

**Harriet Tubman
Charter School**

Financial Report

June 30, 2010

Contents

| | |
|---|---------|
| Independent Auditor's Report | 1 |
| Financial Statements: | |
| Statements of Financial Position | 2 |
| Statements of Activities | 3 |
| Statements of Functional Expenses | 4 - 5 |
| Statements of Cash Flows | 6 |
| Notes to Financial Statements | 7 - 10 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 11 - 12 |
| Schedule of Findings and Recommendations | 13 - 15 |

Independent Auditor's Report

To the Board of Trustees
Harriet Tubman Charter School
Bronx, New York

We have audited the accompanying statements of financial position of Harriet Tubman Charter School (the "School") as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 the School as of June 30, 2010 and 2009, and the change in its net assets and its cash flows for the years 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 29, 2010, on our consideration of the School's internal control over financial reporting and 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 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 considered in assessing the results of our audit.

McGladrey & Pullen, LLP

New York, New York
October 29, 2010

Harriet Tubman Charter School

**Statements of Financial Position
June 30, 2010 and 2009**

| | 2010 | 2009 |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Cash | \$ 802,544 | \$ 1,895,167 |
| Cash - Restricted | 75,000 | 75,000 |
| Grants Receivable, net of allowance for doubtful accounts of \$8,607 for 2010 and 2009 | 160,848 | 135,612 |
| Deferred Lease Premium, net | 765,000 | 850,000 |
| Property and Equipment, net | 267,365 | 200,616 |
| Other Assets | <u>80,881</u> | <u>65,637</u> |
| Total assets | <u>\$ 2,151,638</u> | <u>\$ 3,222,032</u> |
| LIABILITIES AND NET ASSETS (DEFICIENCY) | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 10,385 | \$ 52,424 |
| Refundable advances | 421,927 | 318,852 |
| Due to management company | 1,208,139 | 1,926,272 |
| Deferred rent | 140,960 | 132,640 |
| Loan payable | - | 20,611 |
| Mortgage payable - management company | <u>-</u> | <u>791,539</u> |
| Total liabilities | <u>1,781,411</u> | <u>3,242,338</u> |
| Commitments and Contingency | | |
| Net Assets (Deficiency): | | |
| Unrestricted: | | |
| Undesignated | 269,961 | (120,572) |
| Board-designated | 75,000 | 75,000 |
| Temporarily restricted | <u>25,266</u> | <u>25,266</u> |
| Net assets (deficiency) | <u>370,227</u> | <u>(20,306)</u> |
| Total liabilities and net assets (deficiency) | <u>\$ 2,151,638</u> | <u>\$ 3,222,032</u> |

See Notes to Financial Statements.

Harriet Tubman Charter School

Statements of Activities

Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|--|--------------------------|---------------------------|
| Unrestricted Net Assets: | | |
| Operating revenue: | | |
| State and local per pupil operating revenue | \$ 5,756,138 | \$ 5,825,027 |
| Government grants and contracts | <u>407,419</u> | <u>364,889</u> |
| Total operating revenue | <u>6,163,557</u> | <u>6,189,916</u> |
| Operating expenses: | | |
| Program services: | | |
| Regular education | 3,947,888 | 3,078,846 |
| Special education | 183,022 | 192,927 |
| Other programs | 104,689 | 21,543 |
| Supporting services: | | |
| Management and general | 1,596,750 | 2,137,240 |
| Fund-raising | <u>10,330</u> | <u>12,531</u> |
| Total operating expenses | <u>5,842,679</u> | <u>5,443,087</u> |
| Net revenue from School operations | 320,878 | 746,829 |
| Contributions | 31,815 | 30,808 |
| Other Income | <u>37,840</u> | <u>26,840</u> |
| Change in unrestricted net assets | <u>390,533</u> | <u>804,477</u> |
| Temporarily Restricted Net Assets - other | <u>-</u> | <u>62</u> |
| Change in temporarily restricted net assets | <u>-</u> | <u>62</u> |
| Change in net assets | 390,533 | 804,539 |
| Net Assets (Deficiency) at Beginning of Year | <u>(20,306)</u> | <u>(824,845)</u> |
| Net assets (deficiency) at end of year | <u>\$ 370,227</u> | <u>\$ (20,306)</u> |

See Notes to Financial Statements.

