THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

CONTENTS

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
THE EQUITY PROJECT CHARTER SCHOOL

We have audited the accompanying statement of financial position of The Equity Project Charter School (the "School") (a not-for-profit corporation) as of June 30, 2012, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2011 financial statements and, in our report dated October 24, 2011, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

New York, New York
October 19, 2012

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 415,581	$ 352,614
Grants and contracts receivable	204,390	98,404
Prepaid expenses and other current assets	100,139	15,269
Total current assets	720,110	466,287
Property and equipment, net of accumulated depreciation and amortization of $269,383 and $132,504, respectively	418,520	342,730
Due from related party	1,953,585	1,599,408
Restricted cash	30,247	30,142
TOTAL ASSETS	$ 3,122,462	$ 2,438,567
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 150,870	$ 126,728
Accrued payroll and payroll taxes	270,688	143,068
Refundable advances	8,703	2,381
Note payable - current portion	-	218,750
Total current liabilities	430,261	490,927
Unrestricted net assets	2,692,201	1,947,640
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	$ 3,122,462	$ 2,438,567

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

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2012	2011
Revenue and support:		
State and local per pupil operating revenue	$ 5,971,718	$ 3,929,464
Federal grants	216,676	327,871
State and city grants	128,234	18,377
Contributions and private grants	27,000	18,413
Capital campaign	71,893	1,055,928
Interest income	1,617	2,977
Total revenue and support	6,417,138	5,353,030
Expenses:		
Program services		
Regular education	4,241,177	2,865,100
Special education	775,110	483,633
Total program services	5,016,287	3,348,733
Supporting services		
Management and general	477,529	405,853
Fundraising	178,761	180,779
Total expenses	5,672,577	3,935,365
Changes in unrestricted net assets	744,561	1,417,665
Unrestricted net assets - beginning of year	1,947,640	529,975
Unrestricted net assets - end of year	$ 2,692,201	$ 1,947,640

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

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	$ 744,561	$ 1,417,665
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	137,457	85,303
Loss on disposal of fixed assets	2,081	-
Changes in certain assets and liabilities:		
(Increase) in grants and contracts receivable	(105,986)	(14,294)
(Increase) Decrease in prepaid expenses and other current assets	(84,870)	15,284
(Increase) in due from related party	(354,177)	(1,599,408)
Increase in accounts payable and accrued expenses	24,142	21,588
Increase in accrued payroll and payroll taxes	127,620	86,267
Increase (Decrease) in refundable advances	6,322	(684)
NET CASH PROVIDED BY OPERATING ACTIVITIES	497,150	11,721
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(215,328)	(197,440)
(Increase) in restricted cash	(105)	(20,098)
NET CASH (USED IN) INVESTING ACTIVITIES	(215,433)	(217,538)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	500,000
Principal payments made on note payable	(218,750)	(458,333)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(218,750)	41,667
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	62,967	(164,150)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	352,614	516,764
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 415,581	$ 352,614
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 2,734	$ 20,365

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

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

Nature of Organization

The Equity Project Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 15, 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 January 15, 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 focused on providing students from low-income families with equal access to outstanding teachers as a means of achieving educational equality. The School is uniquely focused on attracting and retaining master teachers. To do so, the School uses a three-pronged strategy of Rigorous Qualifications, Redefined Expectations, and Revolutionary Compensation.

Classes commenced in the Washington Heights neighborhood of New York City, in September 2009 and the School provided education to approximately 360 students in grades fifth through seventh during the 2011-2012 academic year.

Beginning in September 2009, the School has been operating in transportable classroom units ("TCUs") located on the campus of a New York City public school. The School pays for its own security guards and for a portion of maintenance and custodial costs. The School does not pay annual rent but pays for rental permits to accommodate School programs that take place outside the district's school day. The School is in the process of securing permanent facilities in Washington Heights and plans to start classes in the new facilities by September 2017.

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)(l)(A)(ii). The School did not have net unrelated business income for the years ended June 30, 2012 and 2011.

