ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010

(With Comparative Totals From Inception (January 15, 2008) to June 30, 2009)

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
St. Hope Leadership Academy Charter School

We have audited the accompanying statement of financial position of St. Hope Leadership Academy Charter School (the "School") as of June 30, 2010, and the related statements of activities, functional expenses 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 2009 financial statements and, in our report dated October 27, 2009 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 St. Hope Leadership Academy Charter School as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 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 considered in assessing the results of our audit.

ERE LLP

New York, NY
October 28, 2010

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

As of June 30,	2010	2009
Assets:		
Cash	$ 1,150,475	$ 837,303
Cash - restricted	40,025	10,002
Grants and other receivables	127,471	78,588
Prepaid expenses and other assets	60,585	36,431
Due from New York City Department of Education	26,457	-
Property and equipment, net	244,279	174,701
Total Assets	**$ 1,649,292**	**$ 1,137,025**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 35,731	$ 102,884
Accrued salaries and other payroll related expenses	143,452	64,913
Total Liabilities	179,183	167,797
Net Assets:		
Unrestricted	1,470,109	619,228
Temporarily restricted	-	350,000
Total Net Assets	1,470,109	969,228
Total Liabilities and Net Assets	**$ 1,649,292**	**$ 1,137,025**

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

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010
(with Comparative Totals From Inception
(January 15, 2008) to June 30, 2009)

	Unrestricted	Temporarily Restricted	2010	2009
Operating revenue:				
State and local per pupil operating revenue	$ 3,156,939	$ -	$ 3,156,939	$ 2,073,771
Federal grants	421,831	-	421,831	267,820
State grants	39,280	-	39,280	207,878
Student meal fees	-	-	-	357
Net assets released from restrictions	350,000	(350,000)	-	-
Total operating revenue	3,968,050	(350,000)	3,618,050	2,549,826
Expenses:				
Program services:				
General education	1,944,339	-	1,944,339	1,180,520
Special education	650,203	-	650,203	358,965
Management and general	554,161	-	554,161	580,957
Fundraising	12,863	-	12,863	9,113
Total operating expenses	3,161,566	-	3,161,566	2,129,555
Surplus from school operations	806,484	(350,000)	456,484	420,271
Support and other income				
Contributions and other grants	88	-	88	450,515
Donated services	42,124	-	42,124	98,440
Interest income	2,185	-	2,185	2
Change in net assets	850,881	(350,000)	500,881	969,228
Net assets - beginning of year	619,228	350,000	969,228	-
Net assets – end of year	**$ 1,470,109**	**$ -**	**$ 1,470,109**	**$ 969,228**

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

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2010 (with Comparative Totals From Inception (January 15, 2008) to June 30, 2009)

	Program Services		Supporting Activities			
	General Education	Special Education	Management and General	Fundraising	2010	2009
Salaries and wages	$ 1,278,557	$ 381,654	$ 293,410	$ 6,750	$ 1,960,371	$ 1,154,676
Payroll taxes and employee benefits	283,798	82,956	65,491	4,366	436,611	211,610
Professional fees	20,370	87,212	51,675	-	159,257	154,033
Accounting	-	-	16,500	-	16,500	17,000
Advertising and recruiting	20,656	6,355	4,767	-	31,778	3,144
Conferences and meetings	-	-	-	-	-	15,504
Student food services	5,649	1,412	-	-	7,061	5,585
Staff lunches and team building	13,257	3,875	3,059	204	20,395	6,095
Insurance	14,014	4,097	3,234	216	21,561	11,952
Repairs and maintenance	-	-	13,462	-	13,462	1,174
Postage and delivery	6,676	1,952	1,541	103	10,272	5,469
Printing and copying	7,124	2,083	1,644	110	10,961	23,516
Classroom and office supplies	30,465	7,616	21,349	-	59,430	90,846
Instructional materials	152,986	38,247	-	-	191,233	107,360
Professional development	34,383	10,579	7,934	-	52,896	97,370
Office expense	4,478	1,309	1,034	69	6,890	8,574
Board of Trustee expenses	-	-	10,052	-	10,052	27,073
Telephone and internet	15,244	4,455	3,517	234	23,450	9,909
Technology	16,709	4,884	3,856	257	25,706	29,041
Travel	2,273	664	525	35	3,497	31,600
Depreciation and amortization	33,759	9,868	7,791	519	51,937	17,591
Donated legal services	-	-	42,124	-	42,124	98,440
Transportation	3,941	985	-	-	4,926	1,993
Loss on abandonment of fixed assets	-	-	1,196	-	1,196	-
Total expenses	**$ 1,944,339**	**$ 650,203**	**$ 554,161**	**$ 12,863**	**$ 3,161,566**	**$ 2,129,555**

