

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2

(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2

We have audited the accompanying statements of financial position of Harlem Success Academy Charter School 2 (the "School") (a not-for-profit corporation) as of June 30, 2011 and 2010, the related statements of activities, and cash flows for the years ended June 30, 2011 and 2010. 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 2010 financial statements and, in our report dated September 15, 2010, 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 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years ended June 30, 2011 and 2010, 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 September 23, 2011 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 audits.


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

New York, New York
September 23, 2011

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

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 645,378	\$ 832,947
Grants and contracts receivable	283,906	121,858
Prepaid expenses	-	31,782
Other current assets	<u>-</u>	<u>13,709</u>
Total current assets	929,284	1,000,296
Property and equipment, net of accumulated depreciation and amortization of \$174,346 and \$120,936, respectively	802,807	811,429
Long-term investments	2,003,881	1,000,000
Restricted cash	<u>75,883</u>	<u>50,469</u>
TOTAL ASSETS	<u><u>\$ 3,811,855</u></u>	<u><u>\$ 2,862,194</u></u>
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 119,061	\$ 66,602
Accrued payroll and payroll taxes	260,671	169,372
Due to related party	<u>45,841</u>	<u>174,269</u>
Total current liabilities	425,573	410,243
Unrestricted net assets	<u>3,386,282</u>	<u>2,451,951</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 3,811,855</u></u>	<u><u>\$ 2,862,194</u></u>

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	<u>2011</u>	<u>2010</u>
Revenue and support:		
State and local per pupil operating revenue	\$ 6,865,555	\$ 4,700,560
Federal grants	376,014	495,525
State and city grants	56,011	55,549
Contributions and private grants	4,301	229,110
Donated services	2,000	11,756
Interest and other income	<u>4,481</u>	<u>2,500</u>
Total revenue and support	<u>7,308,362</u>	<u>5,495,000</u>
Expenses:		
Program services		
Regular education	4,525,150	3,346,086
Special education	<u>566,612</u>	<u>349,110</u>
Total program services	<u>5,091,762</u>	<u>3,695,196</u>
Supporting service		
Management and general	<u>1,282,269</u>	<u>722,463</u>
Total expenses	<u>6,374,031</u>	<u>4,417,659</u>
Changes in unrestricted net assets	934,331	1,077,341
Unrestricted net assets - beginning of year	<u>2,451,951</u>	<u>1,374,610</u>
Unrestricted net assets - end of year	<u><u>\$ 3,386,282</u></u>	<u><u>\$ 2,451,951</u></u>

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 934,331	\$ 1,077,341
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	151,828	86,571
Proceeds from sale of property and equipment	118,178	-
Loss on abandonment of leasehold improvements	247,286	-
Changes in certain assets and liabilities:		
(Increase) Decrease in grants and contracts receivable	(162,048)	228,118
Decrease in prepaid expense	31,782	1,607
Decrease in other current assets	13,709	5,438
(Increase) in restricted cash	(25,414)	(25,469)
Increase in accounts payable and accrued expenses	52,459	10,114
Increase in accrued payroll and payroll taxes	91,299	78,138
(Decrease) Increase in due to related party	(128,428)	69,831
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,324,982</u>	<u>1,531,689</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(508,670)	(482,922)
Long-term investments	<u>(1,003,881)</u>	<u>(1,000,000)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(1,512,551)</u>	<u>(1,482,922)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(187,569)	48,767
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>832,947</u>	<u>784,180</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 645,378</u></u>	<u><u>\$ 832,947</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, 2011 AND 2010

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; to prevent the achievement gap from rising. Classes commenced in Harlem, New York, in August 2008 and the School provided education to approximately 471 students in grades kindergarten through third during the 2010-2011 academic year.

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 Service

The New York City Department of Education provides free lunches 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). The School did not have net unrelated business income for the years ended June 30, 2011 and 2010.

The School’s accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

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, 2011 and 2010, 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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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
Website development	3 years
Software	3 years
Leasehold improvements	15 years

Refundable Advances and Deferred Revenue

The School records certain government grants and contracts as refundable advances and deferred revenue until related services are performed, 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, 2011 AND 2010

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

Reclassifications

Certain 2010 accounts have been reclassified to the 2011 Financial Statements presentation. The reclassification has no effect on 2010 total assets, liabilities, net assets, and change in net assets.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
- Level 2 – Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly including inputs in markets that are not considered to be active.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The primary uses of fair value measures in the School's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of investments.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

The School's investments at June 30, 2011 and 2010, consisted of certificate of deposits in the amount of \$2,003,881 and \$1,000,000, respectively, which is classified as level 1 in the fair value hierarchy.

