

**St. Hope Leadership Academy Charter School**

**Financial Statements**

**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, 2009, and the related statements of activities, functional expenses and cash flows for the period from January 15, 2008 (date of inception) to June 30, 2009. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2009 and the changes in its net assets and its cash flows for the period from January 15, 2008 (date of inception) to June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2009 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 27, 2009

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

As of June 30, 2009

Assets:	
Cash and cash equivalents	\$ 847,305
Grant and other receivables	78,588
Prepaid expenses and other assets	36,431
Property and equipment, net	174,701
<b>Total Assets</b>	<b>\$ 1,137,025</b>
Liabilities and Net Assets:	
Liabilities:	
Accounts payable and accrued expenses	\$ 102,884
Accrued salaries and other payroll related expenses	64,913
<b>Total Liabilities</b>	<b>167,797</b>
Net assets:	
Unrestricted	619,228
Temporarily restricted	350,000
<b>Total Net Assets</b>	<b>969,228</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,137,025</b>

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

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## STATEMENT OF ACTIVITIES

Period from January 15, 2008 (date of inception) to June 30, 2009

	Unrestricted	Temporarily Restricted	Total
<b>Operating revenue:</b>			
State and local per pupil operating revenue	\$ 2,073,771	\$ -	\$ 2,073,771
Federal grants	267,820	-	267,820
State grants	207,878	-	207,878
<b>Total operating revenue</b>	<b>2,549,469</b>	<b>-</b>	<b>2,549,469</b>
<b>Expenses:</b>			
Program services	1,539,485	-	1,539,485
Management and general	580,957	-	580,957
Fundraising	9,113	-	9,113
<b>Total operating expenses</b>	<b>2,129,555</b>	<b>-</b>	<b>2,129,555</b>
Surplus from school operations	419,914	-	419,914
<b>Support and other income</b>			
Foundation grants	100,000	350,000	450,000
Donated services	98,440	-	98,440
Other income	874	-	874
<b>Change in net assets</b>	<b>619,228</b>	<b>350,000</b>	<b>969,228</b>
Net assets - beginning of period	-	-	-
<b>Net assets – end of period</b>	<b>\$ 619,228</b>	<b>\$ 350,000</b>	<b>\$ 969,228</b>

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

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## STATEMENT OF FUNCTIONAL EXPENSES

Period from January 15, 2008 (date of inception) to June 30, 2009

	Program Services - General Education	Program Services - Special Education	Management and General	Fundraising	Total
Salaries and wages	\$ 745,920	\$ 207,253	\$ 194,374	\$ 7,129	\$ 1,154,676
Payroll taxes and employee benefits	136,700	37,982	35,622	1,306	211,610
Accounting	-	-	17,000	-	17,000
Advertising and recruiting	2,421	723	-	-	3,144
Consulting fees	4,150	27,625	126,645	-	158,420
Conferences and meetings	10,016	2,783	2,610	95	15,504
Student food services	4,300	1,285	-	-	5,585
Staff lunches and team building	3,937	1,094	1,025	39	6,095
Insurance	7,721	2,145	2,086	-	11,952
Repairs and maintenance	-	-	1,174	-	1,174
Postage and delivery	-	-	5,469	-	5,469
Printing and copying	6,906	2,063	14,547	-	23,516
Classroom and office supplies	42,333	12,645	35,868	-	90,846
Instructional materials	84,202	25,151	-	-	109,353
Professional development	74,975	22,395	-	-	97,370
Miscellaneous	-	-	4,187	-	4,187
Board of Trustee expenses	-	-	27,073	-	27,073
Telephone and internet	6,401	1,779	1,668	61	9,909
Technology	18,760	5,213	4,889	179	29,041
Travel	20,414	5,672	5,319	195	31,600
Depreciation and amortization	11,364	3,157	2,961	109	17,591
Donated legal services	-	-	98,440	-	98,440
<b>Total expenses</b>	<b>\$ 1,180,520</b>	<b>\$ 358,965</b>	<b>\$ 580,957</b>	<b>\$ 9,113</b>	<b>\$ 2,129,555</b>

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

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

Period from January 15, 2008 (date of inception) to June 30, 2009

Cash flows from operating activities:	
Change in net assets	\$ 969,228
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	17,591
Changes in operating assets and liabilities:	
Increase in assets	
Increase in grant and other receivables	(78,588)
Increase in prepaid expenses and other assets	(36,431)
Increase in liabilities:	
Increase in accounts payable and accrued expenses	102,884
Increase in accrued salaries and other payroll related expenses	64,913
<b>Net cash provided by operating activities</b>	<b>1,039,597</b>
Cash flows from investing activities:	
Purchase of property and equipment	(192,292)
<b>Net cash used in investing activities</b>	<b>(192,292)</b>
Net increase in cash and cash equivalents	847,305
Cash and cash equivalents - beginning of period	-
<b>Cash and cash equivalents - end of period</b>	<b>\$ 847,305</b>