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

Tax Status (Continued)
The School's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

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

Basis of Presentation
The financial statement presentation follows the requirements of the Financial Accounting Standards Board, Accounting Standards Codification No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

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

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

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

The School has no temporarily or permanently restricted net assets at June 30, 2012 and 2011.

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

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.

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.

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:

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

Property and Equipment (continued)

Equipment	5 years
Furniture and fixtures	5 years
Software	5 years
Musical instruments	3 years

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.

Refundable Advances

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

Reclassifications

Certain 2011 accounts have been reclassified to conform to the 2012 financial statement presentation. The reclassifications have no effect on 2011 total assets, liabilities, net assets and change in net assets.

Comparative Financial Information

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

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal, state and city entitlements and private grants. The School expects to collect these receivables within one year.

NOTE 3 - CONDITIONAL PROMISES TO GIVE

During the year ended June 30, 2011, the School received a grant in the amount of $500,000 that contained donor conditions regarding the development of permanent facilities. Since this grant represents a conditional promise to give it is not recorded as a contribution until donor conditions are met. As of June 30, 2012 and 2011, the donor conditions had not been met.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30,:

	2012	2011
Equipment	$ 268,828	$ 178,480
Furniture and fixtures	319,223	230,340
Software	58,703	35,997
Musical instruments	41,149	30,417
	687,903	475,234
Less: Accumulated depreciation and amortization	269,383	132,504
	$ 418,520	$ 342,730

During the year ended June 30, 2012 the School disposed of assets resulting in a loss of $2,081.

Depreciation and amortization expense was $137,457 and $85,303 for the years ended June 30, 2012 and 2011, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

The School is closely connected to TEP Charter School Assistance, Inc. (“TEPCSA”), a New York State not-for-profit corporation, an entity related by one common Board member. During the year ended June 30, 2011, the School entered into a demand note for expenses paid on behalf of TEPCSA related to the development of permanent facilities. The balance of the note was $1,953,585 and $1,599,408 for the years June 30, 2012 and 2011, respectively. The School expects to collect this note during the year ending June 30, 2015.

NOTE 6 - NOTE PAYABLE AND CREDIT AGREEMENT

On June 4, 2009, the School entered into a working capital credit agreement with The Prudential Foundation. The aggregate borrowing under this agreement may not exceed $750,000. Subject to the terms and conditions of the agreement, the School may draw down, from time to time during the period from June 4, 2009 to September 16, 2011. The credit agreement is guaranteed by a third party affiliated with the School’s founder.

In August 2010, the School borrowed $500,000 under this credit agreement and entered into a promissory note payable maturing on November 15, 2011. The promissory note is payable in monthly installments of fixed principal payments of approximately $43,750 plus interest at 5%.

NOTE 6 - NOTE PAYABLE AND CREDIT AGREEMENT

For the year ended June 30, 2012, the School repaid the June 30, 2011 outstanding balance of $218,750.

NOTE 7 - CONTINGENCY

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

NOTE 8 - 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 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 the School.

NOTE 10 - RETIREMENT PLAN

The School maintains a retirement 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. The employer match was $63,966 and $39,021 for the years ended June 30, 2012 and 2011, respectively.

NOTE 11 - COMMITMENTS

The School leases office equipment under non-cancelable lease agreements expiring at various dates through August 2014.

The future minimum lease payments are as follows:

For the year ending June 30,	2013	$	18,912
	2014		10,200
	2015		1,500
		$	30,612

Equipment rental expense was $18,513 and $9,734 for the years ended June 30, 2012 and 2011, respectively.

NOTE 12 - SUBSEQUENT EVENTS

The School has evaluated its subsequent events through October 19, 2012 the date that the accompanying financial statements were issued. The School has no material events requiring disclosure.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
THE EQUITY PROJECT CHARTER SCHOOL

We have audited the financial statements of The Equity Project Charter School as of and for the years ended June 30, 2012, and have issued our report thereon dated October 19, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

