

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

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION: | |
| Statements of financial position | 2 |
| Statements of activities | 3 |
| Statements of cash flows | 4 |
| Notes to the financial statements | 5 - 10 |
| Independent auditors' report on supplementary information | 11 |
| Schedule of functional expenses | 12 |
| 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 | 13 - 14 |

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT

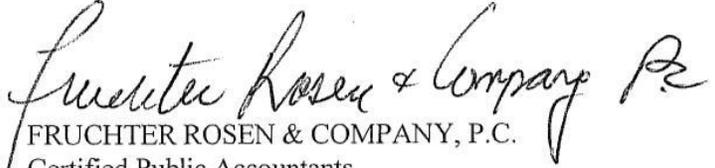
TO THE BOARD OF TRUSTEES
THE EQUITY PROJECT CHARTER SCHOOL

We have audited the accompanying statements of financial position of The Equity Project Charter School (the "School") (a not-for-profit corporation) as of June 30, 2011 and 2010, and the related statements of activities, and cash flows for the year ended June 30, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010. 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's summarized comparative information has been derived from the School's 2010 financial statements, and in our report dated October 7, 2010 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, 2011 and 2010, and the changes in its net assets and its cash flows for the year ended June 30, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010, 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 24, 2011 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.
Certified Public Accountants

New York, New York
October 24, 2011

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

| | 2011 | 2010 |
|---|---------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 352,614 | \$ 516,764 |
| Grants and contracts receivable | 98,404 | 84,110 |
| Prepaid expenses and other current assets | 15,269 | 30,553 |
| Total current assets | 466,287 | 631,427 |
| Property and equipment, net of accumulated depreciation and amortization of \$132,504 and \$47,223, respectively | 342,730 | 230,593 |
| Due from related party | 1,599,408 | - |
| Restricted cash | 30,142 | 10,044 |
| TOTAL ASSETS | \$ 2,438,567 | \$ 872,064 |
| LIABILITIES AND UNRESTRICTED NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 126,728 | \$ 105,140 |
| Accrued payroll and payroll taxes | 143,068 | 56,801 |
| Refundable advances | 2,381 | 3,065 |
| Note payable - current portion | 218,750 | 125,000 |
| Total current liabilities | 490,927 | 290,006 |
| Note payable - long-term portion | - | 52,083 |
| Total liabilities | 490,927 | 342,089 |
| Unrestricted net assets | 1,947,640 | 529,975 |
| TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS | \$ 2,438,567 | \$ 872,064 |

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

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

| | <u>For the year ended June 30, 2011</u> | <u>For the period from January 15, 2008 (inception) to June 30, 2010</u> |
|---|---|--|
| Revenue and support: | | |
| State and local per pupil operating revenue | \$ 3,929,464 | \$ 1,848,053 |
| Federal grants | 327,871 | 494,939 |
| State and city grants | 18,377 | 114,085 |
| Contributions and private grants | 18,413 | 349,019 |
| Capital campaign | 1,055,928 | 395,569 |
| Donated goods | - | 5,625 |
| Interest income | 2,977 | 1,565 |
| | <u>5,353,030</u> | <u>3,208,855</u> |
| Expenses: | | |
| Program services | | |
| Regular education | 2,865,100 | 1,692,947 |
| Special education | 483,633 | 396,261 |
| Total program services | <u>3,348,733</u> | <u>2,089,208</u> |
| Supporting services | | |
| Management and general | 405,853 | 412,090 |
| Fundraising | 180,779 | 69,998 |
| | <u>3,935,365</u> | <u>2,571,296</u> |
| Surplus from operations | 1,417,665 | 637,559 |
| Other expense: | | |
| Facility development cost | <u>-</u> | <u>107,584</u> |
| Changes in unrestricted net assets | 1,417,665 | 529,975 |
| Unrestricted net assets - beginning of period | <u>529,975</u> | <u>-</u> |
| Unrestricted net assets - end of period | <u><u>\$ 1,947,640</u></u> | <u><u>\$ 529,975</u></u> |

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

| | <u>For the year ended June 30, 2011</u> | <u>For the period from January 15, 2008 (inception) to June 30, 2010</u> |
|--|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in unrestricted net assets | \$ 1,417,665 | \$ 529,975 |
| Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 85,303 | 47,223 |
| Changes in certain assets and liabilities: | | |
| (Increase) in grants and contracts receivable | (14,294) | (84,110) |
| Decrease (Increase) in prepaid expenses and other current assets | 15,284 | (30,553) |
| (Increase) in due from related party | (1,599,408) | - |
| Increase in accounts payable and accrued expenses | 21,588 | 105,140 |
| Increase in accrued payroll and payroll taxes | 86,267 | 56,801 |
| (Decrease) Increase in refundable advances | (684) | 3,065 |
| | <u>11,721</u> | <u>627,541</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (197,440) | (277,816) |
| (Increase) in restricted cash | (20,098) | (10,044) |
| | <u>(217,538)</u> | <u>(287,860)</u> |
| NET CASH (USED IN) INVESTING ACTIVITIES | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from note payable | 500,000 | 250,000 |
| Principal payments on note payable | (458,333) | (72,917) |
| | <u>41,667</u> | <u>177,083</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | | |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (164,150) | 516,764 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | <u>516,764</u> | <u>-</u> |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | <u>\$ 352,614</u> | <u>\$ 516,764</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash during the year for interest | <u>\$ 20,365</u> | <u>\$ 9,401</u> |

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

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 246 students in grades fifth and sixth during the 2010-2011 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 2014.

