

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

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL

We have audited the accompanying statements of financial position of Harlem Success Academy Charter School (the "School") (a not-for-profit corporation) as of June 30, 2009 and 2008, the related statements of activities, and cash flows for years ended June 30, 2009 and 2008. 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. The prior period summarized comparative information has been derived from the School's 2008 financial statements and, in our report dated October 22, 2008, we expressed an unqualified opinion on those financial statements.

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 audits 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 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 the School as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years ended June 30, 2009 and 2008, 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, 2009 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 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

New York, New York
October 6, 2009

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

| | 2009 | 2008 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 255,171 | \$ 268,188 |
| Grants receivable | 267,464 | 197,820 |
| Prepaid expenses | 48,798 | 75,687 |
| Other current assets | 85,220 | 31,675 |
| Total current assets | 656,653 | 573,370 |
| Property and equipment, net of accumulated depreciation and amortization of \$202,026 and \$85,383, respectively | 708,618 | 421,879 |
| Restricted cash | 76,766 | 25,654 |
| TOTAL ASSETS | \$ 1,442,037 | \$ 1,020,903 |
| LIABILITIES AND UNRESTRICTED NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 106,110 | \$ 89,532 |
| Accrued payroll and payroll taxes | 177,467 | 137,947 |
| Due to related parties | 161,452 | 364,609 |
| Total current liabilities | 445,029 | 592,088 |
| Unrestricted net assets | 997,008 | 428,815 |
| TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS | \$ 1,442,037 | \$ 1,020,903 |

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

| | 2009 | 2008 |
|---|--------------|--------------|
| Revenue and support: | | |
| State and local per pupil operating Revenue | \$ 5,019,853 | \$ 3,275,671 |
| Federal grants | 383,568 | 305,433 |
| State and city grants | 20,528 | 175,917 |
| Contributions and private grants | 30,413 | 88,139 |
| Donated services | 18,567 | - |
| Interest, dividends and other income | 16,235 | 31,748 |
| | 5,489,164 | 3,876,908 |
| Expenses: | | |
| Program services | 4,206,310 | 3,364,827 |
| Management and general | 714,661 | 471,751 |
| | 4,920,971 | 3,836,578 |
| Changes in unrestricted net assets | 568,193 | 40,330 |
| Unrestricted net assets - beginning of year | 428,815 | 388,485 |
| Unrestricted net assets - end of year | \$ 997,008 | \$ 428,815 |

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

| | 2009 | 2008 |
|--|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in unrestricted net assets | \$ 568,193 | \$ 40,330 |
| Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 116,643 | 57,885 |
| Changes in certain assets and liabilities: | | |
| (Increase) in grants receivable | (69,644) | (132,996) |
| Decrease in prepaid expense | 26,889 | 28,582 |
| (Increase) in other current assets | (53,545) | (27,836) |
| (Increase) in restricted cash | (51,112) | - |
| Increase in accounts payable and accrued expenses | 16,578 | 9,832 |
| Increase in accrued payroll and payroll taxes | 39,520 | 137,532 |
| (Decrease) in refundable advances | - | (26,742) |
| (Decrease) Increase in due to related parties | (203,157) | 364,609 |
| | 390,365 | 451,196 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (403,382) | (269,879) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (13,017) | 181,317 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 268,188 | 86,871 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 255,171 | \$ 268,188 |

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

Nature of Organization

Harlem Success Academy Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 10, 2006 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on January 10, 2006 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School is dedicated to providing a high quality education to primarily disadvantaged students and to prevent the achievement gap from rising. Classes commenced in Harlem, New York, in August 2006 and the School presently provides education to approximately 388 students in grades kindergarten through third.

The School shares space with a New York City public school beginning in August 2006. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the school's programs that take place outside the district's school day.

Food and Transportation Services

The New York City Departments of Education provides free lunches and transportation directly to a majority of the School's students. Such costs are not included in these financial statements. The School covers the cost of lunches for children not entitled to the free lunches.

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 Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, 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:

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 donor or by law. They 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 donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions.

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

As of June 30, 2009 and 2008, the School had no temporarily or permanently restricted net assets.

Revenue and Support

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

Revenue from the state and local 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 agencies.

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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

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.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

Purchased property and equipment are recorded at cost. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract, in which ownership of such property and equipment is retained by the funding source. Maintenance and repairs are expensed as incurred. No depreciation is recorded on construction-in-progress until property and equipment is placed into service. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

| | |
|------------------------|----------|
| Equipment | 5 years |
| Furniture and fixtures | 7 years |
| Website development | 3 years |
| Software | 3 years |
| Leasehold improvements | 15 years |

Deferred Revenue

The School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Reclassifications

Certain 2008 accounts have been reclassified to the 2009 Financial Statements presentation. The reclassification has no effect on 2009 total assets, liabilities, net assets, and change in net assets.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the “FASB”) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*- an interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. In 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The School will be required to adapt FIN 48 in its June 30, 2010 financial statements. The adoption of FIN 48 is not expected to have a material impact on the School’s financial position, results of operations or cash flows.

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consists of federal and city entitlements and grants. The School expects to collect these receivables within one year.

