ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of St. Hope Leadership Academy Charter School (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

440 PARK AVENUE SOUTH, 3RD FLOOR, NEW YORK NY 10016 • T 212 576 1400 • F 212 576 1414 • MBAFCPA.COM
400 COLUMBUS AVENUE, SOUTH LOBBY, 2ND FLOOR, VALHALLA NY 10595 • T 914 741 0800 • F 914 741 1034

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019, on our consideration of St. Hope Leadership Academy Charter 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 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* in considering St. Hope Leadership Academy Charter School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
September 26, 2019

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

ASSETS		2019		2018
Cash	$	1,460,628	$	939,658
Cash - restricted		75,355		75,332
Investments		2,073,316		1,547,945
Grants and other receivables		59,398		315,991
Prepaid expenses and other assets		99,900		96,368
Property and equipment, net		246,439		231,000
TOTAL ASSETS	**$**	**4,015,036**	**$**	**3,206,294**

LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	$	316,742	$	88,905
Accrued salaries and other payroll related expenses		256,619		223,196
TOTAL LIABILITIES		573,361		312,101
NET ASSETS				
Without donor restrictions				
Undesignated		3,078,759		2,702,648
Board designated for student scholarships		362,916		191,545
Total net assets without donor restrictions		3,441,675		2,894,193
TOTAL LIABILITIES AND NET ASSETS	**$**	**4,015,036**	**$**	**3,206,294**

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

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUE WITHOUT DONOR RESTRICTIONS		
State and local per pupil operating revenue	$ 5,785,055	$ 5,525,815
Government grants and contracts	319,768	361,071
	6,104,823	5,886,886
EXPENSES		
Program services:		
General education	3,442,534	3,386,813
Special education	1,667,362	1,582,493
Management and general	631,443	654,104
	5,741,339	5,623,410
EXCESS FROM SCHOOL OPERATIONS	363,484	263,476
SUPPORT AND OTHER INCOME		
Investment income, net	171,371	125,571
Other income	12,627	1,393
	183,998	126,964
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	547,482	390,440
NET ASSETS - BEGINNING OF YEAR	2,894,193	2,503,753
NET ASSETS - END OF YEAR	**$ 3,441,675**	**$ 2,894,193**

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, 2019

		Program Services			Supporting Activities	
		General Education	Special Education	Total	Management and General	2019
Personnel Services Costs	**No. of Positions**					
Administrative staff personnel	7	$ 222,465	$ 71,272	$ 293,737	$ 367,567	$ 661,304
Instructional personnel	38	2,038,437	1,074,211	3,112,648	-	3,112,648
Non-instructional personnel	-	-	-	-	-	-
Total salaries and staff	45	2,260,902	1,145,483	3,406,385	367,567	3,773,952
Fringe benefits and payroll taxes		480,776	243,584	724,360	78,162	802,522
Retirement		93,946	47,597	141,543	15,273	156,816
Accounting and audit services		12,637	6,402	19,039	97,054	116,093
Other purchases, professional, consulting and services		11,374	5,762	17,136	1,949	19,085
Repairs and maintenance		-	-	-	12,416	12,416
Insurance		22,708	11,505	34,213	3,692	37,905
Supplies and materials		85,895	26,271	112,166	-	112,166
Equipment and furnishings		739	374	1,113	120	1,233
Staff development		29,490	9,019	38,509	-	38,509
Marketing and recruitment		62,831	23,889	86,720	3,782	90,502
Technology		78,455	33,274	111,729	7,512	119,241
Student services		195,229	59,710	254,939	-	254,939
Office expense		54,655	27,691	82,346	35,316	117,662
Depreciation and amortization		52,897	26,801	79,698	8,600	88,298
		$ 3,442,534	**$ 1,667,362**	**$ 5,109,896**	**$ 631,443**	**$ 5,741,339**