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). The School did not have net unrelated business income for the year ended June 30, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010.

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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.

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board, Accounting Standards Codification No. 958-21-45 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, 2011 and 2010.

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.

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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

Revenue and Support (Continued)

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:

| | |
|------------------------|---------|
| 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.

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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

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 2010 accounts have been reclassified to the 2011 Financial Statements presentation. The reclassification has no effect on 2010 total assets, liabilities, net assets, and change in net assets.

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 - 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's not recorded as a contribution until donor conditions are met. As of June 30, 2011, donor conditions had not been met.

NOTE 4 - PROPERTY AND EQUIPMENT

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

| | 2011 | 2010 |
|---|------------|------------|
| Equipment | \$ 178,480 | \$ 112,096 |
| Furniture and fixtures | 230,340 | 130,303 |
| Software | 35,997 | 7,372 |
| Musical instruments | 30,417 | 28,045 |
| | 475,234 | 227,816 |
| Less: Accumulated depreciation and amortization | 132,504 | 47,223 |
| | \$ 342,730 | \$ 230,593 |

Depreciation and amortization expense was \$85,303 and \$47,223 for the year ended June 30, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010.

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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. Balance of the note at June 30, 2011 amounted to \$1,599,408. The School expects to collect this note during the year ending June 30, 2013.

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 drawdown, 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.

During the year ended June 30, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010, the School borrowed \$500,000 and \$250,000 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 and \$10,417 plus interest at 5% for the year ended June 30, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010, respectively.

| | 2011 | 2010 |
|-----------------------|------------|------------|
| Balance at June 30, | \$ 218,750 | \$ 177,083 |
| Less: Current portion | (218,750) | (125,000) |
| Long-term portion | \$ - | \$ 52,083 |

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.

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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. Employer match the year ended June 30, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010 amounted to \$39,021 and \$22,471, respectively.

NOTE 11 - FACILITY DEVELOPMENT COST

Facility development cost consists of architectural fees and other costs related to a potential permanent School site. During the period from January 15, 2008 (inception) to June 30, 2010, the School decided to pursue other options and secured an alternative free facility owned by The New York City Department of Education in the Washington Heights neighborhood of New York City, resulting in a onetime charge in the amount of \$107,584.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 24, 2011, the date the financial statements were available to be issued.

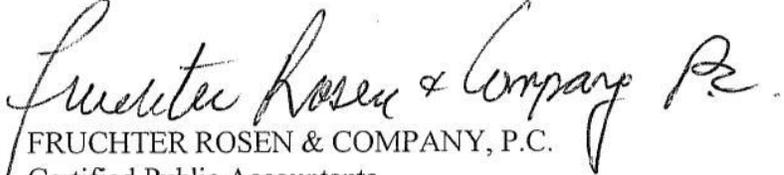
FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
THE EQUITY PROJECT CHARTER SCHOOL

Our report on our audits of the basic financial statements of The Equity Project Charter School (a not-for-profit corporation) as of and the year ended June 30, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010, 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 audit 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
October 24, 2011

