

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

FINANCIAL STATEMENTS

JUNE 30, 2015

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2015

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION:	
Statement of financial position	3
Statement of activities	4
Statement of cash flows	5
Notes to financial statements	6 - 12
Independent auditors' report on supplementary information	13
Schedule of functional expenses	14
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	15 - 16

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

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

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, 2015, 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, 2015, 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 24, 2015, 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 24, 2015

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 479,120
Grants and contracts receivable	263,534
Prepaid expenses and other current assets	132,713
Due from related parties	<u>695,590</u>
Total current assets	<u>1,570,957</u>
Property and equipment, net of accumulated depreciation and amortization of \$1,316,621	707,277
Note receivable - related party	750,000
Security deposit	<u>62,930</u>
Total other assets	<u>1,520,207</u>
TOTAL ASSETS	<u><u>\$ 3,091,164</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 380,695
Accrued payroll and payroll taxes	719,064
Refundable advances	<u>9,162</u>
Total current liabilities	<u>1,108,921</u>
Net assets:	
Unrestricted	1,659,165
Temporarily restricted	<u>323,078</u>
Total net assets	<u>1,982,243</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,091,164</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
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
State and local per pupil operating revenue	\$ 12,407,572	\$ -	\$ 12,407,572
State and local per pupil facilities funding	290,731	-	290,731
Federal grants	396,211	-	396,211
State and city grants	61,792	-	61,792
Grant from network	1,517,000	-	1,517,000
Interest and other income	1,124	-	1,124
Donated services	155,000	-	155,000
Net assets released from restriction	8,974	(8,974)	-
	<u>14,838,404</u>	<u>(8,974)</u>	<u>14,829,430</u>
 Total revenue and support			
Expenses:			
Program services:			
Regular education	12,157,072	-	12,157,072
Special education	1,230,005	-	1,230,005
Supplemental education	651,137	-	651,137
Total program services	<u>14,038,214</u>	<u>-</u>	<u>14,038,214</u>
Supporting services:			
Management and general	782,196	-	782,196
	<u>782,196</u>	<u>-</u>	<u>782,196</u>
 Total expenses	<u>14,820,410</u>	<u>-</u>	<u>14,820,410</u>
 Change in net assets	17,994	(8,974)	9,020
 Net assets - beginning of year	<u>1,641,171</u>	<u>332,052</u>	<u>1,973,223</u>
 Net assets - end of year	<u>\$ 1,659,165</u>	<u>\$ 323,078</u>	<u>\$ 1,982,243</u>

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 9,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	298,826
Changes in certain assets and liabilities:	
Decrease in grants and contracts receivable	70,932
(Increase) in prepaid expenses and other current assets	(50,208)
Decrease in due from related parties	519,314
(Increase) in security deposit	(8,775)
(Decrease) in accounts payable and accrued expenses	(248,267)
Increase in accrued payroll and payroll taxes	139,081
Increase in refundable advances	<u>8,148</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	738,071
CASH FLOWS FROM INVESTING ACTIVITY	
Purchases of property and equipment	<u>(328,890)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	409,181
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>69,939</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 479,120</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, 2014

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 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 796 students in grades kindergarten through second and five through twelve during the 2014-2015 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, 2015.

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, 2011, and prior.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Basis of Presentation

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 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 had no permanently restricted net assets at June 30, 2015.

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, 2015

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY 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

For the purpose of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

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	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, 2015

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal and city entitlements and grants. The School anticipates collecting these receivables before June 30, 2016.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2015:

Equipment	\$ 1,176,922
Furniture and fixtures	371,112
Software	3,999
Library books	73,427
Leasehold improvements	<u>398,438</u>
	2,023,898
Less: Accumulated depreciation and amortization	<u>(1,316,621)</u>
	<u><u>\$ 707,277</u></u>

Depreciation and amortization expense was \$298,826 for the year ended June 30, 2015. Depreciation expense in the amount of \$52,914 was allocated to a related party, resulting in the School's depreciation and amortization expense of \$245,912.

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, a charter school with common management. The Network supports the School by providing educational and operating materials, training, financial support and other services. During the start up phase of the School, the Network received and disbursed funding for start up costs associated with the School.

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, 2015

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

For operational efficiency and purchasing power, the School shares certain expenses with the Network and Harlem Village Academy Leadership Charter School. At June 30, 2015, the balance due from related parties was \$695,590; this balance consists of \$205,381 due from Harlem Village Academy Leadership Charter School and \$490,209 due from the Network.

During the year ended June 30, 2015, the Network granted \$1,517,000 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, 2015

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, 2016	\$ 912,000
2017	912,000
2018	912,000
2019	912,000
2020	912,000
Thereafter	<u>20,608,000</u>
Total	<u>\$ 25,168,000</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.