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, 2018

		Program Services			Supporting Activities	
		General Education	Special Education	Total	Management and General	2018
Personnel Services Costs	**No. of Positions**					
Administrative staff personnel	6	$ 240,893	$ 75,117	$ 316,010	$ 380,900	$ 696,910
Instructional personnel	36	1,929,181	980,832	2,910,013	-	2,910,013
Non-instructional personnel	-	-	-	-	-	-
Total salaries and staff	42	2,170,074	1,055,949	3,226,023	380,900	3,606,923
Fringe benefits and payroll taxes		411,101	200,035	611,136	72,171	683,307
Retirement		91,746	44,648	136,394	16,091	152,485
Accounting and audit services		12,634	6,148	18,782	92,365	111,147
Other purchases, professional, consulting and services		41,712	20,297	62,009	9,281	71,290
Repairs and maintenance		-	-	-	6,630	6,630
Insurance		21,611	10,516	32,127	3,793	35,920
Supplies and materials		69,599	20,070	89,669	-	89,669
Equipment and furnishings		1,207	588	1,795	212	2,007
Staff development		30,920	8,916	39,836	-	39,836
Marketing and recruitment		86,474	28,650	115,124	3,288	118,412
Technology		86,576	34,256	120,832	8,226	129,058
Student services		122,549	35,339	157,888	-	157,888
Office expense		40,779	19,843	60,622	26,071	86,693
Depreciation and amortization		199,831	97,238	297,069	35,076	332,145
		$ 3,386,813	**$ 1,582,493**	**$ 4,969,306**	**$ 654,104**	**$ 5,623,410**

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

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	$ 6,361,416	$ 5,791,158
Cash paid to employees and suppliers	(5,395,313)	(5,212,560)
Investment income received	56,297	33,939
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,022,400	612,537
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	46,000	41,000
Purchase of investments	(443,670)	(32,546)
Purchase of property and equipment	(103,737)	(59,135)
NET CASH USED IN INVESTING ACTIVITIES	(501,407)	(50,681)
NET INCREASE IN CASH	520,993	561,856
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	1,014,990	453,134
CASH AND CASH - RESTRICTED - END OF YEAR	**$ 1,535,983**	**$ 1,014,990**

Reconciliation of change in net assets to net cash provided by operating activities:

	2019	2018
Change in net assets	$ 547,482	$ 390,440
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	88,298	332,145
Realized gain on investments	(5,055)	(3,899)
Unrealized gain on investments	(122,646)	(89,126)
Changes in operating assets and liabilities:		
Grants and other receivables	256,593	(95,728)
Prepaid expenses and other assets	(3,532)	46,950
Accounts payable and accrued expenses	227,837	32,139
Accrued salaries and other payroll related expenses	33,423	(384)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 1,022,400**	**$ 612,537**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash and Cash - Restricted Consist of:	2019	2018
Cash	$ 1,460,628	$ 939,658
Cash - restricted	75,355	75,332
Total	$ 1,535,983	$ 1,014,990

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 not-for-profit college-preparatory public charter school in New York City pursuant to Article 56 of the Educational Law of the State of New York. 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 and currently serves students in grades six through eight. The School was issued a renewal to the original charter for five years which expired on June 30, 2018. The School was issued a renewal to its charter and extended it to June 30, 2021. The School aims to graduate self-motivated, industrious, and critically thinking leaders who are prepared to attend a four-year college, committed to serving others, and passionate about lifelong learning. The School features an extended school day and school year.

The School, as determined by the Internal Revenue Service, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and 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) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

The School's primary source of income is from government funding.

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

The School shares space with a New York City public school and is not responsible for rent, utilities, custodial services, maintenance, or school safety. Approximately 30,000 feet of square footage is allocated to the School (See Note 5).

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 ("U.S. GAAP").

The classification of the 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 two classes of net assets – with donor restrictions or without donor restrictions – be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

> Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. Certain donor imposed restrictions are perpetual in nature.
>
> Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. This net asset category includes both contributions not subject to donor restrictions and exchange transactions, such as state and local per pupil operating revenue.

