216	15,185	939	16,124
Total	\$ 10,659,746	\$ 1,057,086	\$ 650,296	\$ 12,367,128	\$ 681,031	\$ 13,048,159

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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, 2015, and have issued our report thereon dated September 24, 2015, which contained an unmodified 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
September 24, 2015

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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
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL

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 Harlem Village Academy Leadership Charter School (the "School"), which comprise the statement of financial position as of June 30, 2015, 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 September 24, 2015.

Internal Control over Financial Reporting

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

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

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

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.

We have issued a separate report to you dated September 24, 2015, communicating internal control related matters identified during the audit.

Purpose of this Report

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


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

New York, New York
September 24, 2015