

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

FINANCIAL STATEMENTS

JUNE 30, 2016

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2016

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY CHARTER SCHOOL

Report on the Financial Statements

We have audited the accompanying financial statements of Harlem Village Academy Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2016, 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, 2016, 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 28, 2016, 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 28, 2016

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,448,608
Grants and contracts receivable	494,741
Prepaid expenses and other current assets	34,136
Due from related party	<u>256,212</u>

Total current assets	<u>2,233,697</u>
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Property and equipment, net of accumulated depreciation and amortization of \$1,558,464	670,942
Note receivable - related party	750,000
Security deposit	<u>60,658</u>

Total other assets	<u>1,481,600</u>
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TOTAL ASSETS	<u><u>\$ 3,715,297</u></u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 562,731
Accrued payroll and payroll taxes	797,715
Refundable advances	32,610
Due to related party	<u>330,913</u>

Total current liabilities	<u>1,723,969</u>
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Net assets:

Unrestricted	1,677,224
Temporarily restricted	<u>314,104</u>

Total net assets	<u>1,991,328</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,715,297</u></u>
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The accompanying notes are an integral part of the financial statements.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
State and local per pupil operating revenue	\$ 13,741,824	\$ -	\$ 13,741,824
State and local per pupil facilities funding	427,851	-	427,851
Federal grants	424,666	-	424,666
State and city grants	55,226	-	55,226
Grant from network	912,000	-	912,000
Grants and Contributions	31,000	-	31,000
Donated services	62,000	-	62,000
Interest income	1,431	-	1,431
Net assets released from restriction	8,974	(8,974)	-
	<u>15,664,972</u>	<u>(8,974)</u>	<u>15,655,998</u>
Total revenue and support			
Expenses:			
Program services:			
Regular education	13,113,412	-	13,113,412
Special education	1,214,693	-	1,214,693
Supplemental education	458,273	-	458,273
Total program services	<u>14,786,378</u>	<u>-</u>	<u>14,786,378</u>
Supporting services:			
Management and general	860,535	-	860,535
	<u>15,646,913</u>	<u>-</u>	<u>15,646,913</u>
Total expenses			
Change in net assets	18,059	(8,974)	9,085
Net assets - beginning of year	<u>1,659,165</u>	<u>323,078</u>	<u>1,982,243</u>
Net assets - end of year	<u>\$ 1,677,224</u>	<u>\$ 314,104</u>	<u>\$ 1,991,328</u>

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

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services			Total	Management and	Total
	Regular Education	Special Education	Supplemental Education		General	
Salaries and benefits	\$ 8,963,519	\$ 916,241	\$ 181,281	\$ 10,061,041	\$ 641,329	\$ 10,702,370
Consultants	730,199	50,099	-	780,298	-	780,298
Contracted services - temporary	161,928	16,552	3,275	181,755	9,086	190,841
Audit fees	-	-	-	-	15,000	15,000
Legal fees	-	-	-	-	14,252	14,252
Books and curriculum materials	217,326	-	-	217,326	-	217,326
Recruiting and marketing	32,698	-	-	32,698	-	32,698
Student testing	183,106	-	-	183,106	-	183,106
Staff development	251,627	-	-	251,627	-	251,627
Field trips	-	-	66,013	66,013	-	66,013
After school activities	-	-	161,840	161,840	-	161,840
Supplies and materials	166,046	16,973	3,358	186,377	11,880	198,257
Office and postage	54,407	5,562	1,100	61,069	3,892	64,961
Insurance	129,320	13,218	2,616	145,154	9,253	154,407
Telephone and communication	12,778	1,306	258	14,342	914	15,256
Repairs and maintenance	61,908	6,328	1,252	69,488	4,429	73,917
Facilities expense	1,550,228	158,463	31,353	1,740,044	110,917	1,850,961
Security	102,391	10,466	2,071	114,928	7,326	122,254
Depreciation and amortization	167,709	17,143	3,392	188,244	12,001	200,245
Food and travel	53,958	-	-	53,958	18,618	72,576
Equipment and furniture	16,308	1,667	330	18,305	1,168	19,473
Technology costs	251,355	-	-	251,355	-	251,355
Miscellaneous	6,601	675	134	7,410	470	7,880
Total	\$ 13,113,412	\$ 1,214,693	\$ 458,273	\$ 14,786,378	\$ 860,535	\$ 15,646,913