Cash – Restricted

An escrow account in the amount of $75,355 and $75,332 was held aside for contingency purposes as required by the NYCDOE as of June 30, 2019 and 2018, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are recorded at net realizable value are $59,398 and $315,991 at June 30, 2019 and 2018, respectively. The School evaluates the collectability of the receivables and employs the allowance method. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary as of June 30, 2019 and 2018. 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.

Revenue Recognition

Revenue from state and local governments 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, if any, are reflected as refundable advances from state and local government grants in the accompanying statements of financial position.

Donated Services

The School may receive contributed services that are an integral part of its operations. Such services are only recorded as contributions in-kind, at their fair value, provided the services received create or enhance non-financial assets, require specified skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. During the years ended June 30, 2019 and 2018, the School did not recognize any contributed goods and services.

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the life of the asset or the period covered by the charter (See Note 6). The School has established a $1,000 threshold above which assets are evaluated to be 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.

Impairment

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, 2019 and 2018.

Advertising

The School expenses advertising costs as incurred. The School incurred $18,450 and $10,888 of advertising costs for the years ended June 30, 2019 and 2018, respectively, which is included in the accompanying statements of functional expenses under marketing and recruitment.

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. Expenses that can be directly identified with the program or supporting service are reported as expenses of those functional areas. Other expenses are allocated among program and supporting services based upon benefits received.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 September 26, 2019, which is the date the financial statements were available to be issued.

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, disclosure and transition.

The School files informational returns in the federal jurisdiction. With few exceptions, the School is no longer subject to federal tax examinations for fiscal years before 2016.

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.

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 income tax as other expense.

The school is subject to tax reportable on Form 990T consisting of unrelated business income if they have provided pre-tax transportation benefits to employees.

Investments

Investments are recorded at fair value based upon quoted market prices. The related dividend and interest income is recorded as unrestricted income in the statements of activities. Unrealized gains are recorded as investment income net of related expenses in the accompanying statements of activities.

The Board has designated the investment income to be used for student scholarships.

Fair Value Measurements and Fair Value – Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable units be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the School. Unobservable inputs reflect the School's assumptions about inputs used by market participants at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

> Level 1 - Valuation based on quoted prices in active markets for identical assets or liabilities that the School has the ability to access.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements and Fair Value – Definition and Hierarchy (continued)

Level 2 - Valuation based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost approach - Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and

Income approach - Techniques to convert future amounts to a single present value amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

Adopted Accounting Pronouncements

Financial Statement Presentation
During the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the School’s financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the indirect method.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

In June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The School is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the School's financial condition due to the recognition of a right-of-use asset and related lease liability. The School does not anticipate the update having a material effect on the School's results of operations or cash flows, though such an effect is possible.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the School's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The School is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021, with early application permitted.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. The School's management meets monthly to address projected cash flows to meet its operational expenditures. The School also invests cash in excess of weekly requirements in mutual funds, which are highly liquid investments. The School's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	2019	2018
Cash	$ 1,460,628	$ 939,658
Cash - restricted	75,355	75,332
Investments	2,073,316	1,547,945
Grants and other receivables	59,398	315,991
Total financial assets	3,668,697	2,878,926
Less amounts unavailable for general expenditures within one year due to:		
Board designated for student scholarships	(362,916)	(191,545)
Restricted by contract with time or purpose	(75,355)	(75,332)
	(438,271)	(266,877)
Total financial assets available to management for general expenditures within one year	$ 3,230,426	$ 2,612,049

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES (CONTINUED)

At June 30, 2019 and 2018, the School had board designated net assets for student scholarships of $362,916 and $191,545, respectively.

4. INVESTMENTS

Determination of Fair Values

The valuation methodologies used to determine the fair values of assets and liabilities under the "exit price" notion reflect market-participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The School measures the fair values of the mutual fund based on quoted market prices.

