

HARLEM SUCCESS ACADEMY
CHARTER SCHOOL 3

(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

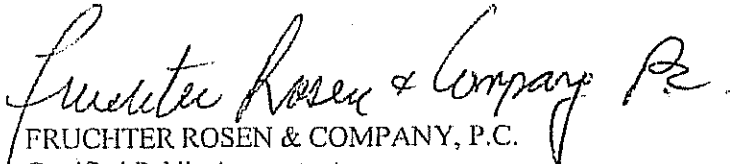
TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3

We have audited the accompanying statements of financial position of Harlem Success Academy Charter School 3 (the "School") (a not-for-profit corporation) as of June 30, 2010 and 2009, the related statements of activities, and cash flows for the year ended June 30, 2010 and the period from March 11, 2008 (inception) to June 30, 2009. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior period summarized comparative information has been derived from the School's 2009 financial statements and, in our report dated October 5, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the year ended June 30, 2010 and the period from March 11, 2008 (inception) to June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010 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
September 15, 2010

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,013,556	\$ 493,084
Grants and contracts receivable	48,388	225,231
Prepaid expenses	6,579	26,913
Other current assets	-	3,860
Total current assets	1,068,523	749,088
Property and equipment, net of accumulated depreciation and amortization of \$112,066 and \$40,207, respectively	547,005	353,652
Restricted cash	50,469	25,000
TOTAL ASSETS	\$ 1,665,997	\$ 1,127,740
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 52,541	\$ 45,879
Accrued payroll and payroll taxes	116,672	96,471
Due to related parties	161,676	173,259
Total current liabilities	330,889	315,609
Unrestricted net assets	1,335,108	812,131
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 1,665,997	\$ 1,127,740

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES

	<u>For the year ended June 30, 2010</u>	<u>For the period from March 11, 2008 (date of inception) to June 30, 2009</u>
Revenue and support:		
State and local per pupil operating revenue	\$ 3,195,996	\$ 2,321,144
Federal grants	429,922	475,392
State and city grants	50,503	150,605
Contributions and private grants	150,200	550,206
Donated services	11,756	18,567
Interest and other income	955	2,631
	<u>3,839,332</u>	<u>3,518,545</u>
 Expenses:		
Program services		
Regular education	2,380,633	2,030,725
Special education	299,934	198,286
Total program services	<u>2,680,567</u>	<u>2,229,011</u>
Supporting service		
Management and general	<u>635,788</u>	<u>477,403</u>
	<u>3,316,355</u>	<u>2,706,414</u>
 Changes in unrestricted net assets	 522,977	 812,131
Unrestricted net assets - beginning of period	<u>812,131</u>	<u>-</u>
Unrestricted net assets - end of period	<u>\$ 1,335,108</u>	<u>\$ 812,131</u>

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS

	<u>For the year ended June 30, 2010</u>	<u>For the period from March 11, 2008 (date of inception) to June 30, 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 522,977	\$ 812,131
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	74,058	40,207
Reclassification of leasehold improvements	(2,199)	-
Changes in certain assets and liabilities:		
Decrease (Increase) in grants and contracts receivable	176,843	(225,231)
Decrease (Increase) in prepaid expense	20,334	(26,913)
Decrease (Increase) in other current assets	3,860	(3,860)
(Increase) in restricted cash	(25,469)	(25,000)
Increase in accounts payable and accrued expenses	6,662	45,879
Increase in accrued payroll and payroll taxes	20,201	96,471
(Decrease) Increase in due to related parties	(11,583)	173,259
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>785,684</u>	<u>886,943</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Purchase of property and equipment	<u>(265,212)</u>	<u>(393,859)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	520,472	493,084
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>493,084</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>\$ 1,013,556</u></u>	<u><u>\$ 493,084</u></u>

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

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Nature of Organization

Harlem Success Academy Charter School 3 (the "School") is a New York State, not-for-profit educational corporation that was incorporated on March 11, 2008 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on March 11, 2008 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School is dedicated to providing a high quality education to primarily disadvantaged students and to prevent the achievement gap from rising. Classes commenced in Harlem, New York, in August 2008 and the School provided education to approximately 248 students in grades kindergarten through second during the 2009-2010 academic year.

The School shares space with a New York City public school beginning in July 2008. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the school's programs that take place outside the district's school day.

Food and Transportation Services

The New York City Department of Education provides free lunches and transportation directly to a majority of the School's students. Such costs are not included in these financial statements. The School covers the cost of lunches for children not entitled to the free lunches.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

Basis of Presentation

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:

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Basis of Presentation (Continued)

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions.

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

As of June 30, 2010 and 2009, 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 3
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

Purchased property and equipment are recorded at cost. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract, in which ownership of such property and equipment is retained by the funding source. Maintenance and repairs are expensed as incurred. No depreciation is recorded on construction-in-progress until property and equipment is placed into service. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	5 years
Furniture and fixtures	7 years
Website development	3 years
Software	3 years
Leasehold improvements	15 years

Deferred Revenue

The School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the School has updated references to GAAP in its financial statements issued for the year ending June 30, 2010. The adoption of FASB ASC 105 did not impact the School's financial position or results of operations.

The School adopted the provisions of ASC 740, Income Taxes, as of July 1, 2009. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of income tax position taken or expected to be taken in a tax return. The School has reviewed its tax positions for open tax years and has concluded that the adoption of this standard did not have an impact on the financial statements of the School.

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.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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

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

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

The School had no investments at June 30, 2010 and 2009.

NOTE 4 - PROPERTY AND EQUIPMENT

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

	2010	2009
Equipment	\$ 286,148	\$ 151,505
Furniture and fixture	168,365	112,564
Website design	5,000	-
Software	8,095	7,477
Leasehold improvements	191,463	122,313
	659,071	393,859
Less: Accumulated depreciation and amortization	112,066	40,207
	\$ 547,005	\$ 353,652

Depreciation and amortization expense was \$74,058 and \$40,207 for the year ended June 30, 2010 and the period from March 11, 2008 (inception) to June 30, 2009, respectively.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Success Charter Network (the "Network"), a not-for-profit charter management organization dedicated to helping start and manage charter schools, provide management and other administrative support services to the schools.

Pursuant to the terms of the Academic and Business Service Agreement by and between the Network and the School, dated March 2008, the Network shall provide educational management and operational services to the School. As compensation to the Network for these services rendered, the School shall pay to the Network an amount each year equal to the total full-time equivalent enrollment of students in the School multiplied by "the per pupil fee" of \$1,243. The per pupil fee shall be increased or decreased each year by the percentage increase or decrease in the Final Adjusted Expense Per Pupil for charter schools in the New York City school district commencing with and including the 2008-2009 school year. The per pupil fee was \$1,243 for the year ended June 30, 2010 and the period from March 11, 2008 (inception) to June 30, 2009. For operational efficiency and purchasing power, the School also shares expenses with three other charter schools related by common management.

For the year ended June 30, 2010, the School incurred \$308,227 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, 2010 amounted to \$161,676. 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.

For the period from March 11, 2008 (inception) to June 30, 2009, the School incurred \$224,845 in management fees. The balance due to the Network from the School at June 30, 2009 amounted to \$141,903. This balance consists of \$133,720 in School expenses paid by the Network on behalf of the School, and \$8,183 in management fees. The School repaid the entire balance during the year ended June 30, 2010. At June 30, 2009, balance due to the related charter schools was \$31,356, which was paid in full during the year ended June 30, 2010.

NOTE 6 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 7 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 9 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 605, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School.

One individual provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at fair value of \$5,000 and \$18,000 for the year ended June 30, 2010 and the period from March 11, 2008 (inception) to June 30, 2009, respectively. In addition, \$6,756 and \$567 of in-kind advertising was donated to the School during the year ended June 30, 2010 and the period from March 11, 2008 (inception) to June 30, 2009, 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. Employee match for the year ended June 30, 2010 and the period from March 11, 2008 (inception) to June 30, 2009 amounted to \$23,108 and \$10,793, respectively.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3

Our report on our audit of the basic financial statements of Harlem Success Academy Charter School 3 (a not-for-profit corporation) as of June 30, 2010 and 2009, appears on Page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.


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

New York, New York
September 15, 2010

HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES

	For the year ended June 30, 2010				Total Program Service	Management and General		Total	For the period from March 11, 2008 (date of inception) to June 30, 2009
	Regular Education	Special Education	Total	General		Total			
Salaries	\$ 1,377,232	\$ 173,517	\$ 1,550,749	\$ 218,167	\$ 1,768,916			\$ 1,265,286	
Payroll taxes and employee benefits	301,033	37,927	338,960	47,687	386,647			266,410	
Professional development	37,861	4,772	42,633	-	42,633			56,171	
Legal	-	-	-	5,000	5,000			18,000	
Audit and accounting	-	-	-	12,750	12,750			14,861	
Professional fees - other	5,629	709	6,338	892	7,230			23,818	
Travel and entertainment	14,417	1,816	16,233	2,283	18,516			5,443	
Student food service	37,758	4,757	42,515	-	42,515			44,388	
Field trips	14,712	1,853	16,565	-	16,565			14,528	
Instructional supplies and textbooks	181,781	22,903	204,684	-	204,684			276,947	
Management fee	-	-	-	308,227	308,227			224,845	
Teacher recruitment	59,837	7,539	67,376	-	67,376			62,872	
Student recruitment	48,592	6,122	54,714	-	54,714			74,078	
Marketing	6,040	761	6,801	-	6,801			29,256	
Consulting	10,694	1,347	12,041	1,695	13,736			6,473	
Uniforms	7,233	911	8,144	-	8,144			18,861	
Office supplies	26,688	3,362	30,050	4,227	34,277			34,395	
Computer supplies	10,626	1,339	11,965	1,683	13,648			18,613	
School culture	10,617	1,337	11,954	-	11,954			21,618	
Special events	9,784	1,233	11,017	1,549	12,566			11,033	
Equipment rental	2,785	351	3,136	441	3,577			4,199	
Student assessments	20,432	2,574	23,006	-	23,006			9,071	
Telephone and internet services	46,623	5,874	52,497	7,385	59,882			79,923	
Postage and delivery	7,187	905	8,092	1,138	9,230			23,947	
Insurance	14,811	1,866	16,677	2,346	19,023			24,200	
Facilities expense	42,532	5,359	47,891	6,737	54,628			16,562	
Information technology	25,663	3,233	28,896	4,065	32,961			20,339	
Depreciation and amortization	57,659	7,264	64,923	9,135	74,058			40,207	
Miscellaneous	2,407	303	2,710	381	3,091			70	
Total	<u>\$ 2,380,633</u>	<u>\$ 299,934</u>	<u>\$ 2,680,567</u>	<u>\$ 635,788</u>	<u>\$ 3,316,355</u>			<u>\$ 2,706,414</u>	

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3

We have audited the financial statements of Harlem Success Academy Charter School 3 (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated September 15, 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 the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

TO THE BOARD OF TRUSTEES
HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the School in a separate letter dated September 15, 2010.

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


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

New York, New York
September 15, 2010