

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

DRAFT
For Discussion Purposes Only
Subject to Review and Revision

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
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of St. Hope Leadership Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2021 and the related statements of activities, functional expenses, and cash flows for the year 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 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 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.

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, 2021, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of St. Hope Leadership Academy Charter School as of and for the year ended June 30, 2020 were audited by MBAF CPAs, LLC ("MBAF"), whose partners and professional staff joined BDO USA, LLP as of January 16, 2021, and has subsequently ceased operations. MBAF expressed an unmodified opinion on those statements in their report dated October 7, 2020.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2021 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 solely 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 effectiveness of the School's 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.

New York, NY
October 4, 2021

DRAFT
For Discussion Purposes Only
Subject to Review and Revision

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

ASSETS	2021	2020
Cash	\$ 2,294,650	\$ 1,557,720
Cash - restricted	75,383	75,375
Grants and other receivables	448,468	250,623
Investments	2,193,381	2,158,330
Prepaid expenses and other assets	83,497	40,795
Property and equipment, net	<u>433,958</u>	<u>190,296</u>
TOTAL ASSETS	<u>\$ 5,529,337</u>	<u>\$ 4,273,139</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 511,052	\$ 139,349
Accrued salaries and other payroll related expenses	<u>225,716</u>	<u>250,349</u>
TOTAL LIABILITIES	<u>736,768</u>	<u>389,698</u>
NET ASSETS		
Without donor restrictions		
Undesignated	4,561,089	3,687,011
Board designated for student scholarships	<u>231,480</u>	<u>196,430</u>
Total net assets without donor restrictions	<u>4,792,569</u>	<u>3,883,441</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,529,337</u>	<u>\$ 4,273,139</u>

See accompanying notes to the financial statements.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
OPERATING REVENUE WITHOUT DONOR RESTRICTIONS		
State and local per pupil operating revenue	\$ 6,248,946	\$ 5,885,241
Government grants and contracts	<u>617,343</u>	<u>310,855</u>
	<u>6,866,289</u>	<u>6,196,096</u>
EXPENSES		
Program services:		
General education	3,325,609	3,141,188
Special education	1,779,465	1,649,591
Management and general	<u>887,145</u>	<u>808,585</u>
	<u>5,992,219</u>	<u>5,599,364</u>
EXCESS FROM SCHOOL OPERATIONS	<u>874,070</u>	<u>596,732</u>
SUPPORT AND OTHER INCOME (LOSS)		
Investment return, net	35,050	(166,486)
Other income	<u>8</u>	<u>11,520</u>
	<u>35,058</u>	<u>(154,966)</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	909,128	441,766
NET ASSETS - BEGINNING OF YEAR	<u>3,883,441</u>	<u>3,441,675</u>
NET ASSETS - END OF YEAR	<u>\$ 4,792,569</u>	<u>\$ 3,883,441</u>

See accompanying notes to the financial statements.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	No. of Positions	Program Services			Supporting Activities	2021
		General Education	Special Education	Total	Management and General	
Personnel Services Costs						
Administrative staff personnel	7	\$ 237,989	\$ 83,518	\$ 321,507	\$ 500,248	\$ 821,755
Instructional personnel	34	1,795,327	1,055,747	2,851,074	-	2,851,074
Total salaries and staff	41	2,033,316	1,139,265	3,172,581	500,248	3,672,829
Fringe benefits and payroll taxes		403,471	226,065	629,536	99,264	728,800
Retirement		99,923	55,987	155,910	24,584	180,494
Accounting and audit services		-	-	-	128,834	128,834
Other purchases, professional, consulting and services		118,093	66,167	184,260	30,617	214,877
Repairs and maintenance		-	-	-	13,323	13,323
Insurance		25,199	14,118	39,317	6,199	45,516
Supplies and materials		74,093	26,338	100,431	-	100,431
Equipment and furnishings		8,997	5,042	14,039	2,214	16,253
Staff development		10,523	3,740	14,263	-	14,263
Marketing and recruitment		118,917	44,143	163,060	2,247	165,307
Technology		244,839	105,061	349,900	21,653	371,553
Student services		58,243	20,703	78,946	-	78,946
Office expense		81,443	45,632	127,075	46,017	173,092
Depreciation and amortization		48,552	27,204	75,756	11,945	87,701
		\$ 3,325,609	\$ 1,779,465	\$ 5,105,074	\$ 887,145	\$ 5,992,219

See accompanying notes to the financial statements.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	No. of Positions	Program Services			Supporting Activities	2020
		General Education	Special Education	Total	Management and General	
Personnel Services Costs						
Administrative staff personnel	7	\$ 230,240	\$ 77,190	\$ 307,430	\$ 497,492	\$ 804,922
Instructional personnel	36	1,950,222	1,103,537	3,053,759	-	3,053,759
Total salaries and staff	43	2,180,462	1,180,727	3,361,189	497,492	3,858,681
Fringe benefits and payroll taxes		426,370	230,881	657,251	97,280	754,531
Retirement		85,922	46,527	132,449	19,604	152,053
Accounting and audit services		-	-	-	126,996	126,996
Other purchases, professional, consulting and services		18,780	10,169	28,949	9,180	38,129
Repairs and maintenance		-	-	-	5,321	5,321
Insurance		22,159	11,999	34,158	5,056	39,214
Supplies and materials		69,959	22,957	92,916	-	92,916
Equipment and furnishings		1,569	850	2,419	358	2,777
Staff development		27,695	9,088	36,783	-	36,783
Marketing and recruitment		55,813	20,532	76,345	2,372	78,717
Technology		84,626	38,322	122,948	11,285	134,233
Student services		62,531	20,519	83,050	-	83,050
Office expense		52,148	28,237	80,385	21,513	101,898
Depreciation and amortization		53,154	28,783	81,937	12,128	94,065
		\$ 3,141,188	\$ 1,649,591	\$ 4,790,779	\$ 808,585	\$ 5,599,364

See accompanying notes to the financial statements.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	\$ 6,668,444	\$ 6,004,871
Cash paid to employees and suppliers	(5,600,150)	(5,629,857)
Investment income received	27,293	36,020
Other cash received	8	11,520
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,095,595	422,554
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,177,566	2,226,530
Purchase of investments	(2,204,860)	(2,514,050)
Purchase of property and equipment	(331,363)	(37,922)
NET CASH USED IN INVESTING ACTIVITIES	(358,657)	(325,442)
NET INCREASE IN CASH	736,938	97,112
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	1,633,095	1,535,983
CASH AND CASH - RESTRICTED - END OF YEAR	\$ 2,370,033	\$ 1,633,095
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 909,128	\$ 441,766
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	87,701	94,065
Realized (gain) loss on investments	(7,622)	220,106
Unrealized gain on investments	(135)	(17,600)
Changes in operating assets and liabilities:		
Grants and other receivables	(197,845)	(191,225)
Prepaid expenses and other assets	(42,702)	59,105
Accounts payable and accrued expenses	371,703	(177,393)
Accrued salaries and other payroll related expenses	(24,633)	(6,270)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,095,595	\$ 422,554
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash and Cash - Restricted Consist of:		
Cash	\$ 2,294,650	\$ 1,557,720
Cash - restricted	75,383	75,375
Total	\$ 2,370,033	\$ 1,633,095

See accompanying notes to the financial statements.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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 charter of the School was renewed and extended to June 30, 2026. 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.

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, and are, therefore, available for general operations.

At June 30, 2021, the School had no assets with donor restrictions.

Cash – Restricted

An escrow account in the amount of \$75,383 and \$75,375 was held aside under the provisions of the School's charter to pay for legal and audit expenses that would be associated with a dissolution should it occur, as required by the NYCDOE as of June 30, 2021 and 2020, respectively.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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 \$448,468 and \$250,623 at June 30, 2021 and 2020, 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, 2021 and 2020. Such estimate is based on management's assessments of the aged basis of its receivables, as well as current economic conditions and historical information.

Contributions

Transfers of cash or other assets or settlement of liabilities that are both voluntary and nonreciprocal are recognized as contributions.

Contributions may either be conditional or unconditional. A contribution is considered conditional when the donor imposes both a measurable barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity and other stipulations related to the contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the School fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable advances.

Unconditional contributions may or may not be subject to donor-imposed restrictions. Donor-imposed restrictions limit the use of the donated assets as to time or purpose restrictions.

Contributions subject to donor restrictions are recognized in changes in net assets with donor restrictions. When a purpose restriction is satisfied or when a time restriction expires, the contribution is reported as net assets released from restrictions and is recognized in changes in net assets without donor restrictions in the statement of activities.

Revenue Recognition

Per-Pupil Revenue

The School recognizes revenues from per-pupil funding in the fiscal year in which the academic programs are provided. Per-pupil revenue is billed and received based on the total number of full-time equivalent (FTE) students and the basic charter school tuition rate for the school district of residence of the students attending the School in any given fiscal year for general education and special education. The FTE is formula-driven and based on the number of days the student has been with the School as a proportion of the number of days in the entire school year (the calculation is done by using the New York State calculator online). The School's total student population includes general education and special education students. The School has determined that revenue from its students has the same performance obligations, types of contract, and services rendered. As a result, the student body is viewed as one customer base for revenue purposes. The School uses a portfolio approach to account for per-pupil contracts as a collective group rather than recognizing revenue on an individual-contract basis. The School believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Per-Pupil Revenue (continued)

Per-pupil invoicing is managed on a bi-monthly basis to the funding source (local school district). Billing is a function of student enrollment for the upcoming fiscal year, which is the basis for the first two invoices per-pupil due June 1st and July 31st, which is a projection. Subsequent invoices are due bi-monthly. With the implementation of an automated-invoicing process through a dedicated website, the submission of each invoice is done online. After the year is complete, the School submits the FTE per-pupil reconciliation, listing every student who attended any part of the year, and the FTE each represents. Based on this final count, it calculates how much should have been paid to the School and included in the reconciliation will be any amounts due from the funding source included in grants and other receivables on the statement of financial position at year end, or any amounts payable to the funding source included as a liability on the statement of financial position at year end, as amounts are trued up to actual based on actual numbers submitted at year end.

Additional funding is also provided to support special education services. All students who are identified to need special education services or settings have an Individualized Education Program ("IEP"), formalized for his or her unique needs. Based on this IEP, the student is categorized into one of three levels of service: 0-20% service, 20-60% service, or 60% or more service required and provided by the School. For a student receiving less than 20% in services, no additional funding is received. For a student receiving services between 20% and 60% and 60% or more services of the school day, additional funding per FTE is received. Billing for this support is incorporated into the per-pupil invoices and is also settled in the same FTE per-pupil reconciliation process.

As the students receive the benefit of these services simultaneously as the School is providing them, the School recognizes per-pupil revenue from these services over time. The School believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to students receiving academic or school services. The School measures the performance obligation from admission or enrollment into the School to the point when the student is discharged or the end of the school year where it is no longer required to provide services to the student, which is generally at the time of discharge or the completion of the school year. All of these services are bundled and considered a single-performance obligation, and as such, the School accounts for these bundled-performance obligations under state and local per pupil operating revenue in the statement of activities and recognizes the per-pupil revenue over time.

Government Grants

Revenue from federal, state, and local government grants and contracts is recognized by the School when qualifying expenditures are incurred and billable to the government, or when required services have been provided.

