

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)

(A Not-For-Profit Corporation)

COMBINED FINANCIAL STATEMENTS

JUNE 30, 2013

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION:	
Combined statement of financial position	3
Combined statement of activities	4
Combined statement of cash flows	5
Notes to combined financial statements	6 - 13
Independent auditors' report on supplementary information	14
Combined schedule of functional expenses	15
Combining statements of activities	16 - 17
SINGLE AUDIT SECTION:	
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	18 - 19
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	20 - 21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	22
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	23
NOTES TO COMBINED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	24

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Success Academy Charter Schools – NYC (f/k/a Harlem Success Academy Charter School 3) (“SACS–NYC”) (a not-for-profit corporation), which comprise the combined statement of financial position as of June 30, 2013, and the combined related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management’s Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 the combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SACS–NYC’s preparation and fair presentation of the combined 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 SACS–NYC’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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of SACS–NYC as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended 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 combined 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 combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined 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 SACS–NYC’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 SACS–NYC’s internal control over financial reporting and compliance.


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

New York, New York
October 21, 2013

SUCCESS ACADEMY CHARTER SCHOOLS - NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
COMBINED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS

Current assets:	
Cash and cash equivalents	\$ 4,983,066
Grants and contracts receivable	1,860,018
Prepaid expenses and other current assets	<u>1,710,515</u>
Total current assets	8,553,599
Property and equipment, net of accumulated depreciation and amortization of \$5,314,544	3,985,758
Long-term investments	11,172,036
Restricted cash	<u>350,311</u>
TOTAL ASSETS	<u><u>\$ 24,061,704</u></u>

LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	\$ 308,817
Due to related party	<u>2,153,385</u>
Total current liabilities	2,462,202
Loan payable - related party	<u>1,450,000</u>
Total liabilities	3,912,202
Unrestricted net assets	<u>20,149,502</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 24,061,704</u></u>

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

SUCCESS ACADEMY CHARTER SCHOOLS - NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Revenue and support:	
State and local per pupil operating revenue	\$ 41,017,028
Federal grants	3,308,294
State and city grants	314,515
Contributions and private grants	250,000
Donated services	41,304
Interest income	25,463
Other income	<u>5,575</u>
 Total revenue and support	 <u>44,962,179</u>
Expenses:	
Program services	
Regular education	30,095,202
Special education	<u>7,447,352</u>
Total program services	37,542,554
Supporting service	
Management and general	<u>8,442,962</u>
 Total expenses	 <u>45,985,516</u>
 Changes in unrestricted net assets	 (1,023,337)
 Unrestricted net assets - beginning of year	 <u>21,172,839</u>
 Unrestricted net assets - end of year	 <u><u>\$ 20,149,502</u></u>

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

SUCCESS ACADEMY CHARTER SCHOOLS - NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in unrestricted net assets	\$ (1,023,337)
Adjustments to reconcile changes in unrestricted net assets to net cash (used in) by operating activities:	
Depreciation and amortization	1,753,768
Changes in certain assets and liabilities:	
(Increase) in grants and contracts receivable	(776,773)
(Increase) in prepaid expenses and other current assets	(1,703,623)
Decrease in restricted cash	7,523
(Decrease) in accounts payable and accrued expenses	(334,980)
Increase in due to related party	1,400,052
	<u>(677,370)</u>
NET CASH (USED IN) OPERATING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(3,709,621)
Net (Increase) in long-term investments	(4,744,485)
	<u>(8,454,106)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	
CASH FLOWS FROM FINANCING ACTIVITY	
Proceeds from loan payable - related party	1,450,000
	<u>1,450,000</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	
	(7,681,476)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	
	<u>12,664,542</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	
	<u><u>\$ 4,983,066</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	<u><u>\$ 3,386</u></u>

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

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

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

Nature of Organization

Success Academy Charter Schools – NYC (f/k/a Harlem Success Academy Charter School 3) (“SACS–NYC”) 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. SACS–NYC Schools are granted provisional charters 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. SACS–NYC is dedicated to providing a high quality education to primarily disadvantaged students; to prevent the achievement gap from rising.

The education corporation, Success Academy Charter School – Harlem 1, Success Academy Charter School – Harlem 2, Success Academy Charter School – Harlem 3, Success Academy Charter School – Harlem 4, and Success Academy Charter School – Harlem 5 merged into a single legal entity under H3, which serves as the sole surviving education corporation. This application was approved by the Board of Trustees of the State University of New York in April 2012. The merger application was subsequently submitted to the New York State Education Department Board of Regents and became effective for financial purposes on October 1, 2012. H3 changed its name to Success Academy Charter Schools – NYC, and each School is authorized by The Charter Schools Institute of the State University of New York.

