# SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG

(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2013

SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2013

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# INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG

## *Report on the Financial Statements*

We have audited the accompanying financial statements of Success Academy Charter School – Williamsburg (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the period from September 13, 2011 (inception) to June 30, 2013, and the related notes to the financial statements.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibility*

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2013, and the changes in its net assets and its cash flows for the period from September 13, 2011 (inception) to June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for 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.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Fruchter Rosen & Company P.C.

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

New York, New York
October 21, 2013

SUCCESS ACADEMY CHARTER SCHOOL - WILLIAMSBURG
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

| | | |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 343,826 |
| Grants and contracts receivable | | 208,738 |
| Prepaid expenses | | 78,533 |
| Total current assets | | 631,097 |
| Property and equipment, net of accumulated depreciation and amortization of $169,906 | | 650,347 |
| Restricted cash | | 25,000 |
| TOTAL ASSETS | $ | 1,306,444 |
| LIABILITIES AND UNRESTRICTED NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ | 20,482 |
| Due to related party | | 59,099 |
| Total current liabilities | | 79,581 |
| Loan payable - related party | | 1,250,000 |
| Total liabilities | | 1,329,581 |
| Unrestricted net assets | | (23,137) |
| TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS | $ | 1,306,444 |

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

SUCCESS ACADEMY CHARTER SCHOOL - WILLIAMSBURG
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION)
TO JUNE 30, 2013

| | |
|---|---|
| Revenue and support: | |
| State and local per pupil operating revenue | $ 1,895,197 |
| Federal grants | 714,357 |
| State and city grants | 119,034 |
| Contributions and private grants | 250,000 |
| Other income | 437 |
| Total revenue and support | 2,979,025 |
| Expenses: | |
| Program services | |
| Regular education | 2,200,260 |
| Special education | 272,904 |
| Total program services | 2,473,164 |
| Supporting service | |
| Management and general | 528,998 |
| Total expenses | 3,002,162 |
| Change in unrestricted net assets | (23,137) |
| Unrestricted net assets - beginning of period | - |
| Unrestricted net assets - end of period | $ (23,137) |

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

SUCCESS ACADEMY CHARTER SCHOOL - WILLIAMSBURG
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION)
TO JUNE 30, 2013

| | | |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in unrestricted net assets | $ | (23,137) |
| Adjustments to reconcile change in unrestricted net assets to net cash (used in) operating activities: | | |
| Depreciation and amortization | | 169,906 |
| Changes in certain assets and liabilities: | | |
| (Increase) in grants and contracts receivable | | (208,738) |
| (Increase) in prepaid expenses | | (78,533) |
| (Increase) in restricted cash | | (25,000) |
| Increase in accounts payable and accrued expenses | | 20,482 |
| Increase in due to related party | | 59,099 |
| NET CASH (USED IN) OPERATING ACTIVITIES | | (85,921) |
| CASH FLOWS FROM INVESTING ACTIVITY | | |
| Purchases of property and equipment | | (820,253) |
| CASH FLOWS FROM FINANCING ACTIVITY | | |
| Proceeds from loan payable - related party | | 1,250,000 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 343,826 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | | - |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | $ | 343,826 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | $ | 12,285 |

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

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

### Nature of Organization

Success Academy Charter School – Williamsburg (the "School") is a New York State, not-for-profit educational corporation that was incorporated on September 13, 2011 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 September 13, 2011 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 Brooklyn, New York, in August 2012 and the School provided education to approximately 134 students in grades kindergarten and first during the 2012-2013 academic year.

The School shares space with a New York City public school beginning in August 2012. 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 did not have net unrelated business income for the period from September 13, 2011 (inception) to June 30, 2013.

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.

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.

The School had no temporarily or permanently restricted net assets at June 30, 2013.

Revenue and Support

Contributions are recognized when the donor makes a grant 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.

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.

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 |
| 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.

## NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal, state, 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 School 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.
- recurring measurement of investments.

The School had no investments at June 30, 2013.

## NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2013:

| | |
|---|---|
| Equipment | $ 89,830 |
| Furniture and fixtures | 124,646 |
| Software | 189,897 |
| Leasehold improvements | 415,880 |
| | 820,253 |
| Less: Accumulated depreciation and amortization | 169,906 |
| | $ 650,347 |

Depreciation and amortization expense was $169,906 for the period from September 13, 2011 (inception) to June 30, 2013.

## NOTE 5 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Success Academy Charter Schools, Inc. (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 May 8, 2012, 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 2012-2013 school year. The per pupil fee was $2,029 for the period from September 13, 2011 (inception) to June 30, 2013. For operational efficiency and purchasing power, the School also shares expenses with the Network and twenty two other charter schools related by common management.

For the period from September 13, 2011 (inception) to June 30, 2013, the School incurred $271,012 in management fees and there were no material transactions between the School and the related charter schools. The balance due to the Network from the School at June 30, 2013 amounted to $59,099. 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 5 - RELATED PARTY TRANSACTIONS (Continued)

On May 8, 2012, the School signed a loan agreement with the Network in the amount of $1,300,000 with annual interest equal to the prevailing interest rate available to the Network as of the date of each advance. According to the loan agreement, the School received $1,250,000 from the Network through June 30, 2013 and will receive the remaining $50,000 during the year ending June 30, 2014. The loan and any accrued unpaid interest are due in full within three years of this agreement. 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. The outstanding principal balance of the loan at June 30, 2013 was $1,250,000. The School paid $12,285 in interest expense on this loan for the period from September 13, 2011 (inception) to June 30, 2013.

NOTE 6 - REVENUE CONCENTRATION

The School receives substantially all 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 - 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 - 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 period from September 13, 2011 (inception) to June 30, 2013 amounted to $18,245.

## NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 21, 2013, 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 OF
SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG

We have audited the financial statements of Success Academy Charter School – Williamsburg as of and for the period from September 13, 2011 (inception) to June 30, 2013, and have issued our report thereon dated October 21, 2013, which contained an unmodified 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.

New York, New York
October 21, 2013

SUCCESS ACADEMY CHARTER SCHOOL - WILLIAMSBURG
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION) TO JUNE 30, 2013

| | Program Services | | | Management and General | Total |
|---|---|---|---|---|---|
| | Regular Education | Special Education | Total | | |
| Salaries | $ 934,633 | $ 115,925 | $ 1,050,558 | $ 139,040 | $ 1,189,598 |
| Payroll taxes and employee benefits | 203,348 | 25,222 | 228,570 | 30,251 | 258,821 |
| Professional development | 32,737 | 4,061 | 36,798 | - | 36,798 |
| Audit and accounting | - | - | - | 17,500 | 17,500 |
| Professional fees | 9,710 | 1,204 | 10,914 | 1,445 | 12,359 |
| Travel and entertainment | 895 | 111 | 1,006 | 133 | 1,139 |
| Student food service | 24,757 | 3,071 | 27,828 | - | 27,828 |
| Field trips | 11,181 | 1,387 | 12,568 | - | 12,568 |
| Instructional supplies and textbooks | 214,674 | 26,627 | 241,301 | - | 241,301 |
| Management fee | - | - | - | 271,012 | 271,012 |
| Interest expense | - | - | - | 12,285 | 12,285 |
| Teacher recruitment | 44,275 | 5,492 | 49,767 | - | 49,767 |
| Student recruitment | 259,056 | 32,131 | 291,187 | - | 291,187 |
| Marketing | 50,628 | 6,280 | 56,908 | - | 56,908 |
| Consulting | 625 | 77 | 702 | 93 | 795 |
| Uniforms | 2,681 | 332 | 3,013 | - | 3,013 |
| Office supplies | 7,668 | 951 | 8,619 | 1,141 | 9,760 |
| School culture | 15,839 | 1,964 | 17,803 | - | 17,803 |
| Special events | 20,035 | 2,485 | 22,520 | 2,981 | 25,501 |
| Equipment rental | 14,280 | 1,771 | 16,051 | 2,124 | 18,175 |
| Student assessments | 10,464 | 1,298 | 11,762 | - | 11,762 |
| Telephone and internet services | 19,867 | 2,464 | 22,331 | 2,956 | 25,287 |
| Postage and delivery | 19,430 | 2,410 | 21,840 | 2,891 | 24,731 |
| Insurance | 21,473 | 2,663 | 24,136 | 3,194 | 27,330 |
| Facilities expense | 10,010 | 1,242 | 11,252 | 1,489 | 12,741 |
| Information technology | 123,829 | 15,359 | 139,188 | 18,421 | 157,609 |
| Non-capitalized furniture, fixtures, and equipment | 11,843 | 1,469 | 13,312 | 1,762 | 15,074 |
| Depreciation and amortization | 133,490 | 16,557 | 150,047 | 19,859 | 169,906 |
| Miscellaneous | 2,832 | 351 | 3,183 | 421 | 3,604 |
| Total | $ 2,200,260 | $ 272,904 | $ 2,473,164 | $ 528,998 | $ 3,002,162 |

