

Harlem Village Academy Charter School

Financial Statements

June 30, 2017

Independent Auditors' Report

Board of Trustees Harlem Village Academy Charter School

We have audited the accompanying financial statements of Harlem Village Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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, 2017, 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 29, 2017, 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 solely 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 the effectiveness of the School's 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.

PKF O'Connor Davies, LLP

Harrison, New York
September 29, 2017

Harlem Village Academy Charter School

Statement of Financial Position

June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,737,218
Grants and contracts receivable	699,148
Prepaid expenses and other current assets	41,039
Due from related party	<u>876,224</u>
Total Current Assets	3,353,629

Property and equipment, net	594,516
Note receivable - related party	750,000
Security deposit	<u>45,813</u>

\$ 4,743,958

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 374,257
Accrued payroll and payroll taxes	887,514
Due to related party	<u>1,475,859</u>
Total Current Liabilities	<u>2,737,630</u>

Net Assets

Unrestricted	1,701,198
Temporarily restricted	<u>305,130</u>
Total Net Assets	<u>2,006,328</u>

\$ 4,743,958

Harlem Village Academy Charter School

Statement of Activities Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
State and local per pupil operating revenue	\$ 15,683,062	\$ -	\$ 15,683,062
State and local per pupil facilities funding	706,149	-	706,149
Federal grants	468,839	-	468,839
State and city grants	65,093	-	65,093
Grant from network	650,000	-	650,000
Donated services	50,554	-	50,554
Interest and other income	6,786	-	6,786
Net assets released from restriction	8,974	(8,974)	-
Total Revenue and Support	17,639,457	(8,974)	17,630,483
EXPENSES			
Program Services			
Regular education	15,045,100	-	15,045,100
Special education	1,581,119	-	1,581,119
Supplemental education	281,829	-	281,829
Total Program Services	16,908,048	-	16,908,048
Supporting Services			
Management and general	707,435	-	707,435
Total Expenses	17,615,483	-	17,615,483
Change in Net Assets	23,974	(8,974)	15,000
NET ASSETS			
Beginning of year	1,677,224	314,104	1,991,328
End of year	\$ 1,701,198	\$ 305,130	\$ 2,006,328

Harlem Village Academy Charter School

Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services			Total	Management and	Total
	Regular Education	Special Education	Supplemental Education		General	
Salaries and benefits	\$ 10,455,267	\$ 1,227,388	\$ 27,603	\$ 11,710,258	\$ 471,660	\$ 12,181,918
Consultants	1,161,140	49,932	-	1,211,072	-	1,211,072
Contracted services - temporary	121,701	14,287	321	136,309	5,491	141,800
Audit fees	-	-	-	-	15,000	15,000
Legal fees	-	-	-	-	87,816	87,816
Books and curriculum materials	191,529	-	-	191,529	-	191,529
Recruiting and marketing	53,701	-	-	53,701	-	53,701
Student testing	80,215	-	-	80,215	-	80,215
Staff development	158,181	-	-	158,181	-	158,181
Field trips	-	-	156,735	156,735	-	156,735
After school activities	-	-	90,660	90,660	-	90,660
Supplies and materials	212,067	24,896	561	237,524	9,564	247,088
Office and postage	15,446	1,813	41	17,300	696	17,996
Insurance	142,076	16,679	375	159,130	6,410	165,540
Telephone and communication	10,335	1,213	27	11,575	467	12,042
Repairs and maintenance	117,488	13,792	310	131,590	5,300	136,890
Facilities expense	1,585,265	186,101	4,185	1,775,551	71,515	1,847,066
Security	123,595	14,509	326	138,430	5,577	144,007
Depreciation and amortization	186,503	21,894	492	208,889	8,414	217,303
Food and travel	36,728	-	-	36,728	16,218	52,946
Equipment and furniture	72,128	8,467	190	80,785	3,253	84,038
Technology costs	320,470	-	-	320,470	-	320,470
Miscellaneous	1,265	148	3	1,416	54	1,470
Total Expenses	<u>\$ 15,045,100</u>	<u>\$ 1,581,119</u>	<u>\$ 281,829</u>	<u>\$ 16,908,048</u>	<u>\$ 707,435</u>	<u>\$ 17,615,483</u>

See notes to financial statements

Harlem Village Academy Charter School

Statement of Cash Flows Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	15,000
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization		217,303
Changes in operating assets and liabilities		
Grants and contracts receivable		(204,407)
Prepaid expenses and other current assets		(6,903)
Due from related party		(620,012)
Security deposit		14,845
Accounts payable and accrued expenses		(188,474)
Accrued payroll and payroll taxes		89,799
Refundable advances		(32,610)
Due to related party		<u>1,144,946</u>
Net Cash from Operating Activities		429,487

CASH FLOWS FROM INVESTING ACTIVITY

Purchases of property and equipment		<u>(140,877)</u>
Net Change in Cash and Cash Equivalents		288,610

CASH AND CASH EQUIVALENTS

Beginning of year		<u>1,448,608</u>
End of year	\$	<u><u>1,737,218</u></u>

Harlem Village Academy Charter School

Notes to Financial Statements
June 30, 2017

1. Organization and Tax Status

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 926 students in grades kindergarten through twelve during the 2016-2017 school year.

