

**ST. HOPE LEADERSHIP ACADEMY
CHARTER SCHOOL**

FINANCIAL STATEMENTS

JUNE 30, 2011

(With Comparative Totals for June 30, 2010)

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, 2011, 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 2010 financial statements and, in our report dated October 28, 2010 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, 2011 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 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 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.

MBAF-ERE CPAs, LLC
New York, NY
October 24, 2011

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2011

(with Comparative Totals for 2010)

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Assets: | | |
| Cash | \$ 2,841,373 | \$ 1,150,475 |
| Cash - restricted | 75,095 | 40,025 |
| Grants and other receivables | 28,714 | 127,471 |
| Prepaid expenses and other assets | 62,152 | 60,585 |
| Due from New York City Department of Education | 9,114 | 26,457 |
| Property and equipment, net | 200,034 | 244,279 |
| Total Assets | \$ 3,216,482 | \$ 1,649,292 |
| Liabilities and Net Assets: | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 91,071 | \$ 35,731 |
| Accrued salaries and other payroll related expenses | 166,078 | 143,452 |
| Due to NYC Department of Youth and Community Development | 79,190 | - |
| Total Liabilities | 336,339 | 179,183 |
| Net assets - unrestricted | 2,880,143 | 1,470,109 |
| Total Net Assets | 2,880,143 | 1,470,109 |
| Total Liabilities and Net Assets | \$ 3,216,482 | \$ 1,649,292 |

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, 2011

(with Comparative Totals for 2010)

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Operating revenue: | | |
| State and local per pupil operating revenue | \$ 4,550,590 | \$ 3,156,939 |
| Federal grants | 384,010 | 421,831 |
| State grants | 21,712 | 39,280 |
| Total operating revenue | 4,956,312 | 3,618,050 |
| Expenses: | | |
| Program services: | | |
| General education | 2,297,703 | 1,944,339 |
| Special education | 779,856 | 650,203 |
| Management and general | 576,450 | 554,161 |
| Fundraising | 13,655 | 12,863 |
| Total operating expenses | 3,667,664 | 3,161,566 |
| Surplus from school operations | 1,288,648 | 456,484 |
| Support and other income | | |
| Contributions and other grants | 106,104 | 88 |
| Donated services | 11,191 | 42,124 |
| Interest income | 4,091 | 2,185 |
| Change in net assets - unrestricted | 1,410,034 | 500,881 |
| Net assets - unrestricted - beginning of year | 1,470,109 | 969,228 |
| Net assets - unrestricted - end of year | \$ 2,880,143 | \$ 1,470,109 |

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, 2011 (with Comparative Totals for 2010)

