

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5

(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5

We have audited the accompanying statement of financial position of Harlem Success Academy Charter School 5 (the "School") (a not-for-profit corporation) as of June 30, 2012, and the related statements of activities, and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the School's 2011 financial statements and, in our report dated September 23, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2012, and the changes in its net assets and its cash flows for the year 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 23, 2012 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 23, 2012

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,448,140	\$ 1,313,658
Grants and contracts receivable	113,823	264,712
Prepaid expenses	<u>-</u>	<u>825</u>
Total current assets	1,561,963	1,579,195
Property and equipment, net of accumulated depreciation and amortization of \$217,781 and \$40,452, respectively	179,073	214,742
Restricted cash	<u>50,192</u>	<u>25,049</u>
TOTAL ASSETS	<u><u>\$ 1,791,228</u></u>	<u><u>\$ 1,818,986</u></u>
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 17,039	\$ 72,517
Accrued payroll and payroll taxes	52,392	98,647
Due to related party	<u>89,512</u>	<u>57,254</u>
Total current liabilities	158,943	228,418
Loan payable - related party	<u>-</u>	<u>500,000</u>
Total liabilities	158,943	728,418
Unrestricted net assets	<u>1,632,285</u>	<u>1,090,568</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 1,791,228</u></u>	<u><u>\$ 1,818,986</u></u>

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES

	For the year ended June 30, 2012	For the period from February 17, 2010 (inception) to June 30, 2011
Revenue and support:		
State and local per pupil operating revenue	\$ 3,641,145	\$ 2,534,167
Federal grants	213,927	656,038
State and city grants	-	131,977
Contributions and private grants	-	503,320
Donated services	-	86,603
Investment income, net	317	193
	<u>3,855,389</u>	<u>3,912,298</u>
Total revenue and support		
Expenses:		
Program services		
Regular education	2,291,256	1,885,171
Special education	502,218	428,222
Total program services	<u>2,793,474</u>	<u>2,313,393</u>
Supporting service		
Management and general	520,198	508,337
	<u>3,313,672</u>	<u>2,821,730</u>
Total expenses		
Changes in unrestricted net assets	541,717	1,090,568
Unrestricted net assets - beginning of period	<u>1,090,568</u>	<u>-</u>
Unrestricted net assets - end of period	<u>\$ 1,632,285</u>	<u>\$ 1,090,568</u>

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS

	For the year ended June 30, 2012	For the period from February 17, 2010 (inception) to June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 541,717	\$ 1,090,568
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	177,329	40,452
Changes in certain assets and liabilities:		
Decrease (Increase) in grants and contracts receivable	150,889	(264,712)
Decrease (Increase) in prepaid expenses	825	(825)
(Increase) in restricted cash	(25,143)	(25,049)
(Decrease) Increase in accounts payable and accrued expenses	(55,478)	72,517
(Decrease) Increase in accrued payroll and payroll taxes	(46,255)	98,647
Increase in due to related party	32,258	57,254
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>776,142</u>	<u>1,068,852</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	<u>(141,660)</u>	<u>(255,194)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loan payable - related party	(500,000)	-
Proceeds from loan payable - related party	<u>-</u>	<u>500,000</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(500,000)</u>	<u>500,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	134,482	1,313,658
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>1,313,658</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>\$ 1,448,140</u></u>	<u><u>\$ 1,313,658</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u><u>\$ 12,188</u></u>	<u><u>\$ 8,125</u></u>

NONCASH INVESTING ACTIVITY:

For the period from February 17, 2010 (inception) to June 30, 2011, the School received a stock donation valued at \$2,520. The sale of the securities resulted in a realized gain of \$22 for the period from February 17, 2010 (inception) to June 30, 2011.

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Nature of Organization

Harlem Success Academy Charter School 5 (the "School") is a New York State, not-for-profit educational corporation that was incorporated on February 17, 2010 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 February 17, 2010 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 the Bronx, New York, in August 2010 and the School provided education to approximately 241 students in grades kindergarten through second during the 2011-2012 academic year.

The School shares space with a New York City public school beginning in August 2010. 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 year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011.

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.

IRS forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. All Forms 990 filed by the School are subject to examination.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 and 2011, 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 5
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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.

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	3 years
Furniture and fixtures	3 years
Website development	3 years
Software	3 years
Leasehold improvements	5 years

Refundable Advances

The School records certain government grants and contracts as refundable advances until related services are performed, at which time it is recognized as revenue.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Comparative Financial Information

The accompanying statements of activities and schedule of functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statements of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2011 financial statements from which the summarized information was derived.

Reclassifications

Certain 2011 accounts have been reclassified to the 2012 financial statements presentation. The reclassification has no effect on 2011 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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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.

The School had no investments at June 30, 2012 and 2011.

