

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

FINANCIAL STATEMENTS

JUNE 30, 2010

HARLEM VILLAGE ACADEMY CHARTER SCHOOL  
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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, 2010, 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, 2010, 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 October 6, 2010 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

HARLEM VILLAGE ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2010

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 229,931
Grants and contracts receivable	139,208
Prepaid expenses	78,433
Due from related parties	<u>171,504</u>
Total current assets	619,076
Other assets:	
Property and equipment, net of accumulated depreciation and amortization of \$206,575	606,194
Note receivable - related party	<u>750,000</u>
Total other assets	<u>1,356,194</u>
TOTAL ASSETS	<u><u>\$ 1,975,270</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 136,081
Accrued payroll and payroll taxes	437,264
Refundable advances	<u>28,465</u>
Total current liabilities	601,810
Net assets:	
Unrestricted net assets	1,023,460
Temporarily restricted net assets	<u>350,000</u>
Total net assets	<u>1,373,460</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,975,270</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, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
State and local per pupil operating revenue	\$ 4,313,341	\$ -	\$ 4,313,341
Federal grants	251,782	-	251,782
State and city grants	24,848	-	24,848
Interest income	5,169	-	5,169
	<u>4,595,140</u>	<u>-</u>	<u>4,595,140</u>
Total revenue and support			
Expenses:			
Program services			
Regular education	3,473,727	-	3,473,727
Special education	245,478	-	245,478
Supplemental education	198,056	-	198,056
Total program services	<u>3,917,261</u>	<u>-</u>	<u>3,917,261</u>
Management and general	257,750	-	257,750
	<u>4,175,011</u>	<u>-</u>	<u>4,175,011</u>
Total expenses			
Changes in net assets	420,129	-	420,129
Net assets - beginning of year	<u>603,331</u>	<u>350,000</u>	<u>953,331</u>
Net assets - end of year	<u>\$ 1,023,460</u>	<u>\$ 350,000</u>	<u>\$ 1,373,460</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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 420,129
Adjustments to reconcile change in net assets provided by operating activities:	
Depreciation and amortization	95,041
Changes in certain assets and liabilities:	
(Increase) in grants and contracts receivable	(138,645)
(Increase) in prepaid expenses	(31,311)
(Increase) in due from related parties	(123,796)
(Decrease) in accounts payable and accrued expenses	(9,106)
Increase in accrued payroll and payroll taxes	123,960
(Decrease) in refundable advances	<u>(56,358)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>279,914</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(59,139)
Issuance of note receivable - related party	<u>(750,000)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	(809,139)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(529,225)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>759,156</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 229,931</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, 2010

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 Harlem, New York, in September 2003 and the School provided education to approximately 325 students in grades five to eleven during the 2009-2010 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) (1) (A) (ii).

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.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

Basis of Presentation (Continued)

*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, 2010.

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.

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.



HARLEM VILLAGE ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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	3-5 years
Furniture and fixtures	5, 7 years or related lease
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.

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the organization has updated references to GAAP in its financial statements issued for the year ended June 30, 2010. The adoption of FASB ASC 105 did not impact the School's financial position or results of operations.

The School adopted the provisions of ASC 740-10, *Income Taxes*, as of July 1, 2009. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of income tax positions taken or expected to be taken in a tax return. The School has reviewed its tax position for open tax years and has concluded that the adoption of this standard did not have an impact on the financial statements of the School

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal entitlements, state, and local per pupil operating funds. The School anticipates the receivable being collected before June 30, 2011.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2010:

Equipment	\$ 214,875
Furniture and fixture	125,450
Software	3,999
Library books	73,427
Leasehold improvements	45,018
Construction-in-progress	<u>350,000</u>
	812,769
Less: Accumulated depreciation and amortization	<u>206,575</u>
	<u>\$ 606,194</u>

Depreciation and amortization expense was \$95,041 for the year ended June 30, 2010. Depreciation in the amount of \$13,253 was allocated to a related party, bringing the School's depreciation and amortization expense to \$81,788.

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Harlem Village Academies Network, Inc. (F/K/A Village Academies Network, Inc.) (the "Network"), a New York State not-for-profit corporation and Harlem Village Academy Leadership Charter School (F/K/A 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.

On May 21, 2010, the School signed a promissory note for \$750,000 with the Network. The note is to be paid back by May 31, 2013 (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 anytime upon five (5) days' advance written notice to the School.

For operational efficiency and purchasing power, the School shares certain expenses with the Network and Harlem Village Academy Leadership Charter School. At June 30, 2010, the balance due from related parties was \$171,504, this balance consists of the \$68,449 due from Harlem Village Academy Leadership Charter School and \$103,055 due from the Network.

HARLEM VILLAGE ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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, 2010 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, 2010, 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.

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 Harlem Village Academy Leadership 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.  
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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, 2010, 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  
October 6, 2010

HARLEM VILLAGE ACADEMY CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2010

	Program Services			Management and General	Total
	Regular Education	Special Education	Supplemental Education		
Salaries and benefits	\$ 2,925,638	\$ 219,169	\$ 76,286	\$ 185,700	\$ 3,406,793
Consultants	-	1,602	-	15,442	17,044
Contracted services - temp	30,210	2,263	788	1,917	35,178
Audit fees	-	-	-	12,500	12,500
Legal fees	-	-	-	8,880	8,880
Books and curriculum materials	95,081	158	947	-	96,186
Student recruiting and marketing	4,501	-	-	-	4,501
Student testing	23,775	-	-	-	23,775
Staff development	27,014	-	-	-	27,014
Field trips	-	-	96,058	-	96,058
After school activities	-	-	16,113	-	16,113
Food and travel	7,782	-	-	932	8,714
Supplies and materials	52,536	-	107	12,896	65,539
Printing and postage	36,855	2,761	961	2,339	42,916
Insurance	22,565	1,690	588	1,433	26,276
Telephone and communication	20,665	1,548	539	1,312	24,064
Repairs and maintenance	8,726	654	228	553	10,161
Depreciation and amortization	70,237	5,262	1,831	4,458	81,788
Miscellaneous	11,502	134	47	716	12,399
Lease - facility	88,084	6,599	2,297	5,591	102,571
Equipment	48,556	3,638	1,266	3,081	56,541
<b>Total</b>	<b>\$ 3,473,727</b>	<b>\$ 245,478</b>	<b>\$ 198,056</b>	<b>\$ 257,750</b>	<b>\$ 4,175,011</b>

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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, 2010, and have issued our report thereon dated October 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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 October 6, 2010.

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Charter State 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.

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

New York, New York  
October 6, 2010