

HARLEM DAY CHARTER SCHOOL

NEW YORK, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2010 AND 2009

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Harlem Day Charter School

We have audited the accompanying statement of financial position of Harlem Day Charter School as of June 30, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Harlem Day Charter School as of and for the year ended June 30, 2009 were audited by other auditors whose report dated October 28, 2009 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Harlem Day Charter School as of June 30, 2010, 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 29, 2010 on our consideration of Harlem Day Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 considered in assessing the results of our audit.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 29, 2010

HARLEM DAY CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	June 30,	
	<u>2010</u>	<u>2009</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 2,567,387	\$ 3,418,982
Contributions receivable, net	-	63,325
Grants and other receivables	126,773	160,635
Prepaid expenses and other current assets	<u>70,281</u>	<u>72,493</u>
TOTAL CURRENT ASSETS	2,764,441	3,715,435
<u>PROPERTY AND EQUIPMENT, net</u>	<u>3,483,904</u>	<u>3,649,326</u>
TOTAL ASSETS	<u>\$ 6,248,345</u>	<u>\$ 7,364,761</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 608,443	\$ 511,764
Deferred rent payable	<u>359,345</u>	<u>346,361</u>
TOTAL LIABILITIES	967,788	858,125
 <u>NET ASSETS</u>		
Unrestricted	5,280,557	6,456,636
Temporarily restricted	<u>-</u>	<u>50,000</u>
	<u>5,280,557</u>	<u>6,506,636</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,248,345</u>	<u>\$ 7,364,761</u>

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

HARLEM DAY CHARTER SCHOOL

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year ended June 30,					
	2010			2009		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Operating revenue and support:						
State and local per pupil operating revenue	\$ 3,274,572	\$ -	\$ 3,274,572	\$ 3,349,975	\$ -	\$ 3,349,975
Government grants	347,812	-	347,812	322,480	-	322,480
Contributions	748,017	-	748,017	1,591,613	-	1,591,613
Other revenue	11,938	-	11,938	33,850	-	33,850
Interest income	506	-	506	11,579	-	11,579
Net assets released from restrictions	50,000	(50,000)	-	163,000	(163,000)	-
TOTAL OPERATING REVENUE AND SUPPORT	4,432,845	(50,000)	4,382,845	5,472,497	(163,000)	5,309,497
Expenses:						
Program services:						
Regular education	3,719,007	-	3,719,007	3,781,134	-	3,781,134
Special education	474,449	-	474,449	186,012	-	186,012
Other	383,877	-	383,877	411,086	-	411,086
General and administrative	1,009,818	-	1,009,818	913,319	-	913,319
Fund-raising	21,773	-	21,773	128,427	-	128,427
TOTAL EXPENSES	5,608,924	-	5,608,924	5,419,978	-	5,419,978
CHANGE IN NET ASSETS	(1,176,079)	(50,000)	(1,226,079)	52,519	(163,000)	(110,481)
Net assets at beginning of year	6,456,636	50,000	6,506,636	6,404,117	213,000	6,617,117
NET ASSETS AT END OF YEAR	\$ 5,280,557	\$ -	\$ 5,280,557	\$ 6,456,636	\$ 50,000	\$ 6,506,636

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

HARLEM DAY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010

	<u>Program Services</u>			<u>Total program services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other</u>		<u>General and administrative</u>	<u>Fund- raising</u>	
Salaries	\$ 1,999,722	\$ 251,027	\$ 203,339	\$ 2,454,088	\$ 570,867	\$ 10,671	\$ 3,035,626
Payroll taxes and benefits	493,643	61,967	31,817	587,427	140,922	2,634	730,983
Educational providers	880	120	48,273	49,273	-	-	49,273
Classroom supplies and materials	41,172	5,614	2,295	49,081	-	-	49,081
Student enrichment and student services	49,614	6,766	773	57,153	-	-	57,153
Staff development	17,303	2,359	3,605	23,267	10,420	-	33,687
Educational and professional consultants	289,837	39,523	282	329,642	124,976	-	454,618
Auditing and legal fees	-	-	-	-	60,423	-	60,423
Meetings and travel	21,936	3,375	708	26,019	2,531	281	28,831
Office supplies	21,975	3,381	445	25,801	2,535	281	28,617
Technology	51,164	7,871	1,181	60,216	5,904	656	66,776
Communications	14,404	2,217	2,148	18,769	1,662	185	20,616
Occupancy	258,920	39,834	38,157	336,911	29,875	3,319	370,105
Repairs and maintenance	61,132	9,405	6,972	77,509	7,054	784	85,347
Equipment rental and maintenance	25,474	3,919	3,127	32,520	2,939	327	35,786
Security services	29,235	4,498	21,453	55,186	3,373	375	58,934
Insurance	28,302	4,354	3,092	35,748	3,266	363	39,377
Recruitment and marketing	9,837	1,513	-	11,350	1,261	-	12,611
Depreciation and amortization	303,455	26,552	15,173	345,180	32,242	1,897	379,319
Other	1,002	154	1,037	2,193	9,568	-	11,761
	<u>\$ 3,719,007</u>	<u>\$ 474,449</u>	<u>\$ 383,877</u>	<u>\$ 4,577,333</u>	<u>\$ 1,009,818</u>	<u>\$ 21,773</u>	<u>\$ 5,608,924</u>