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

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 9,085
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	241,843
Changes in certain assets and liabilities:	
(Increase) in grants and contracts receivable	(231,207)
Decrease in prepaid expenses and other current assets	98,577
Decrease in due from related parties	439,378
Decrease in security deposit	2,272
Increase in accounts payable and accrued expenses	182,036
Increase in accrued payroll and payroll taxes	78,651
Increase in refundable advances	23,448
Increase in due to related party	<u>330,913</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,174,996
CASH FLOWS FROM INVESTING ACTIVITY	
Purchases of property and equipment	<u>(205,508)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	969,488
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>479,120</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,448,608</u></u>

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

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Harlem Village Academy Charter School (the "School") is a New York State, not-for-profit corporation that 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 Harlem, New York, in September 2003 and the School provided education to approximately 862 students in grades kindergarten through third and five through twelve during the 2015-2016 school year.

The Board of Trustees of the State University of New York originally approved the application for the School on September 13, 2002. During the 2012-2013 school year, the School applied for, and received, a five year extension of its charter through June 30, 2018. The School will 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, 2016.

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, 2012, and prior.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Presentation

The School's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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. The 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 assets that 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, as net assets released from restrictions.

Permanently Restricted

Net assets of the School whose use has been permanently limited by grantor-imposed restrictions are classified as permanently restricted. 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 permanently restricted net assets at June 30, 2016.

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 CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION 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

The School considers all highly liquid financial 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 exceeded the FDIC insured levels of \$250,000 per institution at various times during the year. At June 30, 2016, the School's cash balances exceeded the FDIC insured level by approximately \$1,200,000. 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. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract, in which ownership of such property and equipment is retained by the funding source. 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 and 7 years
Software	3 years
Library books	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.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2016:

Equipment	\$ 1,369,467
Furniture and fixtures	384,075
Software	3,999
Library books	73,427
Leasehold improvements	<u>398,438</u>
	2,229,406
Less: Accumulated depreciation and amortization	<u>(1,558,464)</u>
	<u>\$ 670,942</u>

Depreciation and amortization expense was \$241,843 for the year ended June 30, 2016. Depreciation expense in the amount of \$41,598 was allocated to a related party, resulting in the School's depreciation and amortization expense of \$200,245.

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 Leadership Charter School ("LVA"), a charter school with common management. The Network supports the School by providing educational and operating materials, training, financial support and other services.

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 any time upon five (5) days advance written notice to the School.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

For operational efficiency and purchasing power, the School shares certain expenses with the Network and LVA. At June 30, 2016, the balance due from LVA was \$256,212 and the balance due to the Network was \$330,913.

During the year ended June 30, 2016, the Network granted \$912,000 to support the School's operations.

On April 4, 2012, HVA 124 LLC, a limited liability company in which the Network is the sole member, closed on the purchase of the former Rice High School building on West 124th Street. Renovations of the building were substantially completed in August 2013. The elementary school started the 2013-14 school year in the newly renovated facility. Renovations on the building were partially funded through New Markets Tax Credit loans to HVA 124, LLC which leases the building to the School. The School pays rent monthly as stipulated in the lease agreement.

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 Leadership Charter School (the "Schools"). The High School opened in August 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 5 - COMMITMENTS AND CONTINGENCIES

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.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - COMMITMENTS AND CONTINGENCIES (Continued)

On May 22, 2013, the School entered into a 25 year lease for elementary school facilities with HVA 124 LLC, a related party (See Note 4). Lease payments commenced September 1, 2013 and will expire on April 1, 2038.

Future minimum payments under the operating lease are as follows:

Year Ending June 30, 2017	\$ 912,000
2018	912,000
2019	912,000
2020	912,000
2021	912,000
Thereafter	<u>19,696,000</u>
Total	<u>\$ 24,256,000</u>

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 - 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 and (c) are measurable.

A foundation donated health and wellness 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 \$62,000 for the year ended June 30, 2016.

NOTE 8 - 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.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 consisted of a State Stimulus Fund grant for \$350,000 to help pay for the development costs of its permanent high school facility. The School expended and capitalized \$350,000 during the year ended June 30, 2009 related to this grant. These costs are classified as leasehold improvements under property and equipment on the School's statement of financial position. Temporarily restricted net assets are reclassified to unrestricted net assets as amortization expense is recognized over the life of the leasehold improvements. During the year ended June 30, 2016, \$8,974 was released from restriction. At June 30, 2016, temporarily restricted net assets were \$314,104.

