

# **St. Hope Leadership Academy Charter School**

## ***Communication With Those Charged With Governance***

October 20, 2017





October 20, 2017

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, 2017 and are prepared to issue our report thereon dated October 20, 2017. 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 April 25, 2017, 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 2017.

### **C. Auditor Independence:**

We affirm that MBAF 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, 2017, St. Hope Leadership Academy Charter School recorded grants and other receivables of \$220,263. 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, we concur with management's conclusion.

**Functional Statement Allocation:**

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

**F. Sensitive Disclosures Affecting the Financial Statements:**

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

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

**G. Corrected and Uncorrected Misstatements:**

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

**Proposed and Corrected:**

**Proposed and Corrected:**

There were two audit adjustments (which includes one given by the School) that increased income by approximately \$30,000. The current year's most significant adjustments were as follows:

1. Provided by client entry to reverse professional services due to be performed in the next fiscal year, which increased net income by approximately \$30,000.
2. To reclass approximately \$14,000 of interest and dividends. This had no effect on net income.

**Proposed and Uncorrected:**

There were no audit adjustments proposed and uncorrected.

**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 20, 2017.

**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**

**Property, Plant and Equipment Testing:**

Our testing of property plant and equipment revealed a capitalization policy of \$1,000 which leads to a larger number of inconsequential items being capitalized. We recommend that the School consider raising the threshold between \$3,000 to \$5,000. We also found that assets were being capitalized according to invoice amounts. We recommend that the determination to expense or capitalize assets be done by individual items not by invoice.

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 CPAs, LLC**

MBAF CPAs, LLC

**ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL**

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FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

## ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

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### TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14
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 <i>Government Auditing Standards</i>	15-16



## **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 statement of financial position as of June 30, 2017, 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, 2017, 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.

### ***Report on Summarized Comparative Information***

We have previously audited St. Hope Leadership Academy Charter School's 2016 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated September 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, 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  
October 20, 2017

**ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL**

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION AT JUNE 30, 2016)

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Cash	\$ 377,824	\$ 1,706,023
Cash - restricted	75,310	75,287
Investments	1,463,374	-
Grants and other receivables	220,263	118,136
Prepaid expenses and other assets	143,318	69,507
Property and equipment, net	<u>504,010</u>	<u>747,301</u>
	<b><u>\$ 2,784,099</u></b>	<b><u>\$ 2,716,254</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 56,766	\$ 38,012
Accrued salaries and other payroll related expenses	<u>223,580</u>	<u>225,381</u>
	280,346	263,393
NET ASSETS - UNRESTRICTED	<u>2,503,753</u>	<u>2,452,861</u>
	<b><u>\$ 2,784,099</u></b>	<b><u>\$ 2,716,254</u></b>

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, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<b>2017</b>	<b>2016</b>
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 5,378,410	\$ 5,346,807
Federal grants	219,071	194,873
State grants	22,680	23,396
	<u>5,620,161</u>	<u>5,565,076</u>
EXPENSES		
Program services:		
General education	3,244,988	3,198,045
Special education	1,755,953	1,610,492
Management and general	634,302	592,019
	<u>5,635,243</u>	<u>5,400,556</u>
(DEFICIENCY) EXCESS FROM SCHOOL OPERATIONS	(15,082)	164,520
SUPPORT AND OTHER INCOME		
Investment income	65,974	5,159
CHANGE IN NET ASSETS	50,892	169,679
NET ASSETS - BEGINNING OF YEAR	<u>2,452,861</u>	<u>2,283,182</u>
<b>NET ASSETS - END OF YEAR</b>	<b><u>\$ 2,503,753</u></b>	<b><u>\$ 2,452,861</u></b>