| | Program Services | | Supporting Activities | | 2011 | 2010 |
|---|---------------------|-------------------|------------------------|------------------|---------------------|---------------------|
| | General Education | Special Education | Management and General | Fundraising | | |
| Salaries and wages | \$ 1,444,603 | \$ 483,307 | \$ 313,508 | \$ 7,100 | \$ 2,248,518 | \$ 1,960,371 |
| Payroll taxes and employee benefits | 291,314 | 95,587 | 63,725 | 4,552 | 455,178 | 436,611 |
| Professional fees | 20,480 | 40,958 | 69,491 | - | 130,929 | 159,257 |
| Accounting | - | - | 17,500 | - | 17,500 | 16,500 |
| Advertising and recruiting | 14,164 | 4,647 | 3,320 | - | 22,131 | 31,778 |
| Student food services | 9,208 | 2,448 | - | - | 11,656 | 7,061 |
| Staff lunches and team building | 7,161 | 2,350 | 1,566 | 112 | 11,189 | 20,395 |
| Insurance | 15,207 | 4,990 | 3,327 | 238 | 23,762 | 21,561 |
| Repairs and maintenance | - | - | 12,235 | - | 12,235 | 13,462 |
| Postage and delivery | 5,598 | 1,837 | 1,225 | 87 | 8,747 | 10,272 |
| Printing and copying | 7,792 | 2,554 | 1,702 | 112 | 12,160 | 10,961 |
| Classroom and office supplies | 49,779 | 13,232 | 11,752 | - | 74,763 | 59,430 |
| Instructional materials | 168,227 | 42,057 | - | - | 210,284 | 191,233 |
| Professional development | 159,076 | 52,151 | 37,251 | - | 248,478 | 52,896 |
| Office expenses | 10,354 | 3,397 | 2,265 | 162 | 16,178 | 6,890 |
| Board of Trustee expenses | - | - | 2,073 | - | 2,073 | 10,052 |
| Telephone and internet | 15,879 | 5,212 | 3,475 | 248 | 24,814 | 23,450 |
| Technology | 20,676 | 6,785 | 4,523 | 323 | 32,307 | 25,706 |
| Travel | 1,110 | 364 | 243 | 17 | 1,734 | 3,497 |
| Depreciation and amortization | 45,078 | 14,791 | 9,861 | 704 | 70,434 | 51,937 |
| Donated legal services | - | - | 11,191 | - | 11,191 | 42,124 |
| Transportation | 11,997 | 3,189 | - | - | 15,186 | 4,926 |
| Loss on abandonment of property and equipment | - | - | 6,217 | - | 6,217 | 1,196 |
| Total expenses | \$ 2,297,703 | \$ 779,856 | \$ 576,450 | \$ 13,655 | \$ 3,667,664 | \$ 3,161,566 |

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, 2011
(with Comparative Totals for 2010)

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 1,410,034 | \$ 500,881 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 70,434 | 51,937 |
| Loss on abandonment of property and equipment | 6,217 | 1,196 |
| Changes in operating assets and liabilities: | | |
| Cash - restricted | (35,070) | (30,023) |
| Grants and other receivables | 98,757 | (48,883) |
| Prepaid expenses and other assets | (1,567) | (24,154) |
| Due from New York City Department of Education | 17,343 | (26,457) |
| Accounts payable and accrued expenses | 55,340 | (67,153) |
| Accrued salaries and other payroll related expenses | 22,626 | 78,539 |
| Due to NYC Department of Youth and Community Development | 79,190 | - |
| Net cash provided by operating activities | 1,723,304 | 435,883 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (32,406) | (123,111) |
| Proceeds from the sale of computers | - | 400 |
| Net cash used in investing activities | (32,406) | (122,711) |
| Net increase in cash | 1,690,898 | 313,172 |
| Cash - beginning of year | 1,150,475 | 837,303 |
| Cash - end of year | \$ 2,841,373 | \$ 1,150,475 |

Supplemental information:

| | | |
|------------------------|------|----------|
| Cash paid for interest | \$ - | \$ 4,069 |
| 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, 2011

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 taxes under Section 501(c) (3) of the Internal Revenue Code and under the corresponding provisions of the New York State 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'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. The School collects money from children not entitled to free lunches to help defray the cost of school meals.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

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

The classification of a School'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.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Cash

For the purpose of presentation in the statement of cash flows, cash is defined as those amounts included in the statement of financial position in cash. An escrow account of \$75,095 is held aside for contingency purposes as required by the NYCDOE.

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 are recorded at net realizable value and amount to \$28,714 and \$127,471 for the years ended June 30, 2011 and 2010, respectively. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary as of June 30, 2011. 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, 2011 and 2010.

The School evaluates the collectability of the receivables and employs the allowance method which approximates accounting principles generally accepted in the United States of America.

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 \$11,191 and \$42,124 for the years ended June 30, 2011 and 2010, 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. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. The School has established a \$1,000 threshold above which assets are capitalized. 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. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

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, 2011 and 2010.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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.

Advertising

The School expenses advertising costs as incurred. The School incurred \$22,131 and \$31,778 of advertising costs for the years ended June 30, 2011 and 2010, respectively.