Investment income at June 30, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 317	\$ 171
Realized gain	<u>-</u>	<u>22</u>
Net investment income	<u>\$ 317</u>	<u>\$ 193</u>

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2012</u>	<u>2011</u>
Equipment	\$ 161,799	\$ 138,231
Furniture and fixtures	182,981	107,568
Website development	2,183	2,183
Software	1,137	-
Leasehold improvements	<u>48,754</u>	<u>7,212</u>
	396,854	255,194
Less: Accumulated depreciation and amortization	<u>217,781</u>	<u>40,452</u>
	<u>\$ 179,073</u>	<u>\$ 214,742</u>

Depreciation and amortization expense was \$177,329 and \$40,452 for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, respectively.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 5 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Success Academy Charter Schools (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 June 16, 2010, 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 2010-2011 school year. The per pupil fee was \$1,352 for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, respectively. For operational efficiency and purchasing power, the School also shares expenses with eight other charter schools related by common management.

For the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, the School incurred \$326,325 and \$244,457 in management fees, respectively. There were no material transactions between the School and the related charter schools, except for the purchase of property and equipment from Harlem Success Academy Charter School 2 in the amount of \$118,718 which was the net book value of assets purchased during the 2010-2011 school year. The balance due to the Network from the School at June 30, 2012 and 2011 amounted to \$89,512 and \$57,254, respectively. These balances represent expenses paid by the Network on behalf of the School. The School fully repaid balance due at June 30, 2012 prior to the issuance of this report.

During the year ended June 30, 2011, the School signed a loan agreement with the Network in the amount of \$800,000 with annual interest of 3.25% on any unpaid balance. According to the loan agreement, the School received \$500,000 from the Network through June 30, 2011. The loan may be prepaid by the School, at any time, in whole or in part, without penalty. The proceeds were used to finance the School’s operations. During the year ended June 30, 2012, the School fully repaid the outstanding principal balance of the loan to the Network. The outstanding principal balance of the loan at June 30, 2012 and 2011 was \$-0- and \$500,000, respectively. The School paid \$12,188 and \$8,125 in interest expense on this loan for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, respectively.

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 5
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 7 - 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 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.

The School received legal services at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at fair value of \$-0- and \$86,603 for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, respectively.

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 year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011 amounted to \$36,093 and \$24,695, respectively.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 23, 2012, the date the financial statements were available to be issued.

The education corporations, Harlem Success Academy Charter School, Harlem Success Academy Charter School 2, Harlem Success Academy Charter School 3, Harlem Success Academy Charter School 4, and Harlem Success Academy Charter School 5 applied to merge into a single legal entity under Harlem Success Academy Charter School 3, which would serve as the sole surviving education corporation. This application was approved by the Board of Trustees of the State University of New York ("SUNY") in April 2012. The merger application was subsequently submitted to the New York State Education Department Board of Regents, and became effective for financial purposes on October 1, 2012. The surviving education corporation changed its name to Success Academy Charter School – NYC, and each of the schools is authorized by SUNY. Concurrent with the completion of the merger, the name on the charter held by Harlem Success Academy Charter School 5 was changed to Success Academy Charter School – Harlem 5.

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5

We have audited the financial statements of Harlem Success Academy Charter School 5 as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


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

New York, New York
October 23, 2012

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 5
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES

	For the year ended June 30, 2012				For the period from February 17, 2010 (inception) to June 30, 2011
	Regular Education	Special Education	Total Program Service	Management and General	Total
Salaries	\$ 1,241,154	\$ 272,047	\$ 1,513,201	\$ 114,453.00	\$ 1,627,654
Payroll taxes and employee benefits	247,354	54,218	301,572	22,808	324,380
Professional development	72,009	15,783	87,792	-	87,792
Legal	-	-	-	-	-
Audit and accounting	-	-	-	11,900	11,900
Professional fees - other	4,602	1,009	5,611	425	6,036
Travel and entertainment	16,500	3,617	20,117	1,522	21,639
Student food service	41,099	9,008	50,107	-	50,107
Field trips	26,451	5,798	32,249	-	32,249
Instructional supplies and textbooks	166,652	36,528	203,180	-	203,180
Management fee	-	-	-	326,325	326,325
Interest expense	-	-	-	12,188	12,188
Teacher recruitment	44,956	9,854	54,810	-	54,810
Student recruitment	58,221	12,761	70,982	-	70,982
Marketing	16,712	3,663	20,375	-	20,375
Consulting	1,816	398	2,214	167	2,381
Uniforms	2,166	475	2,641	-	2,641
Office supplies	35,521	7,786	43,307	3,276	46,583
Computer supplies	5,352	1,173	6,525	493	7,018
School culture	18,578	4,072	22,650	-	22,650
Special events	17,204	3,771	20,975	1,587	22,562
Equipment rental	2,375	521	2,896	218	3,114
Student assessments	3,193	700	3,893	-	3,893
Telephone and internet services	48,225	10,570	58,795	4,448	63,243
Postage and delivery	6,173	1,353	7,526	569	8,095
Insurance	23,505	5,152	28,657	2,167	30,824
Facilities expense	18,430	4,040	22,470	1,699	24,169
Information technology	36,222	7,939	44,161	3,340	47,501
Depreciation and amortization	135,221	29,639	164,860	12,469	177,329
Miscellaneous	1,565	343	1,908	144	2,052
Total	\$ 2,291,256	\$ 502,218	\$ 2,793,474	\$ 520,198	\$ 3,313,672
					\$ 2,821,730

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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 5

We have audited the financial statements of Harlem Success Academy Charter School 5 (the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012. 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 *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.

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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*.

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
October 23, 2012