The combined financial statements include the following Schools: Success Academy Charter School – Harlem 1 (“H1”), Success Academy Charter School – Harlem 2 (“H2”), Success Academy Charter School – Harlem 3 (“H3”), Success Academy Charter School – Harlem 4 (“H4”), Success Academy Charter School – Harlem 5 (“H5”), Success Academy Charter School – Harlem West (“HW”), Success Academy Charter School – Harlem Central (“HC”), Success Academy Charter School – High School (“HS”), Success Academy Charter School – Bronx 3 (“BX3”), Success Academy Charter School – Crown Heights (“CR”), Success Academy Charter School – Fort Greene (“FG”), Success Academy Charter School – Harlem 3 100th Street (“H3 100th Street”), Success Academy Charter School – Hell’s Kitchen (“HK”), Success Academy Charter School – Harlem North Central (“HNC”), Success Academy Charter School – Prospect Heights (“PH”), and Success Academy Charter School – Union Square (“US”). The last eight Schools aforementioned opened in August 2013 and HS will open in August 2014.

SACS–NYC provided education to approximately 2800 students in grades kindergarten through seventh during the 2012-2013 academic year.

SACS–NYC share space with various New York City public schools throughout New York City. SACS–NYC is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to SACS–NYC’s programs that take place outside the district’s school day.

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

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

Food Service

The New York City Department of Education provides free lunches to a majority of SACS–NYC’s students. Such costs are not included in these combined financial statements. SACS–NYC covers the cost of lunches for children not entitled to the free lunches.

Tax Status

SACS–NYC 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. SACS–NYC did not have net unrelated business income for the year ended June 30, 2013.

SACS–NYC’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. SACS–NYC has no uncertain tax position resulting in an accrual of tax expense or benefit.

IRS Forms 990 filed by SACS–NYC is subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by SACS–NYC are no longer subject to examination for the fiscal years ended June 30, 2009, and prior.

Principles of Combination

The combined financial statements includes SACS–NYC for the year ended June 30, 2013 and the activities of Success Academy Charter School – Harlem 1 (“H1”), Success Academy Charter School – Harlem 2 (“H2”), Success Academy Charter School – Harlem 4 (“H4”), and Success Academy Charter School – Harlem 5 (“H5”) for the period from July 1, 2012 through September 30, 2012. Effective October 1, 2012, the aforementioned Schools merged into SACS–NYC. All significant accounts and transactions of SACS–NYC Schools have been eliminated in combination.

Basis of Presentation

The combined 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 SACS–NYC 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 SACS–NYC.

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
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(A Not-For-Profit Corporation)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

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

Basis of Presentation and Combination (Continued)

Temporarily Restricted

Net assets of SACS–NYC 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 SACS–NYC. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities and changes in net assets, as net assets released from restrictions.

Permanently Restricted

Net assets of SACS–NYC 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, 2013, SACS–NYC had no temporarily or permanently restricted net assets.

Revenue and Support

Contributions are recognized when the donor makes a grant to SACS–NYC 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 SACS–NYC’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 SACS–NYC’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.

Cash and Cash Equivalents

For the purpose of the combined statement of cash flows, SACS–NYC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
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(A Not-For-Profit Corporation)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

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

Use of Estimates

The preparation of the combined 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 combined 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 SACS–NYC to concentrations of credit risk are cash and cash equivalents. SACS–NYC 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. SACS–NYC 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, SACS–NYC established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

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

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

Refundable Advances

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

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal, state, and city entitlements and grants. SACS–NYC expects to collect these receivables within one year.

NOTE 3 - INVESTMENTS

Investments held by SACS–NYC at June 30, 2013 consist of certificate of deposits in the amount of \$11,172,036. These investments are presented in the combined statement of financial position at fair value. Interest income from these investments amounted to \$25,463 for the year ended June 30, 2013.

NOTE 4 - 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 SACS–NYC 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 SACS–NYC's combined financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets.
- recurring measurement of investments.

SACS–NYC's investments at June 30, 2013, consist of certificate of deposits in the amount of \$11,172,036, which is classified as level 1 in the fair value hierarchy.

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - PROPERTY AND EQUIPMENT

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

Equipment	\$ 2,710,599
Furniture and fixtures	2,177,092
Website development	44,315
Software	1,397,713
Leasehold improvements	<u>2,970,583</u>
	9,300,302
Less: Accumulated depreciation and amortization	<u>5,314,544</u>
	<u>\$ 3,985,758</u>

Depreciation and amortization expense was \$1,753,768 for the year ended June 30, 2013.

NOTE 6 - RELATED PARTY TRANSACTIONS

SACS–NYC 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 SACS–NYC, dated April 21, 2012, the Network shall provide educational management and operational services to SACS–NYC. As compensation to the Network for these services rendered, SACS–NYC shall pay to the Network an amount each year equal to the total full-time equivalent enrollment of students in SACS–NYC 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 year ended June 30, 2013. For operational efficiency and purchasing power, SACS–NYC also shares expenses with the Network and seven other charter schools related by common management.

For the year ended June 30, 2013, SACS–NYC incurred \$5,632,591 in management fees, and there were no material transactions between SACS–NYC and the related charter schools. The balance due to the Network from SACS–NYC at June 30, 2013 amounted to \$2,153,385. These balances represent expenses paid by the Network on behalf of SACS–NYC. SACS–NYC fully repaid this balance prior to the issuance of this report.

During the year ended June 30, 2013, SACS–NYC signed a loan agreement with the Network in the amount of \$1,700,000 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, SACS–NYC received \$1,450,000 from the Network through June 30, 2013 and will receive the remaining \$250,000 during the year ending June 30, 2014.

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 - RELATED PARTY TRANSACTIONS (Continued)

The loan and any accrued unpaid interest are due in full within three years of this agreement. The loan may be prepaid by SACS–NYC, at any time, in whole or in part, without penalty. The proceeds were used to finance SACS–NYC’s operations. The outstanding principal balance of the loan at June 30, 2013 was \$1,450,000. SACS–NYC paid \$3,386 in interest expense on this loan for the year ended June 30, 2013.

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 combined financial statements. Accordingly, no amounts have been provided in the accompanying combined financial statements for such potential claims.

Success Academy Charter School – Harlem 1 and Success Academy Charter School – Harlem 4 joined fifteen other charter schools as Intervenor-Defendants against a lawsuit seeking to compel the New York City Department of Education ("DOE") to collect rent from public charter schools co-located in DOE public school buildings beginning with the 2011-2012 school year. The Intervenor-Defendants' motion to dismiss the complaint was granted on April 29, 2013, and the plaintiffs' motion to reargue the motion is currently pending. If plaintiffs were to receive the relief requested, charter schools co-located in DOE public school buildings would have to reimburse the DOE "at cost". It is the position of the Intervenor-Defendants that plaintiffs are not entitled to the relief requested in the complaint.

NOTE 8 - REVENUE CONCENTRATION

SACS–NYC 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, SACS–NYC’s finances could be materially adversely affected.

NOTE 9 - 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 SACS–NYC.

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
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NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 - 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 SACS–NYC.

SACS–NYC received legal services at no charge. The value of these services meets the criteria for recognition in the combined financial statements and was recorded at fair value of \$41,304 for the year ended June 30, 2013.

NOTE 11 - RETIREMENT PLAN

SACS–NYC maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, SACS–NYC will match employee contributions up to 3% of annual compensation. Employer match for the year ended June 30, 2013 amounted to \$401,781.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these combined financial statements, SACS–NYC has evaluated events and transactions for potential recognition or disclosure through October 21, 2013, the date the combined financial statements were available to be issued.

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF
SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)

We have audited the combined financial statements of Success Academy Charter Schools – NYC (f/k/a Harlem Success Academy Charter School 3) as of and for the year then ended, and have issued our report thereon dated October 21, 2013, which contained an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The combined schedule of functional expenses and combining statements of activities are presented for the purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.


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

New York, New York
October 21, 2013

SUCCESS ACADEMY CHARTER SCHOOLS - NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
COMBINED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Regular Education	Special Education	Total Program Service	Management and General	Total
Salaries	\$ 17,006,220	\$ 4,233,392	\$ 21,239,612	\$ 1,845,515	\$ 23,085,127
Payroll taxes and employee benefits	3,919,898	993,187	4,913,085	401,439	5,314,524
Professional development	493,470	118,842	612,312	-	612,312
Legal	-	-	-	41,304	41,304
Audit and accounting	-	-	-	70,001	70,001
Professional fees	15,173	2,796	17,969	1,989	19,958
Travel and entertainment	12,681	2,933	15,614	1,422	17,036
Student food service	600,704	150,219	750,923	-	750,923
Instructional supplies and textbooks	1,618,099	380,726	1,998,825	-	1,998,825
Management fee	-	-	-	5,632,591	5,632,591
Interest expense	-	-	-	3,386	3,386
Teacher recruitment	552,532	135,423	687,955	-	687,955
Student recruitment	1,092,322	279,774	1,372,096	-	1,372,096
Consulting	22,394	4,978	27,372	2,612	29,984
Uniforms	30,284	7,386	37,670	-	37,670
Office supplies	237,574	60,335	297,909	24,217	322,126
Field trips	348,757	83,080	431,837	-	431,837
School culture	283,807	68,824	352,631	-	352,631
Special events	205,201	51,382	256,583	21,051	277,634
Equipment rental	161,472	39,714	201,186	16,966	218,152
Student assessments	67,007	15,152	82,159	-	82,159
Telephone and internet services	310,483	77,116	387,599	32,149	419,748
Postage and delivery	79,454	19,107	98,561	8,466	107,027
Insurance	220,658	54,818	275,476	22,826	298,302
Facilities expense	213,185	55,451	268,636	21,038	289,674
Information technology	1,127,850	255,553	1,383,403	139,291	1,522,694
Non-capitalized furniture, fixtures, and equipment	131,530	31,215	162,745	14,295	177,040
Depreciation and amortization	1,300,658	314,840	1,615,498	138,270	1,753,768
Miscellaneous	43,789	11,109	54,898	4,134	59,032
Total	<u>\$ 30,095,202</u>	<u>\$ 7,447,352</u>	<u>\$ 37,542,554</u>	<u>\$ 8,442,962</u>	<u>\$ 45,985,516</u>

SUCCESS ACADEMY CHARTER SCHOOLS - NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
COMBINING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	H1	H2	H3	H4	H5	HW	HC	BX3
Revenue and support:								
State and local per pupil operating revenue	\$ 9,196,523	\$ 8,908,693	\$ 7,777,376	\$ 6,111,558	\$ 4,654,513	\$ 2,467,029	\$ 1,901,336	\$ -
Federal grants	434,952	489,830	380,049	286,121	249,463	364,089	353,280	157,467
State and city grants	50,000	71,505	71,505	71,505	50,000	-	-	-
Contributions and private grants	-	-	-	-	-	250,000	-	-
Donated services	20,652	-	-	-	20,652	-	-	-
Interest income	7,573	4,727	4,010	2,798	2,217	2,069	2,069	-
Other income	1,638	842	744	507	768	535	541	-
Total revenue and support	9,711,338	9,475,597	8,233,684	6,472,489	4,977,613	3,083,722	2,257,226	157,467
Expenses:								
Program services								
Regular education	5,945,183	5,789,732	5,356,184	4,163,776	3,218,976	2,575,080	2,122,061	150,172
Special education	1,689,380	1,687,699	1,354,891	1,087,609	691,562	380,321	318,561	25,936
Total program services	7,634,563	7,477,431	6,711,075	5,251,385	3,910,538	2,955,401	2,440,622	176,108
Supporting service								
Management and general	1,762,880	1,651,892	1,510,790	1,183,692	986,182	654,994	566,463	3,526
Total expenses	9,397,443	9,129,323	8,221,865	6,435,077	4,896,720	3,610,395	3,007,085	179,634
Changes in unrestricted net assets	313,895	346,274	11,819	37,412	80,893	(526,673)	(749,859)	(22,167)
Unrestricted net assets - beginning of year	6,326,298	5,562,844	4,836,762	2,814,650	1,632,285	-	-	-
Unrestricted net assets - end of year	<u>\$ 6,640,193</u>	<u>\$ 5,909,118</u>	<u>\$ 4,848,581</u>	<u>\$ 2,852,062</u>	<u>\$ 1,713,178</u>	<u>\$ (526,673)</u>	<u>\$ (749,859)</u>	<u>\$ (22,167)</u>

SUCCESS ACADEMY CHARTER SCHOOLS - NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
(A Not-For-Profit Corporation)
COMBINING STATEMENTS OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

	CR	FG	HK	PH	US	H3 100th Street	HNC	HS	Total
Revenue and support:									
State and local per pupil operating revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,017,028
Federal grants	89,279	90,315	161,091	90,315	162,043	-	-	-	3,308,294
State and city grants	-	-	-	-	-	-	-	-	314,515
Contributions and private grants	-	-	-	-	-	-	-	-	250,000
Donated services	-	-	-	-	-	-	-	-	41,304
Interest income	-	-	-	-	-	-	-	-	25,463
Other income	-	-	-	-	-	-	-	-	5,575
Total revenue and support	89,279	90,315	161,091	90,315	162,043	-	-	-	44,962,179
Expenses:									
Program services									
Regular education	122,241	167,362	139,773	147,744	125,576	2,639	13,863	54,840	30,095,202
Special education	53,360	20,260	27,494	45,461	42,503	813	4,628	16,874	7,447,352
Total program services	175,601	187,622	167,267	193,205	168,079	3,452	18,491	71,714	37,542,554
Supporting service									
Management and general	41,590	10,266	20,545	6,302	19,076	583	12,409	11,772	8,442,962
Total expenses	217,191	197,888	187,812	199,507	187,155	4,035	30,900	83,486	45,985,516
Changes in unrestricted net assets	(127,912)	(107,573)	(26,721)	(109,192)	(25,112)	(4,035)	(30,900)	(83,486)	(1,023,337)
Unrestricted net assets - beginning of year	-	-	-	-	-	-	-	-	21,172,839
Unrestricted net assets - end of year	<u>\$ (127,912)</u>	<u>\$ (107,573)</u>	<u>\$ (26,721)</u>	<u>\$ (109,192)</u>	<u>\$ (25,112)</u>	<u>\$ (4,035)</u>	<u>\$ (30,900)</u>	<u>\$ (83,486)</u>	<u>\$ 20,149,502</u>

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CERTIFIED PUBLIC ACCOUNTANTS

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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 SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)

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 combined financial statements of Success Academy Charter Schools – NYC (f/k/a Harlem Success Academy Charter School 3) (“SACS–NYC”), which comprise the combined statement of financial position as of June 30, 2013, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the combined 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 combined financial statements, we considered SACS–NYC’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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of SACS–NYC’s internal control. Accordingly, we do not express an opinion on the effectiveness of SACS–NYC’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 SACS–NYC’s combined 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.

TO THE BOARD OF TRUSTEES OF
SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SACS–NYC’s combined 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 combined 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 SACS–NYC’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SACS–NYC’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


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

New York, New York
October 21, 2013

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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 SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)

Report on Compliance for Each Major Federal Program

We have audited Success Academy Charter Schools – NYC's (f/k/a Harlem Success Academy Charter School 3) ("SACS–NYC") 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 SACS–NYC's major federal programs for the year ended June 30, 2013. SACS–NYC'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 SACS–NYC'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 SACS–NYC'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 SACS–NYC's compliance.

Opinion on Each Major Federal Program

In our opinion, SACS–NYC 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 year ended June 30, 2013.

TO THE BOARD OF TRUSTEES OF
SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)

Report on Internal Control over Compliance

Management of SACS–NYC 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 SACS–NYC’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 SACS–NYC’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.
Certified Public Accountants

New York, New York
October 21, 2013

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the combined financial statements of Success Academy Charter Schools – NYC (f/k/a Harlem Success Academy Charter School 3).
2. No significant deficiencies and no material weaknesses were discovered during the audit of the combined financial statements.
3. No instances of noncompliance material to the combined financial statements of Success Academy Charter Schools – NYC (f/k/a Harlem Success Academy Charter School 3), 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 Schools – NYC (f/k/a Harlem Success Academy Charter School 3) expresses an unmodified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for Success Academy Charter Schools – NYC (f/k/a Harlem Success Academy Charter School 3) are reported in this schedule.
7. The programs tested as major programs included:
 - Title I Part A, CFDA No. 84.010
 - 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 Schools – NYC (f/k/a Harlem Success Academy Charter School 3) did not qualify as a low-risk auditee.

B - FINDINGS - COMBINED FINANCIAL STATEMENTS AUDIT

None

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

None

SUCCESS ACADEMY CHARTER SCHOOLS - NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
COMBINED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor Pass-through Grantor 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	\$ 1,287,721
Passed through the New York State Education Department: Charter Schools Program	84.282	\$ 269,909
Special Education - IDEA	84.027	369,123
Title I Part A	84.010	1,317,419
Title II Part A	84.367	64,122
Total New York State Education Department		<u>2,020,573</u>
Total Expenditures of Federal Awards		<u>\$ 3,308,294</u>

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

SUCCESS ACADEMY CHARTER SCHOOLS – NYC
(F/K/A HARLEM SUCCESS ACADEMY CHARTER SCHOOL 3)
NOTES TO COMBINED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE A - BASIS OF PRESENTATION

The accompanying combined schedule of expenditures of federal awards includes the federal grant activity of Success Academy Charter Schools – NYC (f/k/a Harlem Success Academy Charter School 3) and is presented on the accrual basis of accounting for the year ended 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 combined financial statements.