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

HARLEM DAY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009

	<u>Program Services</u>			<u>Total program services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other</u>		<u>General and administrative</u>	<u>Fund- raising</u>	
Salaries	\$ 2,103,017	\$ 113,626	\$ 118,324	\$ 2,334,967	\$ 661,407	\$ 80,926	\$ 3,077,300
Payroll taxes and benefits	450,665	27,337	37,501	515,503	83,153	16,630	615,286
Educational providers	67,233	11,385	17,760	96,378	-	-	96,378
Classroom supplies	101,327	3,325	111,472	216,124	-	-	216,124
Children's activities	29,311	70	104	29,485	-	-	29,485
Staff development	90,267	658	21,877	112,802	1,851	-	114,653
Administrative consultants	9,083	546	818	10,447	13,449	5,481	29,377
Auditing and legal fees	-	-	-	-	33,876	-	33,876
Meetings	17,132	721	1,082	18,935	6,056	557	25,548
Office supplies	21,939	970	1,921	24,830	13,355	5,176	43,361
Technology	54,880	2,083	4,453	61,416	10,411	2,220	74,047
Communications	14,967	535	803	16,305	7,250	1,966	25,521
Occupancy	305,599	7,258	36,711	349,568	15,151	5,387	370,106
Repairs and maintenance	92,124	2,408	10,292	104,824	18,058	1,690	124,572
Equipment rental and maintenance	23,970	617	2,737	27,324	2,288	438	30,050
Security services	66,915	1,425	7,208	75,548	2,975	1,057	79,580
Insurance	25,687	563	2,844	29,094	7,825	894	37,813
Depreciation and amortization	299,798	8,467	34,872	343,137	17,926	5,876	366,939
Other	7,220	4,018	307	11,545	18,288	129	29,962
	<u>\$ 3,781,134</u>	<u>\$ 186,012</u>	<u>\$ 411,086</u>	<u>\$ 4,378,232</u>	<u>\$ 913,319</u>	<u>\$ 128,427</u>	<u>\$ 5,419,978</u>

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

HARLEM DAY CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (1,226,079)	\$ (110,481)
Adjustments to reconcile change in net assets to net cash (used for) provided from operating activities:		
Depreciation and amortization	379,319	366,939
Donated stock	-	(7,405)
Loss on disposal of assets	724	-
Changes in certain assets and liabilities affecting operations:		
Contributions receivable, net	63,325	546,704
Grants and other receivables	33,862	(17,603)
Prepaid expenses and other current assets	2,212	(62,140)
Accounts payable and accrued expenses	96,679	86,977
Deferred rent payable	12,984	(12,619)
NET CASH (USED FOR) PROVIDED FROM OPERATING ACTIVITIES	<u>(636,974)</u>	<u>790,372</u>
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Proceeds from investments	-	7,405
Property and equipment acquisitions	<u>(214,621)</u>	<u>(70,470)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(214,621)</u>	<u>(63,065)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(851,595)	727,307
Cash and cash equivalents at beginning of year	<u>3,418,982</u>	<u>2,691,675</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,567,387</u>	<u>\$ 3,418,982</u>

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

HARLEM DAY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Harlem Day Charter School (the “Charter School”), is a not-for-profit educational corporation chartered by the Regents of the University of the State of New York. The Charter School was granted a provisional charter of incorporation, effective May 14, 2001, and formally commenced operation on September 5, 2001. During 2006, the Regents extended the charter through July 31, 2011. The Charter School offers parents a free alternative to the public school system as provided by the New York State Charter School law. Students are selected using a lottery system. The Charter School offers classroom instruction and programs that encourage and foster creativity and team planning while meeting the New York State educational standards.

The New York City Department of Education provides transportation and, in 2010, food service, directly to some of the School’s students. Such costs are not included in these financial statements.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2010 or 2009.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2010. Temporarily restricted net assets of \$50,000 at June 30, 2009 consisted of amounts restricted for use in future periods.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School’s charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

HARLEM DAY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, 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.