NOTE 10 - 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, 2016 amounted to \$204,006.

NOTE 11 - SUBSEQUENT EVENTS

The School has evaluated its subsequent events through September 28, 2016, the date that the accompanying financial statements were available to be issued. The School has no material events requiring disclosure.

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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 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 Charter School (the "School"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2016.

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 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*.

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 28, 2016

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
INDEPENDENT AUDITORS' REPORT
ON COMMUNICATION OF INTERNAL CONTROL MATTERS
JUNE 30, 2016

FRUCHTER ROSEN & COMPANY, P.C.
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September 28, 2016

Audit Committee of the Board of Trustees
Harlem Village Academy Charter School

In planning and performing our audit of the financial statements of Harlem Village Academy Charter School (the "School") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Exhibit I accompanying this letter summarizes corrective actions taken by the School on prior year's observation. We determined that this observation did not constitute a significant deficiency or material weakness.

This communication 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.

We appreciate your cooperation and the assistance we received during the course of our audit.


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

New York, New York
September 28, 2016

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2016

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EXHIBIT I – CORRECTIVE ACTION TAKEN ON PRIOR YEAR OBSERVATION

A. CREDIT CARD TRANSACTIONS

Observation

During our audit, we noted that the volume of credit card charges were significantly higher from prior years. We reviewed two months of credit card transactions and noted the following exceptions:

- Credit card charges were not properly reviewed and documented for approval at the school level prior to payment of monthly statements. Management reviews and approves charges when statements are presented for payment.
- Unauthorized personal charges were noted for one individual who is currently not employed by the School. These unauthorized charges were subsequently reimbursed by the former employee.
- Approximately 15% of charges were not adequately supported by receipts, invoices, or other documentation at the time we conducted our tests of credit card transactions.
- Approximately \$1,700 in sales taxes were paid. Some charges were out of state travel and conferences.

Recommendation

Management should limit the use of credit card charges, require proper review and written approval of charges in accordance with the School's financial policies and procedures manual to avoid misuse of credit cards. Receipts and other documentation should be collected and exemption certificates need to be used.

Corrective Action Taken

During the year ended June 30, 2016, the School reduced the level of credit card usage and updated its policies and procedures manual. During our 2016 audit we noted that credit card transactions were supported by backup documentation.

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B. INCOMPLETE STUDENT FILES

Observation

We noted the following exceptions during our test of thirty student files:

- Three student files did not contain an ethnic identification form
- Fourteen student files did not contain prior school records
- Four student files did not contain proof of residency
- One student file was missing immunization/medical form

Recommendation

In an effort to ensure that student records are complete, we recommend that the School's checklist should be utilized periodically to insure that information is complete and updated for each student file.

Corrective Action Taken

During our 2016 audit we noted the School's maintenance of student files improved without exception.

C. INCOMPLETE EMPLOYEE FILES

Observation

We noted the following exceptions during our test of ten employee files:

- All Forms I-9 were not kept separately as recommended by the Department of Homeland Security
- Eight employee files were missing either the principal, or both the principal and employee signatures on the employment agreement.
- One missing fingerprint clearance form

Recommendation

In an effort to ensure that employee files are complete, we recommend developing a checklist that includes all required documentation. This checklist should be utilized periodically to insure that information is complete and updated for each employee file.

Corrective Action Taken

During our 2016 audit we noted the School's maintenance of employee files improved without exception.

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September 28, 2016

To the Audit Committee of the Board of Trustees of
Harlem Village Academy Charter School

We have audited the financial statements of Harlem Village Academy Charter School (the “School”) for the year ended June 30, 2016, and have issued our report thereon dated September 28, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 10, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of Harlem Village Academy Charter School. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Harlem Village Academy Charter School’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed our audit according to the plan previously communicated to you prior to commencement of our audit field work.

Auditor Independence

Fruchter Rosen & Company P.C. have complied with all relevant ethical requirements regarding independence.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Harlem Village Academy Charter School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are as follows:

- Collectability of grants and contracts receivables
- Useful lives of fixed assets
- Allocation of costs for the statement of functional expenses

We evaluated the key factors and assumptions used to develop the above estimates in determining that it was reasonable in relation to the financial statement taken as a whole. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. In addition, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditors' report, and request their correction. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

This information is intended solely for the use of the Audit Committee, the Board of Trustees and management of Harlem Village Academy Charter School and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,


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