The Board of Trustees of the State University of New York originally approved the application for the School on September 13, 2002. The Board of Trustees approved and issued several renewals to the School's charter expiring on June 30, 2018.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Harlem Village Academy Charter School

Notes to Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies *(continued)*

Net Assets Presentation (continued)

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no permanently restricted net assets at June 30, 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid financial instruments with maturities of three months or less at the time of purchase.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Equipment	3 years
Furniture and fixtures	5 - 7 years
Software	3 years
Library books	3 years

Harlem Village Academy Charter School

Notes to Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (*continued*)

Property and Equipment (continued)

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the year ended June 30, 2017.

Revenue and Support

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.

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 period activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Donated Services

The School recognizes contributions of services if they (a) create or enhance nonfinancial assets, (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the School, and (c) are measurable. Donated services and promises to give services that do not meet the above criteria are not recognized. The School recognized \$50,554 of donated services for the year ended June 30, 2017.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Harlem Village Academy Charter School

Notes to Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (*continued*)

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 29, 2017.

3. 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.

4. Related Party Transactions (not disclosed elsewhere)

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 and Board of Trustees. 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.

For operational efficiency and purchasing power, the School shares certain expenses with LVA and the Network. At June 30, 2017, the balance due from LVA was \$876,224 and the balance due to the Network was \$1,475,859.

During the year ended June 30, 2017, the Network granted \$650,000 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.

Harlem Village Academy Charter School

Notes to Financial Statements
June 30, 2017

4. Related Party Transactions (not disclosed elsewhere) (continued)

The Network, with partial funding through a grant from the New York City Department of Education (which grant is administered by the School Construction Authority or “SCA”), completed the building of a new school facility in August 2012 to be used by both the School and LVA (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. On June 23, 2017, the conveyance of the school portion of the building to the SCA was completed, the SCA leased it to Civic Builders, which subleased 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 are 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 have at least a 30 year term, which may be extended by the Network under certain conditions.

5. Property and Equipment

Property and equipment consists of the following at June 30, 2017:

Equipment	\$ 1,509,584
Furniture and fixtures	405,132
Software	3,999
Library books	73,427
Leasehold improvements	<u>423,061</u>
	2,415,203
Accumulated depreciation and amortization	<u>(1,820,687)</u>
	<u>\$ 594,516</u>

Depreciation and amortization expense was \$262,223 for the year ended June 30, 2017. Depreciation expense in the amount of \$44,920 was allocated to LVA, resulting in the School’s net depreciation and amortization expense of \$217,303.

6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 4% of the participant’s annual compensation. Employee match for the year ended June 30, 2017 amounted to \$237,890.

Harlem Village Academy Charter School

Notes to Financial Statements
June 30, 2017

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2017, approximately \$1,500,000 of cash was maintained with an institution in excess of FDIC limits.

8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the year ended June 30, 2017, the School received approximately 89% of total revenue and support 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.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 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, 2017, \$8,974 was released from restriction. At June 30, 2017, temporarily restricted net assets were \$305,130.

10. Commitment

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 30, 2038.

Future minimum payments under the operating lease are as follows:

2018	\$ 912,000
2019	912,000
2020	957,600
2021	1,003,200
2022	1,003,200
Thereafter	<u>18,556,000</u>
	<u>\$ 23,344,000</u>

Harlem Village Academy Charter School

Notes to Financial Statements
June 30, 2017

11. 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.

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

Independent Auditors' Report

**Board of Trustees
Harlem Village Academy Charter School**

We have audited, in accordance with the 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, 2017, 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 29, 2017.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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.

PKF O'Connor Davies, LLP

Harrison, New York
September 29, 2017

Harlem Village Academy Charter School

Auditors' Communication on Internal Control

June 30, 2017

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, 2017, 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 entity'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 deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

This communication is intended solely for the information and use of management, audit committee, Board of Trustees, 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 would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the School during the course of our audit.

PKF O'Connor Davies, LLP

Harrison, New York
September 29, 2017



September 29, 2017

To the Board of Trustees
Harlem Village Academy Charter School

Re: Auditors' Communication with Those Charged with Governance

We have audited the financial statements of Harlem Village Academy Charter School (the "School") as of and for the year ended June 30, 2017, and have issued our report thereon dated September 29, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 31, 2017. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the School are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

In connection with our audit we performed tests of the School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Qualitative aspects of significant accounting practices (*continued*)

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as collectability of grants receivable, useful lives of fixed assets, and functional allocation of expenses. Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction. There are no such financial statement misstatements that remain uncorrected.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Our audit did not identify misstatements that were corrected by management.

Disagreements with management

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

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

Auditor independence

We affirm that PKF O'Connor Davies, LLP is independent with respect to the School in accordance with the AICPA's *Code of Professional Conduct*.

This communication is intended solely for the information and use of the Board of Trustees and management of the School and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP