

HARLEM VILLAGE ACADEMY LEADERSHIP SCHOOL
(F/K/A LEADERSHIP VILLAGE ACADEMY CHARTER SCHOOL)
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2010

HARLEM VILLAGE ACADEMY LEADERSHIP SCHOOL
(F/K/A LEADERSHIP VILLAGE ACADEMY CHARTER SCHOOL)
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2010

CONTENTS

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

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP VILLAGE ACADEMY CHARTER SCHOOL)

We have audited the accompanying statement of financial position of Harlem Village Academy Leadership Charter School (F/K/A Leadership 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 Leadership 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 Leadership 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 Leadership Charter School's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


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

New York, New York
October 6, 2010

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

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 366,251
Grants and contracts receivable	158,664
Prepaid expenses	<u>63,717</u>
Total current assets	588,632
Other assets:	
Property and equipment, net of accumulated depreciation and amortization of \$50,839	146,546
Note receivable - related party	<u>750,000</u>
Total other assets	<u>896,546</u>
TOTAL ASSETS	<u><u>\$ 1,485,178</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 120,463
Accrued payroll and payroll taxes	298,633
Due to related parties	80,876
Refundable advances	<u>2,538</u>
Total current liabilities	502,510
Unrestricted net assets	<u>982,668</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 1,485,178</u></u>

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
 (F/K/A LEADERSHIP VILLAGE ACADEMY CHARTER SCHOOL)
 (A Not-For-Profit Corporation)
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2010

Revenue and support:	
State and local per pupil operating revenue	\$ 3,767,708
Federal grants	246,253
State and city grants	43,293
Interest income	<u>6,602</u>
Total revenue and support	<u>4,063,856</u>
Expenses:	
Program services	
Regular education	3,055,777
Special education	178,040
Supplemental education	<u>385,869</u>
Total program services	3,619,686
Management and general	<u>248,997</u>
Total expenses	<u>3,868,683</u>
Changes in unrestricted net assets	195,173
Unrestricted net assets - beginning of year	<u>787,495</u>
Unrestricted net assets - end of year	<u><u>\$ 982,668</u></u>

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP 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 unrestricted net assets	\$ 195,173
Adjustments to reconcile change in unrestricted net assets provided by operating activities:	
Depreciation and amortization	26,363
Changes in certain assets and liabilities:	
(Increase) in grants and contracts receivable	(148,952)
Decrease in other receivables	1,384
(Increase) in prepaid expenses	(22,433)
Increase in due to related parties	45,538
(Decrease) in accounts payable and accrued expenses	(9,182)
Increase in accrued payroll and payroll taxes	73,161
(Decrease) in refundable advances	(23,175)
NET CASH PROVIDED BY OPERATING ACTIVITIES	137,877
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(96,629)
Issuance of note receivable - related party	(750,000)
NET CASH (USED IN) INVESTING ACTIVITIES	(846,629)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(708,752)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,075,003
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 366,251

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP 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 Leadership Charter School (F/K/A Leadership Village Academy Charter School) (the "School") is a New York State, Not-For-Profit Corporation and 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 East Harlem, New York, in September 2005 and the School provided education to approximately 286 students in grades five to nine during the 2009-2010 school year.

On August 1, 2005 the School entered into multi-year agreement to share space with a New York City public school for the school term beginning in September 2005. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than those related to the School's programs that take place outside the district's school day. In July 2008, the School moved to a new location, where it shares space with a different New York City public school. The terms of the agreement are the same as it had with its old space.

The Board of Trustees of the State University of New York originally approved the application for the School on September 13, 2002. On March 20, 2007, the State University of Trustees granted the School a short-term planning year renewal for a period of three years, extending the charter through the end of the 2009-2010 school year. Subsequently, the State University of Trustees granted the School an additional renewal for a period of five years, extending the charter through the end of the 2014-2015 school year. The School expects to continue to apply for renewals as needed, consistent with standard New York charter school practice.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b) (l) (A) (ii).

Basis of Presentation

Financial statement presentation follows the requirements of 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. These net assets classifications are described as follows:

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP 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)

Unrestricted

Net assets of the School whose use has not been restricted by an outside grantor or by law 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 are those whose use has been permanently limited by grantor-imposed restrictions with no time restriction. 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 temporarily or permanently restricted net assets at June 30, 2010.

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 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.

Cash and Cash Equivalents

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP 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)

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:

	<p>Equipment</p> <p>Furniture and fixtures</p> <p>Software</p> <p>Leasehold improvements</p>	<p>5 years</p> <p>5 years or related lease</p> <p>3 years</p> <p>useful life or related lease</p>
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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.

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

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.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2010:

Equipment	\$	92,971
Furniture and fixtures		44,981
Software		3,999
Leasehold improvements		<u>55,434</u>
		197,385
Less: Accumulated depreciation and amortization		<u>50,839</u>
		<u>\$ 146,546</u>

Depreciation and amortization expense was \$26,363 for the year ended June 30, 2010. In addition, depreciation expense was allocated to the School from a related party in the amount of \$13,253, bringing total depreciation and amortization expense to \$39,616.

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 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 is to be paid back to the School 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 Charter School. At June 30, 2010, the balance due to related parties was \$80,876, this balance consist of \$68,449 due to Harlem Village Academy Charter School and \$12,427 due to the Network.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
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(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 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 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 - 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 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.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP VILLAGE ACADEMY CHARTER SCHOOL)

Our report on our audit of the basic financial statements of Harlem Village Academy Leadership Charter School (F/K/A Leadership 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 LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP 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	\$ 2,580,460	\$ 161,482	\$ 269,768	\$ 181,000	\$ 3,011,710
Consultants	-	177	-	15,003	177
Contracted services - Temporary	19,414	1,215	2,030	1,361	22,659
Audit fees	-	-	-	12,500	-
Legal fees	-	-	-	3,852	-
Books and curriculum materials	97,383	-	6,047	-	103,430
Student recruiting and marketing	6,333	-	-	-	6,333
Student testing	12,537	-	-	-	12,537
Staff development	32,412	-	-	-	32,412
Field trips	-	-	73,691	-	73,691
After school activities	-	-	8,902	-	8,902
Supplies and materials	58,084	-	-	14,401	58,084
Printing and postage	26,950	1,686	2,817	1,891	31,453
Insurance	22,057	1,380	2,306	1,547	25,743
Telephone and communication	16,112	1,008	1,684	1,130	18,804
Repairs and maintenance	13,560	849	1,418	950	15,827
Facilities expense	70,326	4,401	7,352	4,933	82,079
Depreciation and amortization	32,019	2,004	3,347	2,246	37,370
Food and travel	34	-	-	1,091	34
Equipment	60,402	3,780	6,315	4,237	70,497
Miscellaneous	7,694	58	192	2,855	7,944
Total	\$ 3,055,777	\$ 178,040	\$ 385,869	\$ 248,997	\$ 3,619,686
					\$ 3,868,683

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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 LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP VILLAGE ACADEMY CHARTER SCHOOL)

We have audited the financial statements of Harlem Village Academy Leadership Charter School (F/K/A Leadership 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 LEADERSHIP CHARTER SCHOOL
(F/K/A LEADERSHIP 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