

Sisulu-Walker Charter School of Harlem, Inc.

Financial Statements
and
Independent Auditors' Report

June 30, 2010

Sisulu-Walker Charter School of Harlem, Inc.

Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Sisulu-Walker Charter School of Harlem, Inc. as of June 30, 2010, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted of The United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sisulu-Walker Charter School of Harlem, Inc. as of June 30, 2010, and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2010, on our consideration of Sisulu-Walker Charter School of Harlem, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 10 is presented for purposes of additional analysis and is not a required part of the 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 taken as a whole.

Vargas, Ghigliotty & Rivera, LLP

New City, New York
October 27, 2010

586 Route 304, New City, NY 10956 | Tel: 845-638-3113 | Fax: 845-638-4817
445 Park Avenue, 9th Fl, New York, NY 10022 | Tel: 212-734-0395 | Fax: 212-734-0954



Sisulu-Walker Charter School of Harlem, Inc.
Statement of Financial Position
June 30, 2010

ASSETS

Current Assets	
Cash - Operating	\$ 413,087
Due from Government Agencies (Note 3)	185,895
Prepaid Expenses	<u>42,988</u>
Total Current Assets	<u>641,970</u>
Fixed Assets	
Leasehold Improvements	77,145
Equipment, Furniture and Fixtures	<u>505,395</u>
	582,540
Less: Accumulated Depreciation	<u>(461,237)</u>
Total Fixed Assets	<u>121,303</u>
Other Assets	
Security Deposits	<u>37,500</u>
Total Other Assets	<u>37,500</u>
Total Assets	<u><u>\$ 800,773</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable and Accrued Expenses	\$ 131,594
Accrued Payroll and Related Expenses	263,092
Deferred Revenue	21,985
Capital Lease Obligation, Current Portion (Note 7)	<u>17,844</u>
Total Current Liabilities	<u>434,515</u>
Long-Term Liabilities	
Capital Lease Obligation, Net of Current Portion (Note 7)	<u>21,650</u>
Total Long-Term Liabilities	<u>21,650</u>
Total Liabilities	<u>456,165</u>
<u>Net Assets</u>	
Unrestricted Net Assets	<u>344,608</u>
Total Net Assets	<u>344,608</u>
Total Liabilities and Net Assets	<u><u>\$ 800,773</u></u>

Sisulu-Walker Charter School of Harlem, Inc.
Statement of Activities
For the year ended June 30, 2010

<u>PUBLIC SUPPORT AND REVENUE</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Resident Student Enrollment	\$ 3,361,476	\$ -	\$ 3,361,476
Food Service	-	130,690	130,690
Federal Funding	-	270,248	270,248
Corporate Contributions	14,843	-	14,843
Interest Income	1,250	-	1,250
	<hr/>	<hr/>	<hr/>
Total Public Support and Revenue	3,377,569	400,938	3,778,507
	<hr/>	<hr/>	<hr/>
Net Assets Released From Restrictions	400,938	(400,938)	-
	<hr/>	<hr/>	<hr/>
Total Support and Revenue	3,778,507	-	3,778,507
	<hr/>	<hr/>	<hr/>
<u>EXPENSES</u>			
<u>Program Services</u>			
Regular Education	3,345,189	-	3,345,189
Special Education	282,599	-	282,599
	<hr/>	<hr/>	<hr/>
	3,627,788	-	3,627,788
	<hr/>	<hr/>	<hr/>
<u>Supporting Services</u>			
Management and General	381,218	-	381,218
	<hr/>	<hr/>	<hr/>
Total Expenses	4,009,006	-	4,009,006
	<hr/>	<hr/>	<hr/>
Change in Unrestricted Net Assets	(230,499)	-	(230,499)
	<hr/>	<hr/>	<hr/>
Net Assets, Beginning of Year	575,107	-	575,107
	<hr/>	<hr/>	<hr/>
Net Assets, End of Year	\$ 344,608	\$ -	\$ 344,608
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Sisulu-Walker Charter School of Harlem, Inc.
Statement of Cash Flows
For the year ended June 30, 2010