Contract Assets and Contract Liabilities

In accordance with Accounting Standards Codification (ASC) 606, contract assets are to be recognized when an entity has the right to receive consideration in exchange for goods or services that have been transferred to a customer when that right is conditional on something other than the passage of time. The School does not recognize contract assets, as the right to receive consideration is unconditional in accordance with the passage of time criteria. Also, in accordance with ASC 606, contract liabilities are to be recognized when an entity is obligated to transfer goods or services for which consideration has already been received. The School does not receive consideration prior to the transfer of goods or services and, therefore, does not recognize contract liabilities.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 useful life of the asset or the lease term. The School has established a \$3,000 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, based on the established threshold.

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, 2021 and 2020.

Advertising

The School expenses advertising costs as incurred. The School did not incur advertising costs for the year ended June 30, 2021. The School incurred \$3,395 of advertising costs for the year ended June 30, 2020, which is included in the accompanying statement of functional expenses under marketing and recruitment.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the respective programs and activities according to the functional categories, as follows:

Program Services – This category represents expenses related to general education and special education for certain students requiring additional attention and guidance. These costs are allocated based on the FTE allocation method.

Management and General – This category represents expenses related to the overall administration and operation of the School that are no specific to any program services or development. These costs are allocated based on the FTE allocation method.

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 October 4, 2021, which is the date the financial statements were available to be issued.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The School is exempt from federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and, therefore, has made no provision for income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the IRC. There was no unrelated business income for the year ended June 30, 2021.

Under U.S. GAAP, an organization must recognize the tax benefit associate with tax positions taken for tax-return purposes when it is more likely than not that the position will not be sustained upon examination by a taxing authority. The School does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The School is subject to routine audits by a taxing authority. As of June 30, 2021, the School was not subject to any examination by a taxing authority.

Investments

Investments are recorded at fair value based upon quoted market prices. Investment return includes dividend, interest and realized and unrealized gains and losses on investments carried at fair value. Investment return is recorded as income without donor restrictions in the statements of activities.

The Board has designated 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.

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.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted Accounting Pronouncement

Revenue from Contracts with Customers (Topic 606)

During the year ended June 30, 2021, the School adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as of July 1, 2020 using the modified-retrospective approach. This guidance requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. The School's revenue is derived primarily from per-pupil revenue for services provided to students. Per-pupil revenues are recognized as revenue over the course of the academic school year or program for which it is earned. The adoption of ASU 2014-09 did not result in a material change to the timing of when revenue is recognized.

Recent Accounting Pronouncements

Lease Accounting

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases*, which will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The standard is effective for non-public business entities for fiscal years beginning after December 15, 2021. The School is currently evaluating the impact of the adoption of ASU 2016-02.

Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The update requires not-for-profits to present contributed nonfinancial assets as a separate line item on the statement of activities, and to disclose information regarding each type of contributed nonfinancial assets. The update is effective for financial statements issued for fiscal years beginning after June 15, 2021, and interim periods within fiscal years beginning after June 15, 2022, with early application permitted. The School is currently evaluating the impact of the adoption of ASU 2020-07.

3. LIQUIDITY 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 government bonds, which are highly liquid investments. The School's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

3. LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

	2021	2020
Cash	\$ 2,294,650	\$ 1,557,720
Cash - restricted	75,383	75,375
Grants and other receivables	448,468	250,623
Investments	<u>2,193,381</u>	<u>2,158,330</u>
Total financial assets	<u>5,011,882</u>	<u>4,042,048</u>
Less amounts unavailable for general expenditures within one year due to:		
Board designated for student scholarships	(231,480)	(196,430)
Restricted by contract	<u>(75,383)</u>	<u>(75,375)</u>
	<u>(306,863)</u>	<u>(271,805)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 4,705,019</u>	<u>\$ 3,770,243</u>

At June 30, 2021 and 2020, the School had board designated net assets for student scholarships of \$231,480 and \$196,430, 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 government bond 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, 2021 and 2020. 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.

