

**Harlem Village Academy West Charter School**

Financial Statements

June 30, 2018

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Harlem Village Academy West Charter School (the "School") (formerly "Harlem Village Academy Charter School"), which comprise the statement of financial position as of June 30, 2018, 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 entity'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 entity'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, 2018, and the change 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 October 17, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*  
Harrison, New York  
October 17, 2018

## Harlem Village Academy West Charter School

### Statement of Financial Position June 30, 2018

#### **ASSETS**

##### Current Assets

Cash and cash equivalents	\$ 1,313,703
Grants and contracts receivable	781,238
Prepaid expenses and other current assets	68,487
Due from related party	<u>461,614</u>
Total Current Assets	2,625,042

Property and equipment, net	718,834
Note receivable - related party	750,000
Security deposit	<u>58,773</u>
	<u>\$ 4,152,649</u>

#### **LIABILITIES AND NET ASSETS**

##### Current Liabilities

Accounts payable and accrued expenses	\$ 263,401
Accrued payroll and payroll taxes	801,169
Due to related party	<u>1,071,287</u>
Total Liabilities	<u>2,135,857</u>

##### Net Assets

Unrestricted	1,720,636
Temporarily restricted	<u>296,156</u>
Total Net Assets	<u>2,016,792</u>
	<u>\$ 4,152,649</u>

## Harlem Village Academy West Charter School

### Statement of Activities Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
State and local per pupil operating revenue	\$ 15,412,407	\$ -	\$ 15,412,407
State and local per pupil facilities funding	912,000	-	912,000
Federal grants	699,938	-	699,938
State and city grants	67,018	-	67,018
Grant from network	202,217	-	202,217
Donated services	85,943	-	85,943
Interest and other income	1,613	-	1,613
Net assets released from restrictions	8,974	(8,974)	-
Total Revenue and Support	17,390,110	(8,974)	17,381,136
<b>EXPENSES</b>			
Program Services			
Regular education	14,661,140	-	14,661,140
Special education	1,624,159	-	1,624,159
Supplemental education	242,152	-	242,152
Total Program Services	16,527,451	-	16,527,451
Supporting Services			
Management and general	843,221	-	843,221
Total Expenses	17,370,672	-	17,370,672
Change in Net Assets	19,438	(8,974)	10,464
<b>NET ASSETS</b>			
Beginning of year	1,701,198	305,130	2,006,328
End of year	\$ 1,720,636	\$ 296,156	\$ 2,016,792

**Harlem Village Academy West Charter School**

Statement of Functional Expenses  
Year Ended June 30, 2018

	Program Services			Total	Management	Total
	Regular Education	Special Education	Supplemental Education		and General	
Salaries and benefits	\$ 10,630,294	\$ 1,290,952	\$ 371	\$ 11,921,617	\$ 563,640	\$ 12,485,257
Consultants	132,351	25,000	-	157,351	-	157,351
Contracted services - temporary	57,626	6,998	2	64,626	3,056	67,682
Audit fees	-	-	-	-	15,000	15,000
Legal fees	-	-	-	-	113,154	113,154
Books and curriculum materials	262,898	-	-	262,898	-	262,898
Recruiting and marketing	25,805	-	-	25,805	-	25,805
Student testing	36,640	-	-	36,640	-	36,640
Staff development	659,497	-	-	659,497	-	659,497
Field trips	-	-	53,359	53,359	-	53,359
After school activities	-	-	188,333	188,333	-	188,333
Supplies and materials	189,686	23,037	8	212,731	10,058	222,789
Office and postage	17,592	2,136	-	19,728	933	20,661
Insurance	147,234	17,880	5	165,119	7,807	172,926
Telephone and communication	12,915	1,568	-	14,483	686	15,169
Repairs and maintenance	118,032	14,334	4	132,370	6,258	138,628
Facilities expense	1,609,351	195,441	56	1,804,848	85,329	1,890,177
Security	122,695	14,900	4	137,599	6,506	144,105
Depreciation and amortization	174,810	21,229	6	196,045	9,269	205,314
Food and travel	43,029	-	-	43,029	16,859	59,888
Equipment and furniture	72,090	8,755	3	80,848	3,822	84,670
Technology costs	332,712	-	-	332,712	-	332,712
Miscellaneous	15,883	1,929	1	17,813	844	18,657
Total Expenses	<u>\$ 14,661,140</u>	<u>\$ 1,624,159</u>	<u>\$ 242,152</u>	<u>\$ 16,527,451</u>	<u>\$ 843,221</u>	<u>\$ 17,370,672</u>

See notes to financial statements

## Harlem Village Academy West Charter School

### Statement of Cash Flows Year Ended June 30, 2018

#### **CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 10,464
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	205,314
Changes in operating assets and liabilities	
Grants and contracts receivable	(82,090)
Prepaid expenses and other current assets	(27,448)
Due from related party	414,610
Security deposit	(12,960)
Accounts payable and accrued expenses	(110,856)
Accrued payroll and payroll taxes	(86,345)
Due to related party	<u>(404,572)</u>
Net Cash from Operating Activities	(93,883)

#### **CASH FLOWS FROM INVESTING ACTIVITY**

Purchases of property and equipment	<u>(329,632)</u>
Net Change in Cash and Cash Equivalents	(423,515)

#### **CASH AND CASH EQUIVALENTS**

Beginning of year	<u>1,737,218</u>
End of year	<u>\$ 1,313,703</u>

# Harlem Village Academy West Charter School

Notes to Financial Statements  
June 30, 2018

## 1. Organization and Tax Status

Harlem Village Academy West Charter School (the "School") (formerly "Harlem Village Academy Charter 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 878 students in grades kindergarten through twelve during the 2017-2018 school year.