THE EQUITY PROJECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES

| | For the year ended June 30, 2011 | | | | | | For the period from January 15, 2008 (inception) to June 30, 2010 |
|-------------------------------------|----------------------------------|----------------------|---------------------|-------------------|-------------------|---------------------|--|
| | Program Services | | | Management and | | | |
| | Regular Education | Special Education | Total | General | Fundraising | Total | |
| Salaries | \$ 1,869,792 | \$ 280,469 | \$ 2,150,261 | \$ 258,635 | \$ 20,700 | \$ 2,429,596 | \$ 1,472,290 |
| Payroll taxes and employee benefits | 329,766 | 49,465 | 379,231 | 45,612 | 3,651 | 428,494 | 260,648 |
| Audit and accounting fees | - | - | - | 18,200 | - | 18,200 | 25,500 |
| Legal fees | - | - | - | - | - | - | 18,645 |
| Consulting fees | - | - | - | - | - | - | 26,275 |
| Contractual services | 77,438 | 21,393 | 98,831 | 22,256 | - | 121,087 | 111,324 |
| Professional development | 25,910 | 6,034 | 31,944 | 3,548 | - | 35,492 | 37,053 |
| Teacher and student recruitment | 76,068 | 16,582 | 92,650 | 4,813 | - | 97,463 | 120,711 |
| Curriculum and classroom expenses | 214,462 | 47,682 | 262,144 | - | - | 262,144 | 178,363 |
| Student food service | 10,661 | 2,188 | 12,849 | - | - | 12,849 | 7,981 |
| Field trips | 11,285 | 2,315 | 13,600 | - | - | 13,600 | 5,420 |
| Special events | 17,673 | 3,626 | 21,299 | - | - | 21,299 | 17,564 |
| Fundraising for capital campaign | - | - | - | - | 155,213 | 155,213 | - |
| Interest expense | - | - | - | 20,365 | - | 20,365 | 9,401 |
| Office supplies | 38,939 | 9,068 | 48,007 | 4,800 | 533 | 53,340 | 41,744 |
| Printing and copying | 8,379 | 1,951 | 10,330 | 1,034 | 115 | 11,479 | 37,359 |
| Postage and delivery | 3,632 | 845 | 4,477 | 449 | 50 | 4,976 | 9,200 |
| Telephone and internet services | 9,093 | 2,118 | 11,211 | 1,121 | 124 | 12,456 | 7,231 |
| Information technology | 28,656 | 6,673 | 35,329 | 3,534 | 393 | 39,256 | 35,378 |
| Insurance | 14,568 | 3,393 | 17,961 | 1,996 | - | 19,957 | 10,244 |
| Dues and subscriptions | 5,740 | 1,178 | 6,918 | - | - | 6,918 | 1,475 |
| Rent expense | 9,268 | 2,158 | 11,426 | 1,270 | - | 12,696 | 38,277 |
| Repairs and maintenance | 51,499 | 11,993 | 63,492 | 7,055 | - | 70,547 | 45,076 |
| Depreciation and amortization | 62,271 | 14,502 | 76,773 | 8,530 | - | 85,303 | 47,223 |
| Miscellaneous | - | - | - | 2,635 | - | 2,635 | 6,914 |
| Total | \$ 2,865,100 | \$ 483,633 | \$ 3,348,733 | \$ 405,853 | \$ 180,779 | \$ 3,935,365 | \$ 2,571,296 |

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

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, 2011 and for the period from January 15, 2008 (inception) to June 30, 2010, and have issued our report thereon dated October 24, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audits, 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 audits, 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 24, 2011.

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.
Certified Public Accountants

New York, New York
October 24, 2011

THE EQUITY PROJECT CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2011

THE EQUITY PROJECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2011

CONTENTS

EXHIBIT I – CORRECTIVE ACTIONS TAKEN ON PRIOR YEAR OBSERVATIONS

| | | |
|----|------------------------------------|---|
| A. | Credit Card Testing | 1 |
| B. | Insurance Coverage | 1 |
| C. | Registration with Charities Bureau | 2 |

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

October 24, 2011

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, 2011, 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 corrective actions taken by the School during fiscal year 2010-2011 on prior year's observations.

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.
Certified Public Accountants

New York, New York
October 24, 2011

THE EQUITY PROJECT CHARTER SCHOOL
MANAGEMENT LETTER

EXHIBIT I – CORRECTIVE ACTIONS TAKEN ON PRIOR YEAR OBSERVATIONS

A. CREDIT CARD TESTING

Observation

During our audit, we reviewed four monthly credit card statements issued to the School's Founder and Principal and noted the following:

- Even though most credit card payments were adequately supported by receipts, invoices, and other documentation, we noted an aggregate of approximately \$1,000 of credit card charges that were missing supporting documentation.
- There was no written documentation supporting approval for payment by an independent person serving on the governing body.

Recommendation

The School should support all credit card charges with adequately supported receipts and invoices. The School should establish a process requiring written evidence of approval of the Founder's credit card charges by a person on the Board of Trustees (e.g. treasurer or a finance committee member).

Corrective Action Taken

Management has implemented the recommendation. During our test of four credit card statements for fiscal 2011, we did not note any material exceptions.

B. INSURANCE COVERAGE

Observation

We noted insurance coverage under employee dishonesty is limited to \$100,000. We believe the School is underinsured in regards to the above coverage.

Recommendation

We recommend an increase of employee dishonesty coverage to an amount that covers maximum cash held by the School at any one time during the year. In addition, the School should periodically review insurance coverage to ensure proper and adequate means by which to preserve School assets.

Corrective Action Taken

Management has implemented the recommendation by increasing coverage to \$500,000.

THE EQUITY PROJECT CHARTER SCHOOL
MANAGEMENT LETTER

C. REGISTRATION WITH THE CHARITIES BUREAU

Observation

The School did not register with the New York State Charities Bureau.

Recommendation

Even though the School is exempt from filing a New York State annual report (Form CHAR500), the School should register with the New York State Charities Bureau. A proper registration will establish the School as an organization exempt from annual state filings and the assigned state registration number might be useful for future reference, grant applications, and other business activities. The form used to register is CHAR410.

Corrective Action Taken

Management has implemented the recommendation. The School registered with the NYS Charities Bureau.