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Change in Unrestricted Net Assets	\$ (230,499)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	34,136
Changes in Assets and Liabilities (Increase) / Decrease in:	
Due from Government Agencies	(50,049)
Due from Management Company	1,100
Accounts Receivable	495
Prepaid Expenses	(2,772)
Increase / (Decrease) in:	
Accounts Payable and Accrued Expenses	(177,264)
Accrued Payroll and Related Expenses	263,092
Deferred Revenue	21,985
Total Adjustments	<u>90,723</u>
Net Cash Used In Operating Activities	<u>(139,776)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Purchases of Equipment, Furniture and Fixtures	<u>(117,897)</u>
Net Cash Used In Investing Activities	<u>(117,897)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>	
Capital Lease Obligation	<u>39,494</u>
Net Cash Provided By Financing Activities	<u>39,494</u>
NET DECREASE IN CASH	(218,179)
CASH - BEGINNING OF YEAR	<u>631,266</u>
CASH - END OF YEAR	<u>\$ 413,087</u>
Supplemental Disclosures:	
Cash paid during the year for interest	<u>\$ 57</u>

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 1 - ORGANIZATION

Sisulu-Walker Charter School of Harlem, Inc. (the "School") is a charter school for children located in Harlem, New York. In fiscal year 2010, the School operated grades kindergarten through fourth. It educates children in a completely nondiscriminatory and secular basis. The founders and supporters of the School believe that access to a public education of high quality for all children is the foremost issue. The School was chartered during August 1999 and the first classes were offered during the 1999-2000 school year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, it is required to report information regarding financial position and activities according to the following three classes of net assets: Unrestricted net assets have no donor restrictions and have met all legal and donor requirements; Temporarily restricted net assets are temporarily restricted by donor stipulations and requirements; and Permanently restricted net assets are permanently restricted by donor stipulations and requirements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in The United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

The School records contributions received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulation time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All contributions received in the year ended 2010 were unrestricted.

Recognition of Revenue

Government contract revenue is recognized as earned in the period services are provided and costs are incurred.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial period of three months or less to be cash equivalents.

Income Tax Status

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

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold Improvements Furniture and Fixtures, and Equipment

Leasehold improvements, furniture and equipment are valued at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets or the term of the lease agreement. Normal replacement and maintenance costs are charged to earnings as incurred, and major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss for the period. The School capitalizes assets with cost of \$500 and over. Depreciation is calculated based on the useful lives of the assets as follows:

Leasehold Improvements	5 Years
Equipment and Furniture	3 - 7 Years

Functional Allocation of Expenses

Expenses relating to more than one function are allocated to program service and management and general based on employee time estimates or other appropriate usage factors.

NOTE 3 - PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT

Under the School's Charter School Agreement and the Charter School Act, the School is entitled to received funding from both State and Federal sources that are available to public schools. These funds include State pupil enrollment funds and Federal food subsidies and Title I, IIA, IID, IV and V funds. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school district of the children enrolled in the school. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

As of June 30, 2010, \$185,895 is due from government agencies.

NOTE 4 - INVESTMENTS

Pursuant to the provisions described in Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, the School categorizes its financial instruments into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three board levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation of assets and liabilities traded in less active dealer or broker markets that have significant observable inputs are classified as Level 2. Level 2 valuations are usually obtained from third-party pricing service valuations for identical or similar assets. If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

The School's investments at June 30, 2010 consists of money market account totaling \$216,089, which is classified as Level 2 in the fair value hierarchy.

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 5 – DEFINED CONTRIBUTION PLAN

The School offers a 401(k) plan (the "Plan") for substantially all of its employees. Employees are eligible for the plan immediately upon employment and participation in the Plan is voluntary. Employees may contribute up to 15% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The School matches the employee contribution 100% up to 4% of the employee's annual compensation. The School's contribution recognized in the statement of activities was \$43,244 for 2010. The Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

NOTE 6 – MANAGEMENT FEES

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

In providing the above services, VSI is paid a management fee in the amount equal to the product of the total full-time equivalent enrollment of students in the Charter School as defined under Section 119.1 of the New York State Commissioner of Education Regulations multiplied by one thousand dollars (\$1,000) (The "Per Pupil Fee"). The Per Pupil Fee shall be increased or decreased each year by the percentage increase or decrease in the Final Adjusted Per Pupil for charter schools in the New York City school district as calculated by the New York State Education Department annually.

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

NOTE 7 – CAPITAL LEASE

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

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

<u>Year Ending June 30,</u>	
2011	\$ 17,844
2012	17,844
2013	<u>3,806</u>
	39,494
Less Current Portion	<u>(17,844)</u>
Long-Term Portion	<u><u>\$ 21,650</u></u>

Sisulu-Walker Charter School of Harlem, Inc.
Notes to the Financial Statements
June 30, 2010

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Occupancy Lease

The School is paying rent for space for classroom instruction and administration activity under a month-to-month lease. Monthly rental payments total \$39,784.

Audits by Funding Sources

The School participates in a number of Federal and State programs. These programs require that the School complies with certain requirements of laws, regulations, contracts, and agreements applicable to the program in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or result of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

NOTE 9 – CONCENTRATION OF RISK

The School is dependent on various government agencies for funding, and is responsible for meeting the requirements of such agencies. If the school was to lose students or the related government funding, it could have a substantial effect on its ability to continue operations.

NOTE 10 – SUBSEQUENT EVENTS

In accordance with Statement of Financial Accounting Standards No. 165, *Subsequent Events*, the School has evaluated subsequent events between the statement of financial position date of June 30, 2010 and October 27, 2010, the date the financial statements were issued. No subsequent events requiring disclosure were noted.

Supplemental Information

Sisulu-Walker Charter School of Harlem, Inc.
Schedule of Functional Expenses
For the year ended June 30, 2010

	Regular Education	Special Education	Total Programs	Support Services	Total
<u>Personnel Expenses</u>					
Salaries	\$ 1,759,494	\$ 148,163	\$ 1,907,657	\$ -	\$ 1,907,657
Fringe Benefits	302,141	25,443	327,584	-	327,584
Payroll Taxes and Related Expenses	164,090	13,818	177,908	-	177,908
Total Personnel and Related Expenses	<u>2,225,725</u>	<u>187,424</u>	<u>2,413,149</u>	<u>-</u>	<u>2,413,149</u>
<u>Operating Expenses</u>					
Contracted Services - Management Co.	-	-	-	370,000	370,000
Consultants - Education	117,317	10,784	128,101	-	128,101
Food	138,479	11,661	150,140	-	150,140
Insurance	35,336	2,976	38,312	-	38,312
Supplies and Materials	83,598	7,040	90,638	-	90,638
Textbooks	48,766	4,107	52,873	-	52,873
Telephone	18,296	1,541	19,837	-	19,837
Occupancy	440,326	37,079	477,405	-	477,405
Utilities	60,538	5,098	65,636	-	65,636
Printing	5,302	447	5,749	-	5,749
Professional Development	48,688	4,100	52,788	-	52,788
Advertising	17,436	1,468	18,904	-	18,904
Auditing Fees	-	-	-	11,218	11,218
Maintenance and Repairs	28,819	2,427	31,246	-	31,246
Transportation	13,770	1,160	14,930	-	14,930
Depreciation	31,485	2,651	34,136	-	34,136
Interest Expense	53	4	57	-	57
Other Expenses	31,255	2,632	33,887	-	33,887
Total Operating Expenses	<u>1,119,464</u>	<u>95,175</u>	<u>1,214,639</u>	<u>381,218</u>	<u>1,595,857</u>
TOTAL EXPENSES	<u>\$ 3,345,189</u>	<u>\$ 282,599</u>	<u>\$ 3,627,788</u>	<u>\$ 381,218</u>	<u>\$ 4,009,006</u>



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

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

We have audited the financial statements of Sisulu-Walker Charter School of Harlem, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated October 27, 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 Sisulu-Walker Charter School of Harlem, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sisulu-Walker Charter School of Harlem, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sisulu-Walker Charter School of Harlem, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vargas, Ghigliotto & Rivera, LLP

New City, New York
October 27, 2010