NOTE 3 - PROPERTY AND EQUIPMENT

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

| | 2009 | 2008 |
|---|------------|------------|
| Equipment | \$ 413,268 | \$ 159,096 |
| Furniture and fixture | 191,391 | 129,047 |
| Website design | 13,400 | 13,400 |
| Software | 41,897 | 39,056 |
| Leasehold improvements | 250,688 | 166,663 |
| | 910,644 | 507,262 |
| Less: accumulated depreciation and amortization | 202,026 | 85,383 |
| | \$ 708,618 | \$ 421,879 |

Depreciation and amortization expense was \$116,643 and \$57,885, for the years ended June 30, 2009 and 2008, respectively.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Success Charter Network (the “Network”), a not-for-profit charter management organization dedicated to helping start and manage charter schools, provide management and other administrative support services to the schools.

Pursuant to the terms of the latest Academic and Business Service Agreement by and between the Network and the School, dated November 2008, the Network shall provide educational management and operational services to the School. As compensation to the Network for these services rendered, the School shall pay to the Network an amount each year equal to the total full-time equivalent enrollment of students in the School multiplied by “the per pupil fee” of \$1,243. The per pupil fee shall be increased or decreased each year by the percentage increase or decrease in the Final Adjusted Expense Per Pupil for charter schools in the New York City school district commencing with and including the 2008-2009 school year. For the year ended June 30, 2009, the School incurred \$482,726 in management fees. The balance due to the Network from HSA at June 30, 2009 amounted to \$194,068. This total includes School expenses paid by the Network in the amount of \$212,997, (\$25,000) in private contributions made payable to the Network, and \$6,071 in management fees. The School repaid \$187,997 prior to the issuance of this report.

For operational efficiency and purchasing power, the School also shares expenses with three other charter schools related by common management. At June 30, 2009, balance due from one of the related charter schools was \$32,616, which was paid prior to the issuance of this report.

NOTE 5 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE 6 - 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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 8 - DONATED SERVICES

Donated services are recognized as contributions in accordance with SFAS No. 116, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School.

One individual 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 fair value of \$18,000 and \$-0 for the years ended June 30, 2009 and 2008, respectively. In addition, \$567 of in-kind advertising was donated to the School during the year ended June 30, 2009.

NOTE 9 - RETIREMENT 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 will match employee contributions up to 3% of annual compensation. Employee match for the years ended June 30, 2009 and 2008 amounted to \$32,083 and \$21,053, respectively.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL

Our report on our audits of the basic financial statements of Harlem Success Academy Charter School (a not-for-profit corporation) as of June 30, 2009 and 2008, appears on Page 1. We conducted our audits 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, 2009

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

| | 2009 | | | | 2008 |
|--------------------------------------|----------------------|----------------------|-----------------------------|------------------------------|---------------------|
| | Regular Education | Special Education | Total Program Service | Management and General | |
| Salaries | \$ 2,159,983 | \$ 197,181 | \$ 2,357,164 | \$ 145,161 | \$ 2,502,325 |
| Payroll taxes and employee benefits | 476,824 | 43,528 | 520,352 | 32,045 | 552,397 |
| Professional development | 107,670 | 13,010 | 120,680 | - | 120,680 |
| Legal | 15,537 | 1,418 | 16,955 | 1,045 | 18,000 |
| Audit and accounting | - | - | - | 15,380 | 15,380 |
| Professional fees - other | 25,189 | 2,299 | 27,488 | 1,693 | 29,181 |
| Travel and entertainment | 12,362 | 1,128 | 13,490 | 830 | 14,320 |
| Student food service | 93,921 | 11,349 | 105,270 | - | 105,270 |
| Instructional supplies and textbooks | 366,214 | 44,250 | 410,464 | - | 410,464 |
| Management fee | - | - | - | 482,726 | 482,726 |
| Teacher and student recruitment | 74,400 | 8,990 | 83,390 | - | 83,390 |
| Consulting | 10,682 | 975 | 11,657 | 718 | 12,375 |
| Uniforms | 18,003 | 2,175 | 20,178 | - | 20,178 |
| Office supplies | 72,234 | 8,728 | 80,962 | - | 80,962 |
| Computer supplies | 23,659 | 2,859 | 26,518 | - | 26,518 |
| School culture | 19,753 | 2,386 | 22,139 | - | 22,139 |
| Field trips | 37,112 | 4,484 | 41,596 | - | 41,596 |
| Special events | 12,474 | 1,507 | 13,981 | - | 13,981 |
| Equipment rental | 4,849 | 444 | 5,293 | 324 | 5,617 |
| Student assessments | 20,326 | 2,456 | 22,782 | - | 22,782 |
| Telephone and internet services | 97,142 | 8,868 | 106,010 | 6,528 | 112,538 |
| Postage and delivery | 25,565 | 2,334 | 27,899 | 1,718 | 29,617 |
| Insurance | 25,485 | 2,326 | 27,811 | 1,713 | 29,524 |
| Facilities expense | 11,463 | 1,385 | 12,848 | - | 12,848 |
| Information technology | 19,188 | 2,319 | 21,507 | - | 21,507 |
| Loss on abandonment of fixed asset | - | - | - | 18,000 | 18,000 |
| Depreciation and amortization | 100,685 | 9,191 | 109,876 | 6,767 | 116,643 |
| Miscellaneous | - | - | - | 13 | 13 |
| Total | \$ 3,830,720 | \$ 375,590 | \$ 4,206,310 | \$ 714,661 | \$ 4,920,971 |
| | | | | | \$ 3,836,578 |