

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

FINANCIAL STATEMENTS

JUNE 30, 2009

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2009

CONTENTS

PAGE

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION:	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to the financial statements	5 - 9
Independent auditors' report on additional information	10
Schedule of functional expenses	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	12 -13

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

TEL: (212) 957-3600
FAX: (212) 957-369

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY CHARTER SCHOOL

We have audited the accompanying statement of financial position of Harlem Village Academy Charter School (a not-for-profit corporation) as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Harlem Village Academy Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harlem Village Academy Charter School as of June 30, 2009, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2009 on our consideration of Harlem Village Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


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

New York, New York
September 22, 2009

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 759,156
Grants receivable	563
Prepaid expenses	47,122
Due from related parties	<u>47,708</u>
Total current assets	854,549
Property and equipment, net of accumulated depreciation and amortization of \$236,910	<u>642,096</u>
TOTAL ASSETS	<u><u>\$ 1,496,645</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 145,187
Accrued payroll	313,304
Deferred revenue	<u>84,823</u>
Total current liabilities	543,314
Net assets:	
Unrestricted net assets	603,331
Temporarily restricted net assets	<u>350,000</u>
Total net assets	<u><u>953,331</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,496,645</u></u>

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

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
State and local per pupil operating revenue	\$ 3,534,663	\$ -	\$ 3,534,663
Federal grants	163,992	-	163,992
State and city grants	68,638	350,000	418,638
Interest income	6,598	-	6,598
	3,773,891	350,000	4,123,891
Expenses:			
Program services			
Regular education	3,083,864	-	3,083,864
Special education	175,294	-	175,294
Other programs	243,112	-	243,112
Management and general	221,056	-	221,056
	3,723,326	-	3,723,326
Changes in net assets	50,565	350,000	400,565
Net assets - beginning of year	552,766	-	552,766
Net assets - end of year	\$ 603,331	\$ 350,000	\$ 953,331

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 400,565
Adjustments to reconcile change in net assets provided by operating activities:	
Depreciation and amortization	67,563
Changes in certain assets and liabilities:	
Decrease in grants receivable	11,545
(Increase) in prepaid expense	(25,208)
(Increase) in due from related parties	(22,379)
(Decrease) in accounts payable and accrued expenses	(126,506)
Increase in accrued payroll	76,067
Increase in deferred revenue	<u>48,826</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>430,473</u>
CASH FLOWS FROM INVESTING ACTIVITY	
Purchase of property and equipment	<u>(559,353)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(128,880)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>888,036</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 759,156</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, 2009

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY 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 Organization is dedicated to providing a high quality college preparatory education to primarily disadvantaged students. Classes commenced in East Harlem, New York, in September 2003 and the School provided education to approximately 265 students in grades five to ten during the 2008-2009 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 2007-2008 school year the School applied for, and received, a five year extension of its charter. 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 an organization 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) (l) (A) (ii).

Basis of Presentation

Financial statement presentation follows the requirements of Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, 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.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

Basis of Presentation (Continued)

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 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 has no permanently restricted net assets at June 30, 2009.

Contributions are recognized when the donor makes a Promise to Give to the Organization that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with grantor stipulations.

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.

Donated Services

Volunteers have made contributions of their time to develop the School programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

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.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

Equipment	5 years
Furniture and fixtures	7 years
Software	3 years
Leasehold improvements	useful life or related lease
Library books	3 years

Concentration of Credit Risk

The School places its cash in what it believes to be credit-worthy financial institutions. However, cash balances exceeded FDIC insured levels at various times during the year.

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of federal entitlements. The School anticipates the receivable being collected before June 30, 2010.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2009:

Equipment	\$ 304,182
Furniture and fixture	113,655
Software	13,124
Leasehold improvements	24,618
Library books	73,427
Construction-in-progress	<u>350,000</u>
	879,006
Less: Accumulated depreciation and amortization	<u>236,910</u>
	<u>\$ 642,096</u>

Depreciation and amortization expense was \$67,563 for the year ended June 30, 2009.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Village Academies Network, Inc. (the "Network"), a New York State not-for-profit corporation and Leadership 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. Prior to the School's inception, the Network received and disbursed funding for start up costs associated with the School.

For operational efficiency and purchasing power, the School shares certain expenses with the Network and Leadership Village Academy Charter School. At June 30, 2009, the balance due from the related charter school was \$42,823. At June 30, 2009, the balance due from the Network was \$4,885.

NOTE 5 - 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 6 - 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 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2009 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. At June 30, 2009, these costs are classified as construction in progress under property and equipment on the School's statement of financial position. Temporarily restricted net assets will be reclassified to unrestricted net assets when the facility is placed into service and as amortization expense is recognized over the life of the leasehold improvements.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8 - SUBSEQUENT EVENT

The Network, with partial funding through a grant from the New York City Department of Education (which grant is administered by the School Construction Authority or "SCA"), is in the process of designing and building a new school facility to be used by both the School and Leadership Village Academy Charter School (the "Schools"). Civic Builders, a non-profit charter school developer, is serving as developer of the project under an agreement with the Network. The Network has already received either cash or commitments for its share of the facility development cost. Under the proposed transaction structure, SCA will own the school portion of the building post-completion. SCA will master lease it to Civic Builders, which will sublease it to the Network. The Network has identified the Schools as the sub-subtenants under the lease. Under the sublease terms, the Schools that occupy the premises are required to meet certain academic performance targets. There are no rent payments expected, but the Schools will pay operating expenses and fund a replacement reserve. The lease and sublease will have at least a 30 year term, which may be extended by the Network under certain conditions.

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

TEL: (212) 957-3600
FAX: (212) 957-369

INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY CHARTER SCHOOL

Our report on our audit of the basic financial statements of Harlem Village Academy Charter School (a not-for-profit corporation) for June 30, 2009, 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 audits 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 22, 2009

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	Program Services			Management and General	Total
	Regular Education	Special Education	Supplemental Education		
Salaries and benefits	\$ 2,550,058	\$ 121,550	\$ 153,517	\$ 163,405	\$ 2,988,530
Consultants	-	39,419	-	14,394	53,813
Contracted services - temp	11,873	566	715	760	13,914
Auditing fees	-	-	-	12,500	12,500
Books and curriculum materials	110,554	-	2,242	-	112,796
Student recruiting and marketing	2,931	-	-	-	2,931
Student testing	8,651	-	-	-	8,651
Staff development	27,178	-	-	-	27,178
Field trips	-	-	58,465	-	58,465
After school activities	-	-	8,912	-	8,912
Food service	12,440	-	-	1,125	13,565
Supplies and materials	49,579	-	589	8,934	59,102
Printing and postage	22,250	1,061	1,339	1,426	26,076
Insurance	19,592	934	1,179	1,255	22,960
Telephone and communication	11,404	544	687	730	13,365
Repairs and maintenance	4,543	217	273	291	5,324
Depreciation and amortization	57,650	2,748	3,471	3,694	67,563
Miscellaneous	21,984	-	1,298	1,446	24,728
Lease - facility	17,066	813	1,027	1,094	20,000
Equipment	54,475	2,597	3,279	3,490	63,841
Startup and facility development	101,636	4,845	6,119	6,512	119,112
Total	\$ 3,083,864	\$ 175,294	\$ 243,112	\$ 221,056	\$ 3,723,326

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY CHARTER SCHOOL

We have audited the financial statements of Harlem Village Academy Charter School (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 22, 2009. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood than a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY 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 were reported to the management of the School in a separate letter dated September 22, 2009.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, and 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.


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

New York, New York
September 22, 2009