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# INDEPENDENT AUDITORS' 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 OF
SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG

We have audited, in accordance with the 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, the financial statements of Success Academy Charter School – Williamsburg (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the period from September 13, 2011 (inception) to June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2013.

## *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fruchter Rosen & Company P.C.
FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 21, 2013

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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

TO THE BOARD OF TRUSTEES OF
SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG

## *Report on Compliance for Each Major Federal Program*

We have audited Success Academy Charter School – Williamsburg's (the "School") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the School's major federal programs for the period from September 13, 2011 (inception) to June 30, 2013. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

## *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

## *Opinion on Each Major Federal Program*

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period from September 13, 2011 (inception) to June 30, 2013.

TO THE BOARD OF TRUSTEES OF
SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG

***Report on Internal Control over Compliance***

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Fruchter Rosen & Company P.C.
FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 21, 2013

SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION) TO JUNE 30, 2013

## A - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Success Academy Charter School – Williamsburg.

2. No significant deficiencies and no material weaknesses were discovered during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of Success Academy Charter School – Williamsburg, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies and no material weaknesses relating to the audit of the major federal award programs are reported in accordance with OMB Circular A-133.

5. The auditors' report on compliance for the major federal award programs for Success Academy Charter School – Williamsburg expresses an unmodified opinion on all major federal programs.

6. No audit findings relative to the major federal award programs for Success Academy Charter School – Williamsburg are reported in this schedule.

7. The programs tested as major programs included:
   Charter Schools Program for Replication and Expansion
   of High-Quality Charter Schools, CFDA No. 84.282M

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. Success Academy Charter School – Williamsburg did not qualify as a low-risk auditee.

## B - FINDINGS - FINANCIAL STATEMENTS AUDIT

None

## C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SUCCESS ACADEMY CHARTER SCHOOL - WILLIAMSBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION) TO JUNE 30, 2013

| Federal Grantor<br>Pass-through Grantor<br>Program Name/Cluster | Federal CFDA Number | Federal Expenditures |
|---|---|---|
| U.S. Department of Education: | | |
| Charter Schools Program for Replication and Expansion of High-Quality Charter Schools | 84.282M | $ 612,522 |
| Passed through the New York State Education Department: | | |
| Special Education - IDEA | 84.027 | 29,885 |
| Title I Part A | 84.010 | 61,378 |
| Title II Part A | 84.367 | 10,572 |
| Total New York State Education Department | | 101,835 |
| Total Expenditures of Federal Awards | | $ 714,357 |

See accompanying notes to schedule of expenditures of federal awards.

SUCCESS ACADEMY CHARTER SCHOOL – WILLIAMSBURG
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION) TO JUNE 30, 2013

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Success Academy Charter School – Williamsburg and is presented on the accrual basis of accounting for the period from September 13, 2011 (inception) to June 30, 2013. The information in this schedule is presented in accordance with the requirements on OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.