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

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

For the Year Ended June 30,	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 500,881	$ 969,228
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	51,937	17,591
Loss on abandonment of fixed assets	1,196	-
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Cash - restricted	(30,023)	(10,002)
Grants and other receivables	(48,883)	(78,588)
Prepaid expenses and other assets	(24,154)	(36,431)
Due from New York City Department of Education	(26,457)	-
(Decrease) Increase in liabilities:		
Accounts payable and accrued expenses	(67,153)	102,884
Accrued salaries and other payroll related expenses	78,539	64,913
Net cash provided by operating activities	435,883	1,029,595
Cash flows from investing activities:		
Purchase of property and equipment	(123,111)	(192,292)
Proceeds from the sale of computers	400	-
Net cash used in investing activities	(122,711)	(192,292)
Net increase in cash - unrestricted	313,172	837,303
Cash - unrestricted - beginning of year	837,303	-
Cash - unrestricted - end of year	**$ 1,150,475**	**$ 837,303**

Supplemental information:

Cash paid for interest	**$ 4,069**	**$ 4,187**
Cash paid for taxes	**$ -**	**$ -**

Non-cash investing and financing activities:

Loss on abandonment of fixed assets	**$ 1,196**	$ -

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

1. NATURE OF THE ORGANIZATION:

St. Hope Leadership Academy Charter School (the "School") is a college-preparatory public charter school in New York City. On January 15, 2008 the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The School opened in the Fall of 2008 with grades five through seven, and currently serves students in grades five through eight. The School provides a standards-based college preparatory curriculum, interventions for students who are performing below grade level, a defined character development program and a variety of leadership and community service opportunities in an ordered, structured and disciplined learning environment. The School features an extended school day and school year. 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 and qualified for deductible contributions. The School's primary sources of income are from per pupil and other government funding.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

The classification of an organization's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. 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. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. An escrow account of $40,025 is held aside for contingency purposes as required by the New York City Department of Education.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value are $127,471 and $78,588 for the fiscal years ended June 30, 2010 and 2009, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2010. Such estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

The carrying value of the grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2010 and 2009.

The School evaluates the collectability of the receivables and employs the direct write-off method which approximates U.S. Generally Accepted Accounting Principles.

Donated Services

The School receives contributed legal services that are an integral part of its operations. Such services are only recorded as contributions in-kind, at their fair value, provided they meet the criteria for recognition. Donated services received are estimated at $42,124 and $98,440 for the years ended June 30, 2010 and 2009, respectively, and are reflected as donated services as both income and expense in the accompanying financial statements.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a $1,000 threshold above which assets are capitalized. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. Property and equipment acquired with certain government contract funds is recorded as an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property.

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the years ended June 30, 2010 and 2009.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

Revenue Recognition

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

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Functional Allocation of Expenses
Expenses that can directly be identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
Management has reviewed subsequent events and transactions that occurred after the balance sheet date through the auditors' report date and date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Comparative Financial Information
The June 30, 2010 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2009 are presented. As a result, the June 30, 2009 comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such June 30, 2009 information should be read in conjunction with the School's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Implementation of New Accounting Pronouncements
Effective December 15, 2009, the School adopted a new accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of this change in accounting principle was immaterial.

The School is under regular audit by tax authorities. The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts filed. Management believes that its nonprofit status would be sustained upon examination.

With few exceptions, the School is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for fiscal years before 2008.

3. AGREEMENT WITH SCHOOL FACILITY: The School has entered into a verbal agreement (the "Agreement"), with the New York City Department of Education for dedicated and shared space at P.S. 92, a New York City public school located at 222 West 134th Street, New York, New York. The Agreement commenced on July 1, 2008 at a cost of $1 per year. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. As of June 30, 2010 and 2009, the School incurred overtime permit fees of $3,430 and $-, respectively, which is included in the accompanying statement of functional expenses.

4. PROPERTY AND EQUIPMENT: Property and equipment consist of the following as of June 30, 2010:

	2010	2009	Estimated Useful Lives
Furniture and fixtures	$ 91,489	$ 44,335	5 years
Computers and servers	167,020	98,410	3 years
Software	12,622	7,177	5 years
Leasehold improvements	42,370	42,370	5 years
	313,501	192,292	
Less: accumulated depreciation and amortization	(69,222)	(17,591)	
	$ 244,279	$ 174,701	

Depreciation and amortization expense for the year ended June 30, 2010 and 2009 was $51,937 and $17,591, respectively.