Harriet Tubman Charter School

Statements of Functional Expenses
Years Ended June 30, 2010

| | Program Services | | | Supporting Services | | | |
|-------------------------------------|---------------------|-------------------|-------------------|---------------------|------------------------|------------------|---------------------|
| | Regular Education | Special Education | Other Programs | Total Programs | Management and General | Fund-Raising | Total |
| Salaries and wages | \$ 1,860,282 | \$ 107,976 | \$ 61,764 | \$ 2,030,022 | \$ 454,140 | \$ - | \$ 2,484,162 |
| Payroll taxes and employee benefits | 628,700 | 36,491 | 20,873 | 686,064 | 153,481 | - | 839,545 |
| Equipment (maintenance and repairs) | 54,488 | 3,163 | 1,809 | 59,460 | 13,302 | - | 72,762 |
| Subscriptions | 5,200 | - | - | 5,200 | - | - | 5,200 |
| Contracted services | 181,357 | - | - | 181,357 | - | - | 181,357 |
| Occupancy | 319,226 | 18,529 | 10,599 | 348,354 | 77,931 | - | 426,285 |
| Supplies | - | - | - | - | 20,229 | - | 20,229 |
| Instructional materials | 92,496 | - | - | 92,496 | - | - | 92,496 |
| Telephone and Internet | 8,458 | 491 | 281 | 9,230 | 2,065 | - | 11,295 |
| Insurance | 21,546 | 1,252 | 715 | 23,513 | 5,259 | - | 28,772 |
| Food | 160,361 | - | - | 160,361 | - | - | 160,361 |
| Employee recruiting | 10,005 | - | - | 10,005 | - | - | 10,005 |
| Field trips | 27,710 | - | - | 27,710 | - | - | 27,710 |
| Fund-raising | - | - | - | - | - | 10,330 | 10,330 |
| Staff development | 1,442 | - | - | 1,442 | - | - | 1,442 |
| Interest expense | - | - | - | - | 52,549 | - | 52,549 |
| Utilities | 71,940 | 4,176 | 2,388 | 78,504 | 17,562 | - | 96,066 |
| Assessments | 8,261 | - | - | 8,261 | - | - | 8,261 |
| Management fee | 307,870 | - | - | 307,870 | 616,664 | - | 924,534 |
| Travel | 13,641 | 792 | 453 | 14,886 | 3,330 | - | 18,216 |
| Professional fees | - | - | - | - | 137,540 | - | 137,540 |
| Other | 53,864 | 3,126 | 1,788 | 58,778 | 13,150 | - | 71,928 |
| Depreciation and amortization | 121,041 | 7,026 | 4,019 | 132,086 | 29,548 | - | 161,634 |
| Total operating expenses | \$ 3,947,888 | \$ 183,022 | \$ 104,689 | \$ 4,235,599 | \$ 1,596,750 | \$ 10,330 | \$ 5,842,679 |

See Notes to Financial Statements.

Harriet Tubman Charter School

**Statements of Functional Expenses
Years Ended June 30, 2009**

| | Program Services | | | | Supporting Services | | |
|-------------------------------------|---------------------|-------------------|------------------|---------------------|------------------------|------------------|---------------------|
| | Regular Education | Special Education | Other Programs | Total Programs | Management and General | Fund-Raising | Total |
| Salaries and wages | \$ 1,671,800 | \$ 105,259 | \$ 19,753 | \$ 1,796,812 | \$ 702,721 | \$ - | \$ 2,499,533 |
| Payroll taxes and employee benefits | 138,711 | 8,743 | 1,790 | 149,244 | 65,437 | - | 214,681 |
| Equipment (maintenance and repairs) | 49,948 | 2,725 | - | 52,673 | 13,817 | - | 66,490 |
| Subscriptions | 574 | 36 | - | 610 | 1,948 | - | 2,558 |
| Contracted services | 201,953 | 12,465 | - | 214,418 | 9,702 | - | 224,120 |
| Occupancy | 401,120 | 24,960 | - | 426,080 | 25,617 | - | 451,697 |
| Supplies | 14,544 | 1,392 | - | 15,936 | 10,954 | - | 26,890 |
| Instructional materials | 144,309 | 8,975 | - | 153,284 | 12,820 | - | 166,104 |
| Telephone and Internet | 18,674 | 1,162 | - | 19,836 | 30 | - | 19,866 |
| Insurance | 17,929 | 1,116 | - | 19,045 | - | - | 19,045 |
| Food | - | - | - | - | 10,486 | - | 10,486 |
| Employee recruiting | 29,449 | 1,833 | - | 31,282 | 164 | - | 31,446 |
| Field trips | 10,432 | 649 | - | 11,081 | - | - | 11,081 |
| Fund-raising | - | - | - | - | - | 12,531 | 12,531 |
| Staff development | 6,904 | 430 | - | 7,334 | 485 | - | 7,819 |
| Interest expense | 125,142 | 7,787 | - | 132,929 | 7,606 | - | 140,535 |
| Utilities | 81,918 | 5,098 | - | 87,016 | - | - | 87,016 |
| Assessments | 7,642 | 476 | - | 8,118 | - | - | 8,118 |
| Management fee | - | - | - | - | 934,553 | - | 934,553 |
| Travel | 7,561 | 470 | - | 8,031 | 8,932 | - | 16,963 |
| Professional fees | - | - | - | - | 260,957 | - | 260,957 |
| Other | 46,777 | 2,913 | - | 49,690 | 38,088 | - | 87,778 |
| Depreciation and amortization | 103,459 | 6,438 | - | 109,897 | 32,923 | - | 142,820 |
| Total operating expenses | \$ 3,078,846 | \$ 192,927 | \$ 21,543 | \$ 3,293,316 | \$ 2,137,240 | \$ 12,531 | \$ 5,443,087 |

See Notes to Financial Statements.