New York, New York
October 19, 2012

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2012						
	Program Services			Management and General	Fundraising	Total	2011
	Regular Education	Special Education	Total				
Salaries	$ 2,869,943	$ 499,824	$ 3,369,767	$ 334,060	$ 25,950	$ 3,729,777	$ 2,429,596
Payroll taxes and employee benefits	522,172	90,941	613,113	60,780	4,721	678,614	428,494
Audit and accounting fees	-	-	-	19,851	-	19,851	18,200
Contractual services	90,321	20,697	111,018	8,419	-	119,437	121,087
Professional development	28,091	4,743	32,834	3,648	-	36,482	41,386
Teacher and student recruitment	72,337	13,894	86,231	6,891	-	93,122	91,569
Curriculum and classroom expenses	269,450	73,037	342,487	-	-	342,487	262,144
Student food service	11,486	2,941	14,427	-	-	14,427	12,849
Field trips	26,653	6,824	33,477	-	-	33,477	13,600
Special events	28,317	7,250	35,567	-	-	35,567	21,299
Fundraising for capital campaign	-	-	-	-	146,337	146,337	155,213
Interest expense	-	-	-	2,734	-	2,734	20,365
Office supplies	51,874	8,758	60,632	6,063	674	67,369	53,340
Printing and copying	7,350	1,241	8,591	860	95	9,546	11,479
Postage and delivery	6,298	1,063	7,361	736	82	8,179	4,976
Telephone and internet services	14,847	2,507	17,354	1,735	193	19,282	12,456
Information technology	54,569	9,213	63,782	6,378	709	70,869	39,256
Insurance	21,945	3,705	25,650	2,850	-	28,500	19,957
Dues and subscriptions	6,033	1,545	7,578	-	-	7,578	6,918
Rent expense	3,323	561	3,884	431	-	4,315	12,696
Repairs and maintenance	48,724	8,226	56,950	6,329	-	63,279	70,547
Depreciation and amortization	105,842	17,869	123,711	13,746	-	137,457	85,303
Loss on disposal of fixed assets	1,602	271	1,873	208	-	2,081	-
Miscellaneous	-	-	-	1,810	-	1,810	2,635
Total	$ 4,241,177	$ 775,110	$ 5,016,287	$ 477,529	$ 178,761	$ 5,672,577	$ 3,935,365

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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
THE EQUITY PROJECT CHARTER SCHOOL

We have audited the financial statements of The Equity Project Charter School (the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

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

TO THE BOARD OF TRUSTEES
THE EQUITY PROJECT CHARTER SCHOOL

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 were reported to the management of the School in a separate letter October 19, 2012.

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Department of Education of the City 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.
FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 19, 2012

THE EQUITY PROJECT CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2012

The Equity Project Charter School
MANAGEMENT LETTER
JUNE 30, 2012

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156 WEST 56TH STREET
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TEL: (212) 957-3600
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October 19, 2012

Board of Trustees
The Equity Project Charter School
549 Audubon Avenue, Trailer 30
New York, NY 10040

In planning and performing our audit of the financial statements of The Equity Project Charter School (the "School") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Exhibit I accompanying this letter summarizes an observation for the year ended June 30, 2012 that we determined did not constitute a significant deficiency or material weakness. Management's response to the observation has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it

This communication is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Department of Education of the City 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.

We appreciate your cooperation and the assistance we received during the course of our audit.

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

New York, New York
October 19, 2012

The Equity Project Charter School
MANAGEMENT LETTER

EXHIBIT I – CURRENT YEAR OBSERVATION

A. ESCROW ACCOUNT FOR DISSOLUTION

Observation

We noted that the School maintained a balance of $30,247 in the Escrow account as of June 30, 2012. Under the provisions of the Department of Education of the City of New York, the School should set aside as a dissolution reserve and earmark the funds in the books and records to pay for legal and audit expenses that would be associated with a dissolution should it occur. Existing schools should maintain a minimum balance of $70,000 in the escrow account by the end of their third year of operations.

Recommendation

The School should increase the escrow account to a minimum of $70,000, where monies are maintained in a separate account to pay for legal and audit expenses associated with dissolution should it occur. The account can be an interest bearing account where the School may withdraw the interest earned.

Management's response

The school has transferred additional funds into the escrow account on August 28, 2012. The current balance of the escrow account is $75,276.