The preceding method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, although the School believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The School's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risks associated with these investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and the statements of activities.

The following tables present by level, within the fair value hierarchy, the School's investments at fair value as of June 30, 2019 and 2018. As required by fair value measurement accounting standards, investments are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

June 30, 2019	Fair Value on a Recurring Basis	Quoted Market Prices in Active Market for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund	$ 2,073,316	$ 2,073,316	$ -	$ -

June 30, 2018	Fair Value on a Recurring Basis	Quoted Market Prices in Active Market for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual fund	$ 1,547,945	$ 1,547,945	$ -	$ -

The aggregate cost basis, gross unrealized gains and losses, and fair market value of the mutual fund at June 30, 2019 and 2018, are as follows:

June 30, 2019	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mutual fund	$ 1,811,871	$ 261,445	$ -	$ 2,073,316

4. INVESTMENTS (CONTINUED)

Determination of Fair Values (continued)

June 30, 2018	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mutual fund	$ 1,409,146	$ 138,799	$ -	$ 1,547,945

The components of the activity of the School's mutual fund as of June 30, 2019 and 2018 were as follows:

June 30,	2019
Investments, beginning of year	$ 1,547,945
Purchase of investments	443,670
Sale of investments	(46,000)
Realized gain on investments	5,055
Unrealized gain on investments reported at fair value	122,646
Investments, end of year	**$ 2,073,316**

June 30,	2018
Investments, beginning of year	$ 1,463,374
Purchase of investments	32,546
Sale of investments	(41,000)
Realized gain on investments	3,899
Unrealized gain on investments reported at fair value	89,126
Investments, end of year	**$ 1,547,945**

5. AGREEMENT WITH SCHOOL FACILITY

The School shares space with P.S. 92, a New York City public school, located at 222 West 134th Street. As part of the New York City Chancellor's Charter School Initiative, the NYCDOE has provided this space to the School at no charge. The services provided by the NYCDOE to the charter school, such as rent, utilities, custodial services, maintenance and school safety services are also provided at no cost. The fair value of these facilities and services 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, 2019 and 2018, the School did not incur any overtime fees.

6. PROPERTY AND EQUIPMENT

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

	2019	2018	Estimated Useful Lives
Furniture and fixtures	$ 284,608	$ 275,915	5 years
Computers and servers	991,318	896,274	3 years
Software	54,545	54,545	5 years
Leasehold improvements	805,511	805,511	5 years
	2,135,982	2,032,245	
Less: accumulated depreciation and amortization	(1,889,543)	(1,801,245)	
	$ 246,439	$ 231,000	

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was $88,298 and $332,145, respectively.

7. COMMITMENTS

The School leases telecommunications equipment and copiers under a non-cancelable operating lease which expires in 2021. The future minimum lease payment is $700 per month until October 2021.

The leasing expense for the years ended June 30, 2019 and 2018 was $13,970 and $8,322, respectively, which is included in the accompanying statements of functional expenses under office expense.

8. RETIREMENT PLAN

The School has adopted a defined contribution 401(k) profit sharing plan (the “Plan”) which covers most of its employees. Employees are eligible to enroll in the Plan on the first day of the one month anniversary once 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 contributions. 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 years ended June 30, 2019 and 2018, retirement expense for the School was $156,816 and $152,485, respectively.

9. RISK MANAGEMENT

A. 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 help protect itself from such risks.

B. 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.

10. 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 limit of $250,000.

B. The School received approximately 92% of its total revenue from per pupil funding from the NYCDOE during each of the years ended June 30, 2019 and 2018.

C. The School's grants and other receivables consist of two major grantors at June 30, 2019. The School's grants and other receivables consist of three major grantors at June 30, 2018.

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

<u>Independent Auditor's 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*</u>

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

We have audited, 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, the financial statements of St. Hope Leadership Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated September 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 September 26, 2019.

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
September 26, 2019