Harriet Tubman Charter School

**Statements of Cash Flows
Years Ended June 30, 2010 and 2009**

| | 2010 | 2009 |
|--|---------------------------|-------------------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ 390,533 | \$ 804,539 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 161,634 | 142,820 |
| Bad debt expense | - | 16,486 |
| Accrued interest added to mortgage payable - management company | - | 131,269 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in grants receivable | (25,236) | 12,125 |
| (Increase) decrease in other assets | (15,244) | 10,282 |
| (Decrease) increase in accounts payable and accrued expenses | (42,039) | 40,119 |
| Increase in refundable advances | 103,075 | 175,742 |
| Decrease in due to management company | (718,133) | (811,243) |
| Increase in deferred rent | 8,320 | 2,149 |
| | <u>8,320</u> | <u>2,149</u> |
| Net cash (used in) provided by operating activities | <u>(137,090)</u> | <u>524,288</u> |
| Cash Used in Investing Activity - purchase of property and equipment | <u>(143,383)</u> | <u>(147,315)</u> |
| Cash Flows From Financing Activities: | | |
| Repayment of principal on loan | (20,611) | (137,753) |
| Repayment of principal on mortgage payable - management company | (791,539) | (468,275) |
| Increase in restricted cash | - | (37,500) |
| | <u>-</u> | <u>(37,500)</u> |
| Net cash used in financing activities | <u>(812,150)</u> | <u>(643,528)</u> |
| Net decrease in cash | <u>(1,092,623)</u> | <u>(266,555)</u> |
| Cash: | | |
| Beginning | <u>1,895,167</u> | <u>2,161,722</u> |
| Ending | <u>\$ 802,544</u> | <u>\$ 1,895,167</u> |
| Supplemental Information: | | |
| Interest paid | <u>\$ 52,549</u> | <u>\$ 140,535</u> |

See Notes to Financial Statements.

Harriet Tubman Charter School

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies

Harriet Tubman Charter School (the "School") is an educational corporation that operates in the borough of Bronx, New York. On January 13, 2000, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. In January 2005, the charter was renewed for a period of two years expiring on June 30, 2007. Upon expiration of the second renewal, the charter was again renewed for a period of two years expiring on June 30, 2009. Upon expiration of the third renewal, the charter was once again renewed for a period of two years expiring on June 30, 2011.

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code").

The School is designed to help students develop the skills to become leaders who read, think, write and communicate at high levels. The School's mission is to prepare students for success throughout their college years and beyond.

In fiscal years 2010 and 2009, the School operated classes for students in kindergarten and grades one through eight.

The New York City Department of Education provides transportation directly to a majority of the School's students.

The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The School reports amounts received with donor stipulations that limit the use of the assets for certain purposes as unrestricted net assets if the stipulated purpose restriction is accomplished in the same year. Contributions of assets other than cash are recorded at their estimated fair value.

Grants receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The School estimates doubtful accounts based on historical bad debt, factors related to specific donors' ability to pay and current economic trends. The School writes off receivables against the allowance when a balance is determined to be uncollectible.

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recognized by the School when qualifying expenditures are incurred and billable to the government.

The School recognizes contributed services as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the School if they had not been provided by contribution, or (c) require specialized skills and are provided by individuals with those skills.

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in these accounts.

Harriet Tubman Charter School

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

Property and equipment is recorded at cost. Major additions and improvements or betterments with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less.

The School recognizes rent expense on a straight-line basis over the term of the lease. Expenses in excess of payments are recorded as deferred rent.

Expenses are classified according to the functional categories for which they are incurred, as follows:

Program Services: This represents expenses directly associated with general education and special education for certain students requiring additional attention and guidance.

Management and General: This represents expenses related to the overall administration and operation of the School that are not associated with any program services.

Fund-Raising: This represents expenses associated with the School's fund-raising efforts, including but not limited to annual mailings, donor meetings and events.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Income Taxes: The Internal Revenue Service has determined that the School is exempt from federal income taxes under Section 501(c)(3) of the Code and from state income taxes.