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2011</u>	<u>2010</u>
Equipment	\$ 385,876	\$ 289,184
Furniture and fixture	294,235	236,658
Website design	7,183	5,000
Software	8,817	5,823
Leasehold improvements	<u>281,042</u>	<u>395,700</u>
	977,153	932,365
Less: Accumulated depreciation and amortization	<u>174,346</u>	<u>120,936</u>
	<u>\$ 802,807</u>	<u>\$ 811,429</u>

Depreciation and amortization expense was \$151,828 and \$86,571 for the years ended June 30, 2011 and 2010, respectively.

NOTE 5 - 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 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". 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. The per pupil fee was \$1,352 and \$1,243 for the years ended June 30, 2011 and 2010, respectively. For operational efficiency and purchasing power, the School also shares expenses with eight other charter schools related by common management.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

For the years ended June 30, 2011 and 2010, the School incurred \$637,561 and \$447,064 in management fees, respectively. There were no material transactions between the School and the related charter schools, except for a sale of property and equipment to Harlem Success Academy Charter School 5 in the amount of \$118,178 which was the net book value of assets sold. The balance due to the Network from the School at June 30, 2011 and 2010 amounted to \$45,841 and \$174,269, respectively. This balance represents expenses paid by the Network on behalf of the School. The School fully repaid this balance prior to the issuance of this report.

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 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 7 - 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 8 - 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 9 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 605, "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 \$2,000 and \$5,000 for the years ended June 30, 2011 and 2010, respectively. In addition, \$-0- and \$6,756 of in-kind advertising was donated to the School during the years ended June 30, 2011 and 2010, respectively.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 10 - 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. Employer match for the years ended June 30, 2011 and 2010 amounted to \$56,508 and \$19,411, respectively.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through September 23, 2011, the date the financial statements were available to be issued.

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2

Our report on our audits of the basic financial statements of Harlem Success Academy Charter School 2 (a not-for-profit corporation) as of June 30, 2011 and 2010, 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
September 23, 2011

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 2
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2011					
	Regular Education	Special Education	Total Program Service	Management and General	Total	2010
Salaries	\$ 2,526,792	\$ 289,792	\$ 2,816,584	\$ 385,536	\$ 3,202,120	\$ 2,321,586
Payroll taxes and employee benefits	548,173	62,869	611,042	83,639	694,681	480,945
Professional development	62,188	11,035	73,223	-	73,223	49,523
Legal	-	-	-	2,000	2,000	15,596
Audit and accounting	-	-	-	15,125	15,125	12,750
Professional fees - other	11,142	1,278	12,420	1,699	14,119	25,899
Travel and entertainment	19,596	2,247	21,843	2,990	24,833	10,801
Student food service	94,727	16,808	111,535	-	111,535	58,044
Field trips	20,013	3,551	23,564	-	23,564	29,208
Instructional supplies and textbooks	390,341	69,263	459,604	-	459,604	357,119
Management fee	-	-	-	637,561	637,561	447,064
Teacher recruitment	43,387	7,698	51,085	-	51,085	69,842
Student recruitment	102,196	18,134	120,330	-	120,330	47,254
Marketing	3,443	611	4,054	-	4,054	8,578
Consulting	25,428	2,916	28,344	3,881	32,225	17,222
Uniforms	6,560	1,164	7,724	-	7,724	14,282
Office supplies	69,534	7,975	77,509	10,608	88,117	52,479
Computer supplies	12,934	1,483	14,417	1,973	16,390	21,167
School culture	19,372	3,437	22,809	-	22,809	10,393
Special events	12,856	1,475	14,331	1,962	16,293	12,880
Equipment rental	3,744	430	4,174	571	4,745	7,959
Student assessments	16,829	2,986	19,815	-	19,815	26,683
Telephone and internet services	58,759	6,739	65,498	8,965	74,463	68,482
Postage and delivery	14,701	1,686	16,387	2,243	18,630	22,826
Insurance	37,487	4,299	41,786	5,720	47,506	28,102
Facilities expense	82,608	9,474	92,082	12,604	104,686	78,602
Information technology	27,399	3,142	30,541	4,181	34,722	29,269
Bad debt expense	-	-	-	50,000	50,000	-
Loss on abandonment of leasehold improvements	195,133	22,380	217,513	29,773	247,286	-
Depreciation and amortization	119,808	13,740	133,548	18,280	151,828	86,571
Miscellaneous	-	-	-	2,958	2,958	6,533
Total	<u>\$ 4,525,150</u>	<u>\$ 566,612</u>	<u>\$ 5,091,762</u>	<u>\$ 1,282,269</u>	<u>\$ 6,374,031</u>	<u>\$ 4,417,659</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 years ended June 30, 2011 and 2010, and have issued our report thereon dated September 23, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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 audits, 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*.

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Charter Schools Institute of the State University of New York, The State Education Department of the State University of New York, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.


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

New York, New York
September 23, 2011