Cash and cash equivalents

The Charter School maintains its cash in money market and bank deposit accounts at certain financial institutions located in New York. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. Uninsured balances at June 30, 2010 approximated \$2,458,000. The Charter School has not experienced any losses in such accounts and management believes it is not exposed to any significant risk in cash and cash equivalents.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2010 or 2009.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to twenty years.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School has filed for and received income tax exemptions in the jurisdictions where it is required to do so. The Charter School files tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2007 through June 30, 2010 are still subject to potential audit by the IRS. The Charter School adopted the provisions of FASB ASC 740-10 Accounting for Uncertainty in Income Taxes (formerly FIN 48), and its related amendment on July 1, 2009. Management of the Charter School believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

HARLEM DAY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the board of trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

Donated space

Storage space has been contributed to the Charter School at an estimated value of approximately \$26,000 for the each of the years ended June 30, 2010 and 2009, based on comparable square footage costs for other floors in the building. The value of the contributed storage space has been recorded as unrestricted contributions and expenses in the statement of activities.

Use of estimates in the preparation of financial statements

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. Actual results could differ from those estimates.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 29, 2010, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: CONTRIBUTIONS RECEIVABLE, NET

Contributions that are expected to be collected in future years are recorded at their net present value, using a risk-free rate of return (4.28% for the year ended June 30, 2009). Contributions receivable are due as follows:

	June 30,	
	2010	2009
In less than one year	\$ -	\$ 67,345
In one to five years	-	-
	-	67,345
Less unamortized discount on contributions receivable	-	4,020
	\$ -	\$ 63,325

HARLEM DAY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE C: SCHOOL FACILITY

The Charter School has entered into two non-cancelable operating leases for office and instructional space, one expiring in 2011 with an option to extend to 2021 and the other expiring in 2021.

Future minimum lease payments under these leases are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$ 380,645
2012	205,140
2013	205,140
2014	205,140
2015	205,140
Thereafter	<u>1,447,815</u>
	<u>\$ 2,649,020</u>

Rent expenses associated with the above leases were \$344,234 for both the years ended June 30, 2010 and 2009. The deferred rent payable in the accompanying statement of financial position stems from the straight-line rent versus the lease rent payments over the lease term, for both the school facility and office equipment leases (see Note G).

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 184,262	\$ 165,920
Computer software	533,033	481,007
Leasehold improvements	6,026,410	5,898,915
Construction-in-progress	<u>-</u>	<u>5,098</u>
	6,743,705	6,550,940
Less accumulated depreciation and amortization	<u>3,259,801</u>	<u>2,901,614</u>
	<u>\$ 3,483,904</u>	<u>\$ 3,649,326</u>

Depreciation and amortization of property and equipment amounted to \$379,319 and \$366,939 for the fiscal years ended June 30, 2010 and 2009, respectively.

HARLEM DAY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE E: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such 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 F: FAIR VALUE MEASUREMENTS

The Charter School adopted FASB ASC 820-10 (formerly SFAS No. 157, "Fair Value Measurements") as of July 1, 2008. FASB ASC 820-10 requires enhanced disclosures about investments that are measured and reported at fair value. FASB ASC 820-10 establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observance used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

- Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable at the reporting date and fair value is determined through the use of models or other valuation methodologies.
- Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

HARLEM DAY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE F: FAIR VALUE MEASUREMENTS, Cont'd

The following presents the financial instruments measured at fair value on a recurring basis at June 30, 2010 and 2009:

	<u>Assets at Fair Value as of June 30, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	<u>\$ 2,557,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,557,851</u>
Total assets at fair value	<u>\$ 2,557,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,557,851</u>

	<u>Assets at Fair Value as of June 30, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	<u>\$ 1,807,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,807,345</u>
Total assets at fair value	<u>\$ 1,807,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,807,345</u>

NOTE G: OPERATING LEASE

The Charter School leases office equipment under non-cancelable lease agreements expiring through April 2015. The future minimum payments on these agreements are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$ 44,900
2012	30,600
2013	25,800
2014	25,800
2015	<u>23,700</u>
	<u>\$ 150,800</u>

At June 30, 2010, approximately \$29,700 is included in deferred rent payable on the accompanying statement of financial position relating to an enticement to enter a new lease received in May 2010. The office equipment vendor provided the Charter School with a prepayment of the remaining amount due on the equipment lease in place at that time. This amount is deferred and will be recognized over the term of the new lease, which is 60 months through April 2015.

HARLEM DAY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE H: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employees' contributions up to 3% of gross payroll. The Charter School's total contribution to the Plan for the years ended June 30, 2010 and 2009 approximated \$32,300 and \$33,800, respectively.

NOTE I: CONCENTRATION

At June 30, 2010 and 2009 approximately 92% and 91% of grants and other receivables are due from New York State, respectively.

During the years ended June 30, 2010 and 2009, 75% and 63%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

HARLEM DAY CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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

Board of Trustees
Harlem Day Charter School

We have audited the financial statements of Harlem Day Charter School as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. 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 Harlem Day Charter 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 Harlem Day Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 over financial reporting 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlem Day Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Harlem Day Charter School in a separate letter dated October 29, 2010.

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

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 29, 2010