Management evaluated the School's tax positions and concluded that the School had taken no uncertain tax positions that require adjustment to financial statements to comply with the provisions of this guidance. With few exceptions, the School is no longer subject to income tax examinations by U.S. federal, state, or local tax authorities for years before 2007, which is the standard statute of limitations look-back period.

Subsequent Events: The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 29, 2010 for these financial statements.

Reclassification: Certain 2009 account balances have been reclassified to conform with the 2010 financial statement presentation. The reclassification had no effect on the 2009 total assets, total liabilities, total net assets and changes in net assets.

Harriet Tubman Charter School

Notes to Financial Statements

Note 2. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following:

| | <u>2010</u> | <u>2009</u> | <u>Useful Life</u> |
|--|-------------------|-------------------|--------------------|
| Leasehold improvements | \$ 142,216 | \$ 95,666 | 10 to 15 years |
| Computer and equipment | 176,974 | 105,726 | 3 years |
| Furniture and fixtures | 59,885 | 34,300 | 7 years |
| Playground | <u>97,000</u> | <u>97,000</u> | 8 years |
| | 476,075 | 332,692 | |
| Less accumulated depreciation and amortization | <u>208,710</u> | <u>132,076</u> | |
| | <u>\$ 267,365</u> | <u>\$ 200,616</u> | |

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was \$76,634 and \$57,820, respectively.

Note 3. Loan Payable

The principal sum of the loan payable was \$525,000 and was payable in 60 equal monthly installments with interest at 7% per annum starting November 1, 2004. The principal balance was entirely paid as of June 30, 2010. At June 30, 2009, the unpaid principal balance was \$20,611.

Note 4. Mortgage Payable

On July 26, 2004, the School took a mortgage loan of \$1,124,370 from Edison Learning, Inc. ("Edison"), its management company, to primarily finance the lease premium payable for the leased facilities. Effective June 30, 2008, the School amended the agreement with Edison. The loan was payable on June 30, 2014 or such other earlier date on which the loan may be required to be repaid pursuant to the terms and provisions of the note, with interest at 12% per annum, and was secured by the School's interest in the leased property. Generally, payments are only required if there was available cash flows from operations of the School. The balance of the loan as of June 30, 2010 and 2009 was \$0 and \$791,539, respectively. There was no unpaid interest at June 30, 2010.

Note 5. Management Agreement

On July 26, 2004, the School entered into a management agreement with Edison expiring on June 30, 2010, and subsequently extended to June 30, 2014. The agreement requires Edison to manage the day-to-day operations of the School, including management of the School's financial resources. As compensation for its services and the financial risks it bears, Edison is to receive a fee equal to 15% of all external public funds received by the School. Total management fee earned by Edison in fiscal 2010 and 2009 amounted to \$924,534 and \$934,553, respectively.

As of June 30, 2010 and 2009, the School owed Edison \$1,208,139 and \$1,926,272, respectively, for unpaid cash advances and management fees.

Harriet Tubman Charter School

Notes to Financial Statements

Note 6. 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.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions received to benefit an endowment fund for scholarships. The assets have been invested in a certificate of deposit, the balance of which was \$25,266 at both June 30, 2010 and 2009.

Note 8. Commitments

On August 20, 2004, the School entered into a long-term lease agreement for its School facilities expiring on December 31, 2024. Future minimum lease payments under this lease are as follows:

Year ending June 30,

| | | |
|------------|----|-------------------------|
| 2011 | \$ | 320,270 |
| 2012 | | 333,140 |
| 2013 | | 333,140 |
| 2014 | | 347,300 |
| 2015 | | 347,300 |
| Thereafter | | <u>1,459,150</u> |
| | \$ | <u><u>3,140,300</u></u> |

Rent expense charged to operations amounted to approximately \$326,108 and \$321,400 for the years ended June 30, 2010 and 2009, respectively. Deferred rent of \$140,960 and \$132,640 represents an obligation for the accumulated rent expense recorded by the School from the inception of the lease in excess of the required lease payments through June 30, 2010 and 2009, respectively.

The School entered into a surrender agreement with the landlord and the previous tenant on June 30, 2004. Under the terms of the agreement, cash payments and a promissory note totaling \$1,275,000 were provided to the landlord and the previous tenant in exchange for the release from a previous commitment from a prior lease agreement. This amount is being amortized over the life of the present lease (15 years) and, at June 30, 2010 and 2009, the balance is \$765,000 and \$850,000, net of total accumulated amortization of \$510,000 and \$425,000, respectively.

Note 9. Employee Benefit Plan

The School is a participating employer in the Teachers' Retirement System of the City of New York ("TRS"). The School received a credit of \$307,796 for the year ended June 30, 2009. The amount charged to operations for contributions to TRS for the year ended June 30, 2010 was \$242,233.