5. COMMITMENTS: The School leases telecommunications equipment and copiers under a non-cancelable operating lease which will expire in 2014. Future minimum lease payments are as follows:

June 30,	
2011	4,140
2012	4,140
2013	4,140
2014	690
Total	$ 13,110

6. PENSION PLAN: The School has adopted a 401(k) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the plan on the first day of the one month anniversary whereby they have worked at least 140 hours. Those employees who are employed on the last day of the Plan Year (December 31st) are also eligible for employer contribution. The Plan provides for the School to contribute up to 5% of an employee's salary. The School contribution becomes vested on a straight-line basis over five years. For the fiscal years ended June 30, 2010 and 2009, pension expense for the School is $63,273 and $7,618, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

7. NET ASSETS: Temporarily restricted net assets are available for the following purposes at June 30,

	2010	2009
Program restricted	$ -	$ 250,000
Time restricted	-	100,000
Total temporary restricted net assets	$ -	$ 350,000

Net assets of $350,000 were released from donor restrictions during the year ended June 30, 2010 by the passage of time and by incurring program expenses, thus satisfying the restrictions.

8. RISK MANAGEMENT: The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks and is self-insured on others.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

9. CONCENTRATIONS:

A. Financial instruments that potentially subject the school to a concentration of credit risk include cash accounts at a major financial institution that exceeded the Federal Deposit Insurance Corporation (FDIC) limits by approximately $1,000,000 as of June 30, 2010. The FDIC has temporarily increased the limit to $250,000 through December 31, 2013.

B. The School received approximately 86% of its total revenue from per pupil funding from New York City Department of Education.

C. The School's grants and other receivables consist of three major grantors.

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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 of
St. Hope Leadership Academy Charter School

We have audited the financial statements of St. Hope Leadership Academy Charter School (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School in a separate letter dated October 28, 2010.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Trustees, the New York State Education Department, the Board of Regents of the University of the State of New York, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ERE LLP

New York, NY
October 28, 2010

St. Hope Leadership Academy Charter School

Communication With Those Charged With Governance

OCTOBER 28, 2010

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October 28, 2010

To the Audit Committee
St. Hope Leadership Academy Charter School

We have audited the financial statements of St. Hope Leadership Academy Charter School (the "School") for the year ended June 30, 2010 and are prepared to issue our report thereon dated October 28, 2010. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter June 2, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of St. Hope Leadership Academy Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 8, 2010.

C. Auditor Independence:

We affirm that ERE LLP is independent with respect to St. Hope Leadership Academy Charter School.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by St. Hope Leadership Academy Charter School are described in Note 2 to the financial statements. As described therein, the School elected to implement the application of

an accounting pronouncement pertaining to accounting for uncertain tax positions. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Allowance for Doubtful Accounts:
As of June 30, 2010, St. Hope Leadership Academy Charter School recorded grants and other receivables of $127,471. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's grantors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the School Consultant and a test of subsequent collections ($0 collected as of October 22, 2010), we concur with management's conclusion.

Depreciation:
Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

Functional Statement Allocation:
Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of risk management in Note 8 to the financial statements describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

There were 6 audit adjustments (including 3 reclassifying entries) that decreased net assets by approximately $53,000. Last year there were 10 audit adjustments (including 2 reclassifying entries) that increased net assets by approximately $325,000. This year's most significant adjustment was as follows:

1. To decrease net assets by approximately $52,000 to record depreciation expense.

Proposed and Uncorrected:

There was 1 audit adjustment that would have increased net assets by approximately $18,000. This entry would have reversed the July 2010 teachers' payroll accrual.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 28, 2010.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

K. Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

Please note: Comment(s) with an asterisk (*) was communicated in the prior fiscal year.

Credit Card Transactions:

We have been informed by the accounting department that two credit cards have been issued, which are used for business-related expenses. The accounting department receives credit card statements each month, and reviews and codes all activity. However, of the three months we selected for testing (September, January and April), several charges lacked proper authorization and documentation to support that the expense was in-fact business related. The IRS requires that contemporaneous documentation be maintained to substantiate each charge as a business expense. Accordingly, we recommend that all charges include adequate support to ensure the expense is business-related, and not for personal use.

Personnel File Testing:

School's Policies and Procedures require various forms to be maintained in each employee's personnel file. Our testing of the personnel files revealed the following:

- Two instances of missing benefit forms.
- One instance of missing *laptop/cell phone usage agreement*
- One instance of missing *credit card usage agreement*

Board Minutes:

Minutes for all Board meetings were prepared and available for our examination. While documentation of Board approval of the meeting were present in the minutes, it is recommended under leading Board governance policies that upon such approval a Board official sign a copy of the minutes and the signed copy be filed with the School's records.

*School Facility Lease Agreement

Through conversations with the School's Consultant, we have been informed that a formal written agreement between St. Hope Leadership Academy Charter School and the Department of Education does not exist. We recommend that the School periodically re-explore the risks of such a relationship. Please note that we have been informed that this issue is present for all New York charter schools.

Safeguarding Assets:

Laptop and computer theft is a particular concern, because the School not only loses both the hardware, but the School loses sensitive and valuable data as well. During the audit, we noted that one laptop was stolen, which was reported to the proper authorities. We recommend that all property be safely secured throughout the day and stored in a locked location when not in use.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of St. Hope Leadership Academy Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

ERE LLP

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