### Supplementary information:

Cash paid for interest	\$ 4,187
Cash paid for taxes	\$ -

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

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

### 1. NATURE OF THE ORGANIZATION:

St. Hope Leadership Academy Charter School (the "School"), was incorporated to focus on strengthening the academic and character skills needed for all students to excel in top-tier colleges, to achieve success in a competitive world, and to serve as the next generation of leaders in their communities. 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. Today the School serves students from low income households in Harlem, New York. The School is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

In fiscal year 2009, the School operated classes for students in fifth through seventh grades.

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 and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of one checking and one savings account, including \$10,000 in the savings account held aside for contingency purposes as required by the School's charter in the first year of operation.

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

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### Grant and Other Receivables

Grant and other receivables represent unconditional promises to give. At June 30, 2009, the School had \$78,588 of grant and other receivables that are expected to be collected within one year and recorded at net realizable value. The School has determined that no allowance for uncollectible accounts for grant receivable is necessary as of June 30, 2009. 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 School evaluates the collectability of the meal fee 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 \$98,440 for the year ended June 30, 2009 and are reflected as donated services 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 expenses 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 year ended June 30, 2009.

### Planned Maintenance

Costs related to planned major maintenance are expensed as incurred. Planned maintenance activities are accounted for in accordance with FSP AUG AIR-1.

### 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.

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

### Functional Allocation of Expenses

Expenses that can directly 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 October 27, 2009. 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.

### Implementation of New Accounting Pronouncements

The School has elected to defer the application of FAS FIN 48, *Accounting for Uncertain Tax Positions* in accordance with FSP FIN 48-3. FSP FIN 48-3 defers the effective date for FIN 48 for certain private companies until fiscal years beginning after December 15, 2008. The School will continue to follow FAS 5, *Accounting for Contingencies*, until it adopts FIN 48.

The current and deferred tax provisions in the financial statements include consideration of uncertain tax positions in accordance with FAS FIN 48, *Accounting for Uncertain Tax Positions*.

### **3. AGREEMENT WITH SCHOOL FACILITY:**

The School has entered into an unwritten 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 134<sup>th</sup> 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, 2009, the School did not incur any overtime permit fees.

### **4. RELATED PARTY TRANSACTIONS:**

The School entered into an Academic and Business Services Agreement (the "Agreement") with St. HOPE Academy, ("St. HOPE"), a not-for-profit organization dedicated to helping start and run charter schools. This Agreement provides management and other administrative support services to the School. Effective December 31, 2008, the School terminated the Agreement with St. HOPE. Included in accounts payable and accrued expenses of \$102,884 in the accompanying statement of financial position is \$19,037 that is due to St. HOPE for reimbursable expenses.

### **5. PROPERTY AND EQUIPMENT:**

Property and equipment consist of the following as of June 30, 2009:

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS June 30, 2009

		Estimated Useful Lives
Furniture and fixtures	\$ 44,335	5 years
Computers and servers	98,410	3 years
Software	7,177	5 years
Leasehold improvements	42,370	5 years
	192,292	
Less: accumulated depreciation and amortization	(17,591)	
	\$ 174,701	

Depreciation and amortization expense for the year ended June 30, 2009 was \$17,591.

**6. COMMITMENTS  
AND  
CONCENTRATIONS:**

The School leases telecommunications equipment and copiers under a non-cancelable operating lease which will expire in 2009. Future minimum lease payments are as follows:

June 30,	
2010	\$ 4,140
2011	4,140
2012	4,140
2013	4,140
2014	690
Total	\$ 17,250

**7. 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 31<sup>st</sup>) are also eligible for employer contribution. The Plan provides for the School to contribute up to 3% of an employee's salary. The School contribution becomes vested on a straight-line basis over five years. As of June 30, 2009, pension expense for the School is \$7,618, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

**8. NET ASSETS:**

At June 30, 2009, temporarily restricted net assets of \$350,000 consists of the following:

Program restricted	\$ 250,000
Period ending June 30, 2010	100,000
Total temporary restricted net assets	\$ 350,000

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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**9. 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.

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.

**10. CONCENTRATIONS:**

- A. The School received approximately 70% of its total revenue from per pupil funding from New York City Department of Education.
- B. Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 through 2013.
- C. Approximately 90% of the School's grants and other receivables consist of two major grantors.

**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, 2009, and have issued our report thereon dated October 27, 2009. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

## 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 27, 2009.

This report is intended solely for the information and use of the Audit Committee, Board of Trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

*ERE LLP*

New York, NY  
October 27, 2009