One entity donated 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 \$155,000 for the year ended June 30, 2015.

NOTE 8 - 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.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 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, 2015, \$8,974 was released from restriction. At June 30, 2015, temporarily restricted net assets were \$323,078.

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, 2015 amounted to \$150,063.

NOTE 11 - SUBSEQUENT EVENTS

The School has evaluated its subsequent events through September 24, 2015, the date that the accompanying financial statements were issued. The School has no material events requiring disclosure.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services			Total	Management and	Total
	Regular Education	Special Education	Supplemental Education		General	
Salaries and benefits	\$ 8,126,006	\$ 902,426	\$ 121,478	\$ 9,149,910	\$ 565,505	\$ 9,715,415
Consultants	426,938	37,794	-	464,732	-	464,732
Contracted services - temporary	153,488	17,045	2,295	172,828	10,683	183,511
Audit fees	-	-	-	-	15,000	15,000
Legal fees	-	-	-	-	5,776	5,776
Books and curriculum materials	296,992	-	-	296,992	-	296,992
Recruiting and marketing	34,599	-	-	34,599	-	34,599
Student testing	69,305	-	-	69,305	-	69,305
Staff development	278,845	-	-	278,845	-	278,845
Field trips	-	-	90,805	90,805	-	90,805
After school activities	-	-	399,845	399,845	-	399,845
Supplies and materials	278,654	30,946	4,166	313,766	19,390	333,156
Printing and postage	10,310	1,145	154	11,609	718	12,327
Insurance	108,083	12,003	1,616	121,702	7,522	129,224
Telephone and communication	8,819	979	132	9,930	614	10,544
Repairs and maintenance	54,720	6,077	818	61,615	3,808	65,423
Facilities expense	1,567,147	174,038	23,428	1,764,613	109,062	1,873,675
Security	95,680	10,626	1,430	107,736	6,659	114,395
Depreciation and amortization	205,682	22,842	3,075	231,599	14,313	245,912
Food and travel	74,339	-	-	74,339	14,323	88,662
Equipment and furniture	125,607	13,949	1,878	141,434	8,740	150,174
Technology costs	240,648	-	-	240,648	-	240,648
Miscellaneous	1,210	135	17	1,362	83	1,445
Total	\$ 12,157,072	\$ 1,230,005	\$ 651,137	\$ 14,038,214	\$ 782,196	\$ 14,820,410

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

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

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY CHARTER SCHOOL

We have audited the financial statements of Harlem Village Academy Charter School as of and for the year ended June 30, 2015, and have issued our report thereon dated September 24, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


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

New York, New York
September 24, 2015

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

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

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, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2015.

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.

We have issued a separate report to you dated September 24, 2015, communicating internal control related matters identified during the audit.

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 24, 2015

HARLEM VILLAGE ACADEMY CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2015

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET

NEW YORK, NEW YORK 10019

TEL: (212) 957-3600

FAX: (212) 957-3696

September 24, 2015

TO THE BOARD OF TRUSTEES OF
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, 2015, 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 consolidated 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 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 observations for the year ended June 30, 2015 that we determined did not constitute significant deficiencies or material weaknesses. Management's responses to the observations have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Charter School 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 24, 2015

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2015

CONTENTS

EXHIBIT I – CURRENT YEAR OBSERVATIONS

A.	CREDIT CARD TRANSACTIONS	1
B.	INCOMPLETE STUDENT FILES	2
C.	INCOMPLETE EMPLOYEE FILES	2

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2015

EXHIBIT I – CURRENT YEAR OBSERVATIONS

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.

Management's Response

New policies and procedures regarding credit card usage have been put in place at the School including the implementation of a new purchase order system. The policies are intended to reduce credit card usage; ensure proper review and approvals and improve collection of support documentation.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2015

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.

Management's Response

The School is implementing adjustments to its record collection process to significantly reduce the instance of documents not being collected. These include periodic internal reviews comparing the student records vs. the School's checklist and documenting attempts to obtain prior school records.

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.

Management's Response

The Human Resources Department is implementing adjustments to its Employee File process which include: Filing I-9's separately; ensuring the Principal and employee signatures are included on employment agreements and periodic internal reviews comparing employee files vs. the established checklist.

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

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

September 24, 2015

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, 2015, and have issued our report thereon dated September 24, 2015. 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 16, 2015, 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.

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, 2015. 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.

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 schedule 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 24, 2015.

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.

We have issued a separate report to you dated September 24, 2015, communicating internal control related matters identified during the audit.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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