

HARLEM LINK CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010

HARLEM LINK CHARTER SCHOOL  
FINANCIAL STATEMENTS  
JUNE 30, 2010

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## INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES  
HARLEM LINK CHARTER SCHOOL

We have audited the accompanying statement of financial position of Harlem Link Charter School (the "School") (a not-for-profit corporation) as of June 30, 2010 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. The 2009 financial statements were audited by other auditors whose report dated October 28, 2009, expressed an unqualified opinion on those financial statements.

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, 2010 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 September 24, 2010 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 audit.

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

New York, New York  
September 24, 2010

HARLEM LINK CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2010

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,123,640
Investment in marketable securities	225
Accounts and contracts receivable	411,952
Prepaid expenses	37,516
Total current assets	1,573,333

Property and equipment, net of accumulated depreciation and amortization of \$155,160	81,324
Prepaid expenses	31,088
Restricted cash	75,000
	1,291,785

TOTAL ASSETS	\$ 1,760,745
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LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 61,250
Accrued payroll and payroll taxes	400,917
Refundable advances	6,793
Total current liabilities	468,960

Unrestricted net assets	1,291,785
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TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 1,760,745
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The accompanying notes are an integral part of the financial statements.

HARLEM LINK CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010

Revenue and other support:	
Public school district	
Resident student enrollment	\$ 3,738,151
Students with disabilities	650,542
Grants and contracts	
State and local	213,033
Federal - Title and IDEA	199,350
Total revenue and other support	<u>4,801,076</u>
Expenses:	
Program services	
Regular education	3,622,815
Special education	356,160
Total program services	<u>3,978,975</u>
Supporting services	
Management and general	417,023
Fundraising	33,192
Total expenses	<u>4,429,190</u>
Surplus from operations	371,886
Support and other revenue:	
Contributions	
Foundations	1,226
Individuals	46,402
Corporations	150
Investment income, net	17,239
Other income	5,275
Total support and other revenue	<u>70,292</u>
Change in unrestricted net assets	442,178
Unrestricted net assets - beginning of year	
As previously reported	909,706
Prior period adjustment	(60,099)
Balance at beginning of year, as restated	<u>849,607</u>
Unrestricted net assets - end of year	<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)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 442,178
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	29,155
Prior period adjustment	(60,099)
Unrealized gain	(67)
Changes in certain assets and liabilities:	
(Increase) in accounts and contracts receivable	(210,146)
Decrease in prepaid expenses	25,107
Increase in accounts payable and accrued expenses	12,217
Increase in accrued payroll and payroll taxes	89,041
(Decrease) in refundable advances	(19,965)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>307,421</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	(33,997)
(Increase) in restricted cash	(75,000)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<u>(108,997)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	198,424
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>925,216</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<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 loss of \$159 for the year ended June 30, 2010.

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

HARLEM LINK CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 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 300 students in kindergarten through fifth grade in the 2009-2010 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).

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.

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.

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

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

Basis of Presentation (Continued)

*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, 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.

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.

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

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

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 operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the School has updated references to GAAP in its financial statements issued for the year ending June 30, 2010. The adoption of FASB ASC 105 did not impact the School's financial position or results of operations.

The School adopted the provisions of ASC 740, Income Taxes, as of July 1, 2009. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of income tax position taken or expected to be taken in a tax return. The School has reviewed its tax positions for open tax years and has concluded that the adoption of this standard did not have an impact on the financial statements of the School.

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, 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, 2010 are summarized as follows:

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

Investment income at June 30, 2010 consisted of:

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

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

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2010:

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

Depreciation and amortization expense was \$29,155 for the year ended June 30, 2010.

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 year ended June 30, 2010, the School did not match contributions.

HARLEM LINK CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 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.

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INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES  
HARLEM LINK CHARTER SCHOOL

Our report on our audit of the basic financial statements of Harlem Link Charter School (a not-for-profit corporation) for year ended June 30, 2010 appears on page 1. We conducted our audit 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 audit 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 24, 2010

HARLEM LINK CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2010

	Program Services			Supporting Services		Total
	Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel services costs						
Administrative staff personnel	\$ -	\$ 14,874	\$ 14,874	\$ 218,564	\$ 18,200	\$ 251,638
Instructional personnel	2,363,710	218,345	2,582,055	-	-	2,582,055
Total salaries and staff	2,363,710	233,219	2,596,929	218,564	18,200	2,833,693
Fringe benefits and payroll taxes	545,599	53,832	599,431	50,450	4,201	654,082
Legal services	-	-	-	8,855	-	8,855
Accounting/Audit services	-	-	-	27,000	-	27,000
Other purchased/Professional/Consulting services	141,654	13,977	155,631	43,316	-	198,947
Building and land rent/Lease	1,639	162	1,801	151	13	1,965
Repairs and maintenance	133,307	11,862	145,169	11,116	926	157,211
Insurance	24,358	2,403	26,761	2,252	188	29,201
Supplies and materials	87,699	8,653	96,352	4,072	452	100,876
Equipment/Furnishings	32,074	3,165	35,239	2,965	247	38,451
Staff development	157,322	15,522	172,844	1,741	-	174,585
Marketing/Recruitment	-	-	-	12,104	6,239	18,343
Technology	13,264	1,309	14,573	13,117	1,457	29,147
Food service	25,452	2,511	27,963	4,908	-	32,871
Student services	33,013	3,257	36,270	-	-	36,270
Office expense	39,405	3,888	43,293	9,741	1,082	54,116
Other	-	-	-	4,422	-	4,422
Depreciation and amortization	24,319	2,400	26,719	2,249	187	29,155
Total	<u>\$ 3,622,815</u>	<u>\$ 356,160</u>	<u>\$ 3,978,975</u>	<u>\$ 417,023</u>	<u>\$ 33,192</u>	<u>\$ 4,429,190</u>

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 year ended June 30, 2010, and have issued our report thereon dated September 24, 2010. 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 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 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*.

We noted certain matters that we reported to the management of the School in a separate letter dated September 24, 2010.

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 24, 2010