

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2

We have audited the accompanying statement of financial position of Harlem Success Academy Charter School 2 (the "School") (a not-for-profit corporation) as of June 30, 2009, the related statement of activities, and cash flows for the period from March 11, 2008 (inception) to June 30, 2009. 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 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 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 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 the School as of June 30, 2009, and the changes in its net assets and its cash flows for the period from March 11, 2008 (inception) to June 30, 2009, 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 5, 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 5, 2009

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS

Current assets:

Cash and cash equivalents	\$ 784,180
Grants receivable	349,976
Prepaid expenses	33,389
Other current assets	<u>19,147</u>

Total current assets 1,186,692

Property and equipment, net of accumulated depreciation and amortization of \$36,691	415,078
Restricted cash	<u>25,000</u>

TOTAL ASSETS \$ 1,626,770

LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 56,488
Accrued payroll and payroll taxes	91,234
Due to related parties	<u>104,438</u>

Total current liabilities 252,160

Unrestricted net assets 1,374,610

TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS \$ 1,626,770

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE PERIOD FROM MARCH 11, 2008 (INCEPTION)
TO JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Total</u>
Revenue and support:			
State and local per pupil operating			
Revenue	\$ 2,334,381	\$ -	\$ 2,334,381
Federal grants	490,640	-	490,640
State and city grants	150,604	-	150,604
Contributions and private grants	755,050	280,000	1,035,050
Donated services	18,567	-	18,567
Interest, dividends and other income	2,596	-	2,596
Net assets released from restrictions - satisfaction of purpose restriction	<u>280,000</u>	<u>(280,000)</u>	<u>-</u>
Total revenue and support	<u>4,031,838</u>	<u>-</u>	<u>4,031,838</u>
Expenses:			
Program services	2,235,237	-	2,235,237
Management and general	<u>421,991</u>	<u>-</u>	<u>421,991</u>
Total expenses	<u>2,657,228</u>	<u>-</u>	<u>2,657,228</u>
Change in net assets	1,374,610	-	1,374,610
Net assets - beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - end of period	<u><u>\$ 1,374,610</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,374,610</u></u>

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM MARCH 11, 2008 (INCEPTION)
TO JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 1,374,610
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	36,691
Changes in certain assets and liabilities:	
(Increase) in grants receivable	(349,976)
(Increase) in prepaid expense	(33,389)
(Increase) in other current assets	(19,147)
(Increase) in restricted cash	(25,000)
Increase in accounts payable and accrued expenses	56,488
Increase in accrued payroll and payroll taxes	91,234
Increase in due to related parties	<u>104,438</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,235,949
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(451,769)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	784,180
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>\$ 784,180</u></u>

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

Nature of Organization

Harlem Success Academy Charter School 2 (the "School") is a New York State, not-for-profit educational corporation that was incorporated on March 11, 2008 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 March 11, 2008 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 2008 and the School presently provides education to approximately 183 students in grades kindergarten and first.

The School shares space with a New York City public school beginning in July 2008. 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 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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.

The School has no temporarily or permanently restricted net assets at June 30, 2009.

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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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

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.

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
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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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:

Equipment	\$ 130,220
Furniture and fixture	85,717
Software	5,204
Leasehold improvements	<u>230,628</u>
	451,769
Less: accumulated depreciation and amortization	<u>36,691</u>
	<u>\$ 415,078</u>

Depreciation and amortization expense was \$36,691 for the period from March 11, 2008 (inception) to June 30, 2009.

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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

Pursuant to the terms of the Academic and Business Service Agreement by and between the Network and the School, dated March 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 period from March 11, 2008 (inception) to June 30, 2009, the School incurred \$227,294 in management fees. The balance due to the Network from HSA2 at June 30, 2009 amounted to \$103,808. This total includes School expenses paid by the Network in the amount of \$144,421, (\$50,000) in private contributions made payable to the Network, and \$9,387 in management fees. The School repaid \$94,421 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 to one of the charter schools was \$630, 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.

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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 for the period from March 11, 2008 (inception) to June 30, 2009. 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 period from March 11, 2008 (inception) to June 30, 2009 amounted to \$12,072.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2

Our report on our audit of the basic financial statements of Harlem Success Academy Charter School 2 (a not-for-profit corporation) as of June 30, 2009, 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 5, 2009

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE PERIOD FROM MARCH 11, 2008 (INCEPTION) TO JUNE 30, 2009

	Regular Education	Special Education	Total Program Service	Management and General	Total
Salaries	\$ 1,003,260	\$ 84,362	\$ 1,087,622	\$ 128,154	\$ 1,215,776
Payroll taxes and employee benefits	212,110	17,836	229,946	27,094	257,040
Professional development	42,823	5,956	48,779	-	48,779
Legal	16,851	1,417	18,268	2,152	20,420
Audit and accounting	-	-	-	14,861	14,861
Professional fees - other	22,126	1,861	23,987	2,826	26,813
Travel and entertainment	5,129	431	5,560	655	6,215
Student food service	38,086	5,297	43,383	-	43,383
Field trips	16,212	2,255	18,467	-	18,467
Instructional supplies and textbooks	246,448	34,275	280,723	-	280,723
Management fee	-	-	-	227,294	227,294
Teacher and student recruitment	143,335	19,934	163,269	-	163,269
Consulting	5,341	449	5,790	682	6,472
Uniforms	14,490	2,015	16,505	-	16,505
Office supplies	32,450	4,513	36,963	-	36,963
Computer supplies	23,421	3,257	26,678	-	26,678
School culture	15,240	2,120	17,360	-	17,360
Special events	10,856	1,510	12,366	-	12,366
Equipment rental	3,742	315	4,057	478	4,535
Student assessments	10,133	1,409	11,542	-	11,542
Telephone and internet services	70,454	5,924	76,378	9,000	85,378
Postage and delivery	17,722	1,490	19,212	2,264	21,476
Insurance	20,045	1,686	21,731	2,560	24,291
Facilities expense	11,786	1,639	13,425	-	13,425
Information technology	17,912	2,491	20,403	-	20,403
Depreciation and amortization	30,277	2,546	32,823	3,868	36,691
Miscellaneous	-	-	-	103	103
Total	<u>\$ 2,030,249</u>	<u>\$ 204,988</u>	<u>\$ 2,235,237</u>	<u>\$ 421,991</u>	<u>\$ 2,657,228</u>

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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
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2

We have audited the financial statements of Harlem Success Academy Charter School 2 (the "School") as of and for the period from March 11, 2008 (inception) to June 30, 2009, and have issued our report thereon dated October 5, 2009. 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 *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

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
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2

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 5, 2009.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, and federal awarding agencies and pass-through entities 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 5, 2009