The Board of Trustees of the State University of New York originally approved the application for the School on September 13, 2002. The Board of Trustees approved and issued several renewals to the School's charter expiring on July 31, 2023. On April 24, 2018, the Board of Trustees of School's authorizer, The State University of New York Charter Schools Institute, approved a revision to the School's charter to change the School's name from Harlem Village Academy Charter School to Harlem Village Academy West Charter School.

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

## 2. Summary of Significant Accounting Policies

### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

### ***Net Assets Presentation***

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

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



## Harlem Village Academy West Charter School

Notes to Financial Statements  
June 30, 2018

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

#### ***Net Assets Presentation (continued)***

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

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

The School had no permanently restricted net assets at June 30, 2018.

#### ***Cash and Cash Equivalents***

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

#### ***Property and Equipment***

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

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

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

## Harlem Village Academy West Charter School

Notes to Financial Statements  
June 30, 2018

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

#### ***Property and Equipment (continued)***

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the year ended June 30, 2018.

#### ***Revenue and Support***

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current period activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

#### ***Donated Services***

The School recognizes contributions of services if they create or enhance nonfinancial assets, require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the School, and are measurable.

One entity provided legal 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 a fair value of \$85,943. The value of these services is allocated to management and general services and the accompanying statements of activities and functional expenses.

#### ***Functional Expense Allocation***

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

#### ***Accounting for Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

## Harlem Village Academy West Charter School

Notes to Financial Statements  
June 30, 2018

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

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 17, 2018.

### 3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

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

The School is an affiliate of Harlem Village Academies (the "Network"), a New York State not-for-profit corporation and Harlem Village Academy East Charter School ("HVAE"), a charter school with common management and Board of Trustees. The School was not required to consolidate with HVAE as the School does not have an economic interest in the net assets of HVAE. The Network supports the School by providing educational and operating materials, training, financial support and other services.

On May 21, 2010, the School signed a promissory note for \$750,000 with the Network. The note was due May 31, 2013. The Board of Trustees approved an extension to September 30, 2021 (Repayment Date). If the note is repaid on or before the Repayment Date, there will be no interest accrued on the note. If the note is paid back after the Repayment Date, the Network shall pay interest at the lower of ten percent (10%) per annum or the maximum rate per annum permitted by applicable law on the outstanding principal amount of the note. The note may be repaid by the Network in whole or in part, without premium or penalty, at any time upon five (5) days advance written notice to the School.

For operational efficiency and purchasing power, the School shares certain expenses with HVAE and the Network. At June 30, 2018, the balance due from HVAE was \$461,614 and the balance due to the Network was \$1,071,287.

During the year ended June 30, 2018, the Network granted \$202,217 to support the School's operations.

On April 4, 2012, HVA 124 LLC, a limited liability company in which the Network is the sole member, closed on the purchase of the former Rice High School building on West 124th Street. Renovations of the building were substantially completed in August 2013. The elementary school started the 2013-14 school year in the newly renovated facility. Renovations on the building were partially funded through New Markets Tax Credit loans to HVA 124, LLC which leases the building to the School. The School pays rent monthly as stipulated in the lease agreement.

## Harlem Village Academy West Charter School

Notes to Financial Statements

June 30, 2018

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

The Network, with partial funding through a grant from the New York City Department of Education (which grant is administered by the School Construction Authority or "SCA"), completed the building of a new school facility in August 2012 to be used by both the School and HVAE (the "Schools"). The High School opened in August 2012. Civic Builders, a non-profit charter school developer, served as developer of the project under a development agreement with the Network. On June 23, 2017, the conveyance of the school portion of the building to SCA was completed, SCA leased it to Civic Builders, which subleased it to HVA 125 LLC. Under the sublease terms, the Schools that occupy the premises are required to meet certain academic performance targets, which are less rigorous than the targets of the Schools' authorizer. There is no rent, but the School will pay operating expenses and fund a replacement reserve maintained by the Network. The lease and sublease have at least a 30 year term, which may be extended by the Network under certain conditions.

### 5. Property and Equipment

Property and equipment consists of the following at June 30, 2018:

Equipment	\$ 1,659,208
Furniture and fixtures	405,132
Software	3,999
Library books	73,427
Leasehold improvements	<u>647,487</u>
	2,789,253
Accumulated depreciation and amortization	<u>(2,070,419)</u>
	<u>\$ 718,834</u>

Depreciation and amortization expense was \$249,732 for the year ended June 30, 2018. Depreciation expense in the amount of \$44,418 was allocated to HVAE, resulting in the School's net depreciation and amortization expense of \$205,314.

### 6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 4% of the participant's annual compensation. Employee match for the year ended June 30, 2018 amounted to \$166,153.

## Harlem Village Academy West Charter School

Notes to Financial Statements  
June 30, 2018

### 7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2018, approximately \$1,000,000 of cash was maintained with an institution in excess of FDIC limits.

### 8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the year ended June 30, 2018, the School received approximately 94% of its total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

### 9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 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, 2018, \$8,974 was released from restriction. At June 30, 2018, temporarily restricted net assets were \$296,156.

### 10. Commitment

On May 22, 2013, the School entered into a 25 year lease for elementary school facilities with HVA 124 LLC, a related party (See Note 4). Lease payments commenced September 1, 2013 and will expire on April 30, 2038.

Future minimum payments under the operating lease are as follows:

2019	\$ 912,000
2020	957,600
2021	1,003,200
2022	1,003,200
2023	1,003,200
Thereafter	<u>17,552,800</u>
	<u>\$ 22,432,000</u>

## Harlem Village Academy West Charter School

Notes to Financial Statements  
June 30, 2018

### 11. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. 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.

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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**

**Independent Auditors' Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harlem Village Academy West Charter School (the "School") (formerly "Harlem Village Academy Charter School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 17, 2018