	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)
June 30, 2021				
Government bond	\$ 2,193,381	\$ 2,193,381	\$ -	\$ -

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

4. INVESTMENTS (CONTINUED)

Determination of Fair Values (continued)

June 30, 2020	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)
Government bond	\$ 2,158,330	\$ 2,158,330	\$ -	\$ -

The aggregate cost basis, gross unrealized gains and losses, and fair market value of the investments at June 30, 2021 and 2020, are as follows:

June 30, 2021	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government bond	\$2,193,246	\$ 135	\$ -	\$ 2,193,381

June 30, 2020	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government bond	\$2,140,730	\$ 17,600	\$ -	\$ 2,158,330

The components of the activity of the School's investments as of June 30, 2021 and 2020 were as follows:

<u>June 30,</u>	2021
Investments, beginning of year	\$ 2,158,330
Purchase of investments	2,204,860
Sale of investments	(2,177,566)
Realized gain on investments	7,622
Unrealized gain on investments reported at fair value	135
Investments, end of year	\$ 2,193,381
<u>June 30,</u>	2020
Investments, beginning of year	\$ 2,073,316
Purchase of investments	2,514,050
Sale of investments	(2,226,530)
Realized loss on investments	(220,106)
Unrealized gain on investments reported at fair value	17,600
Investments, end of year	\$ 2,158,330

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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. Approximately 30,000 feet of square footage is allocated to the School. 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, 2021 and 2020, the School did not incur any overtime fees.

6. PROPERTY AND EQUIPMENT

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

	2021	2020	Estimated Useful Lives
Furniture and fixtures	\$ 510,258	\$ 290,431	5 years
Computers and servers	1,134,953	1,023,417	3 years
Software	54,545	54,545	5 years
			Lesser of the useful life of the asset or the lease term
Leasehold improvements	805,511	805,511	
	2,505,267	2,173,904	
Less: accumulated depreciation and amortization	(2,071,309)	(1,983,608)	
	\$ 433,958	\$ 190,296	

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was \$87,701 and \$94,065, respectively.

7. COMMITMENTS

The School leases telecommunications equipment and copiers under a non-cancelable operating lease which expires in 2024.

Future minimum lease payments under the non-cancelable operating lease are as follows:

June 30,	
2022	\$ 27,540
2023	27,540
2024	20,655
	<u>\$ 75,735</u>

The leasing expense for the years ended June 30, 2021 and 2020 was \$29,118 and \$28,897, respectively, which is included in the accompanying statements of functional expenses under office expense.

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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 their 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's contribution becomes vested on a straight-line basis over five years. For the years ended June 30, 2021 and 2020, retirement expense for the School was \$180,494 and \$152,053, 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. The School also intends to defend its positions on these matters. As of June 30, 2021, there are no matters for which the School believes the ultimate outcome would have a material adverse effect on the School's financial position.
- 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. The School is of the opinion that such cost disallowances, if any, will not have a material effect in the School's financial statements.
- C. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES") was signed into law in response to the coronavirus (COVID-19) pandemic. The CARES Act includes many measures to provide relief to companies and organizations. Under the CARES Act, the Local Education Agencies (LEAs) received funds from the Elementary and Secondary School Emergency Relief ("ESSER") fund to provide equitable services to students and teachers in non-public schools. The School was granted funds to defray the COVID-19 outbreak costs under the aforementioned ESSER fund during the year ended June 30, 2021.

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 insured limit of \$250,000.
- B. The School received approximately 91% and 94% of its total revenue from per pupil funding from the NYCDOE during the years ended June 30, 2021 and 2020, respectively.
- C. The School's grants and other receivables consist of two major grantors at June 30, 2021 and 2020.
- D. Four vendors accounted for approximately 64% and 84% of the School's accounts payable at June 30, 2021 and 2020, respectively.

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

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

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, 2021 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 October 4, 2021.

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”) as a basis for designing 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 financial statements. 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*.

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.

New York, NY
October 4, 2021

ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

- | | |
|------------------------------|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Noncompliance material to financial statements

2. FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.

DRAFT
For Discussion Purposes Only
Subject to Review and Revision