Functional Allocation of Expenses

Expenses that can be 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 based upon benefits received.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 24, 2011 which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2011 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, 2010 are presented. As a result, the June 30, 2010 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, 2010 information should be read in conjunction with the School's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Income Taxes

The School follows the 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.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

Should there be interest on underpayments of income tax, the School would classify it as "Interest Expense." The School would classify penalties in connection with underpayments of tax as "Other Expense."

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 accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

The School files informational returns in the United States federal and New York State jurisdictions. 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 NYCDOE 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 fair value of the rent has not been included in the accompanying financial statements. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the years ended June 30, 2011 and 2010, the School incurred overtime permit fees of \$5,600 and \$3,430, respectively, which is included in the accompanying statement of functional expenses under office expenses.

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

| | | 2011 | 2010 | Estimated Useful Lives |
|--|----|-----------|------------|---------------------------|
| Furniture and fixtures | \$ | 121,701 | \$ 91,489 | 5 years |
| Computers and servers | | 157,410 | 167,020 | 3 years |
| Software | | 13,792 | 12,622 | 5 years |
| Leasehold improvements | | 42,370 | 42,370 | 5 years |
| | | 335,273 | 313,501 | |
| Less: accumulated depreciation and amortization | | (135,239) | (69,222) | |
| | \$ | 200,034 | \$ 244,279 | |

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 was \$70,434 and \$51,937, 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, | |
|----------|----------|
| 2012 | \$ 4,140 |
| 2013 | 4,140 |
| 2014 | 690 |
| Total | \$ 8,970 |

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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- 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, 2011 and 2010, pension expense for the School was \$73,681 and \$63,272 respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.
- 7. DUE TO NYC DEPARTMENT OF YOUTH & COMMUNITY DEVELOPMENT :** During the fiscal year ended June 30, 2011, the NYC Department of Youth and Community Development ("DYCD") erroneously overpaid the School funds totaling \$79,190. Accordingly, a liability has been recorded for this amount as of June 30, 2011.
- 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, at times, exceeded the Federal Deposit Insurance Corporation (FDIC) insured limits. The FDIC has temporarily increased the limit to \$250,000 through December 31, 2012.
 - B. The School received approximately 90% of its total revenue from per pupil funding from the NYCDOE.
 - C. The School's grants and other receivables consist of three major grantors.
 - D. The School's payables exclusively consist of four major vendors.

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, 2011, and have issued our report thereon dated October 24, 2011. 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 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 24, 2011.

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.

MBAF-ERE CPAs, LLC

New York, NY
October 24, 2011

St. Hope Leadership Academy Charter School

Communication With Those Charged With Governance

October 24, 2011



October 24, 2011

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, 2011 and are prepared to issue our report thereon dated October 24, 2011. 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 28, 2011, 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 July 26, 2011.

C. Auditor Independence:

We affirm that MBAF-ERE CPAs, LLC 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. 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, 2011, St. Hope Leadership Academy Charter School recorded grants and other receivables of \$28,714. 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 fiscal Consultant and a test of subsequent collections (\$11,574 collected as of October 13, 2011), 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 accounting principles generally accepted 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:

During the fiscal year ended June 30, 2011, the NYC Department of Youth and Community Development ("DYCD") erroneously overpaid the School funds totaling \$79,190. Accordingly, a liability has been recorded for this amount as of June 30, 2011.

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:

Corrected:

There were 2 audit adjustments (which include 1 reclassifying entry) that had reduced net assets by approximately \$35,000. Last year there were 6 audit adjustments (including 3 reclassifying entries) that decreased net assets by approximately \$53,000.

Uncorrected:

There was 1 audit adjustment that was for approximately \$3,800, by increasing payroll expenses to reconcile the Organization's books and records with the IRS payroll Form 941.

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 24, 2011.

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: Comments 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, December and March), 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:

The 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:

- One instance of missing *resume*
- One instance of missing *Offer Letter/Employment Agreement*
- One instance of missing *State/City Withholding Form*
- One instance of missing *403 B Acknowledgement Form*

***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. 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,

MBAF-ERE CPAs, LLC