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, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	No. of Positions	Program Services		Total	Supporting Activities		
		General Education	Special Education		Management and General	2016	
<b>Personnel Services Costs</b>							
Administrative staff personnel	5	\$ 191,754	\$ 70,859	\$ 262,613	\$ 305,279	\$ 567,892	\$ 541,373
Instructional personnel	40	1,906,610	1,112,514	3,019,124	-	3,019,124	2,920,888
Non-instructional personnel	1	-	-	-	66,474	66,474	56,432
Total salaries and staff	46	2,098,364	1,183,373	3,281,737	371,753	3,653,490	3,518,693
Fringe benefits and payroll taxes		385,282	217,280	602,562	68,258	670,820	690,486
Retirement		68,885	38,848	107,733	12,204	119,937	122,353
Accounting and audit services		11,829	6,671	18,500	2,096	20,596	20,396
Other purchases, professional, consulting and services		11,342	6,396	17,738	94,501	112,239	97,654
Repairs and maintenance		-	-	-	7,020	7,020	3,590
Insurance		20,068	11,317	31,385	3,555	34,940	32,604
Supplies and materials		110,581	38,197	148,778	-	148,778	120,893
Equipment and furnishings		3,580	2,019	5,599	634	6,233	1,634
Staff development		37,720	13,030	50,750	-	50,750	56,395
Marketing and recruitment		81,771	31,782	113,553	2,865	116,418	110,903
Technology		54,607	28,297	82,904	7,649	90,553	93,916
Student services		113,586	39,238	152,824	-	152,824	123,607
Office expense		39,738	22,410	62,148	26,982	89,130	62,540
Depreciation and amortization		207,635	117,095	324,730	36,785	361,515	344,892
		<b>\$ 3,244,988</b>	<b>\$ 1,755,953</b>	<b>\$ 5,000,941</b>	<b>\$ 634,302</b>	<b>\$ 5,635,243</b>	<b>\$ 5,400,556</b>

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, 2017  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operating revenue	\$ 5,518,034	\$ 5,495,292
Cash paid to employees and suppliers	(5,330,586)	(5,079,175)
Investment income received	16,278	5,137
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>203,726</u>	<u>421,254</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(1,413,701)	-
Purchase of property and equipment	(118,224)	(176,548)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,531,925)</u>	<u>(176,548)</u>
NET (DECREASE) INCREASE IN CASH	(1,328,199)	244,706
CASH - BEGINNING OF YEAR	<u>1,706,023</u>	<u>1,461,317</u>
CASH - END OF YEAR	<u><b>\$ 377,824</b></u>	<u><b>\$ 1,706,023</b></u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 50,892	\$ 169,679
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	361,515	344,892
Unrealized gain on investments	(49,673)	-
Changes in operating assets and liabilities:		
Cash - restricted	(23)	(22)
Grants and other receivables	(102,127)	(69,784)
Prepaid expenses and other assets	(73,811)	33,474
Accounts payable and accrued expenses	18,754	(23,006)
Accrued salaries and other payroll related expenses	(1,801)	(33,979)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><b>\$ 203,726</b></u>	<u><b>\$ 421,254</b></u>

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

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

### 1. NATURE OF THE ORGANIZATION

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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 expiring on June 30, 2018. 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 sources of income are from 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, if any, to help defray the cost of school meals.

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.

### 2. ACCOUNTING POLICIES

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#### 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 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.

## ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

## 2. ACCOUNTING POLICIES (CONTINUED)

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### Financial Statement Presentation (continued)

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

### Cash – Restricted

An escrow account in the amount of \$75,310 and \$75,287 was held aside for contingency purposes as required by the NYCDOE as of June 30, 2017 and 2016, respectively.

### 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 \$220,263 and \$118,136 at June 30, 2017 and 2016, 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, 2017 and 2016. 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 the 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 statement of financial position.

### Donated Services

The School may receive 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 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, 2017 and 2016, 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. 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, 2017 and 2016.

# ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

### 2. ACCOUNTING POLICIES (CONTINUED)

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#### **Advertising**

The School expenses advertising costs as incurred. The School incurred \$15,810 and \$13,840 of advertising costs for the years ended June 30, 2017 and 2016, respectively, which is included in the accompanying statement of functional expenses under marketing and recruitment.

#### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis. 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 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 20, 2017, which is the date the financial statements were available to be issued.

#### **Comparative Financial Information**

The June 30, 2017 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, 2016 are presented. As a result, the June 30, 2016 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2016 information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, 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, disclosure and transition.

The School files informational returns in the federal and New York State jurisdictions. With few exceptions, the School is no longer subject to federal, state, or local income tax examinations for fiscal years before 2014.

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."

## ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

## 2. ACCOUNTING POLICIES (CONTINUED)

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### 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 statement of activities.

### 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 assumption 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.

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 amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

### 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.

## ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

## 2. ACCOUNTING POLICIES (CONTINUED)

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### Recent Accounting Pronouncements (Continued)

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. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the effect the update will have on its financial statements.

## 3. INVESTMENTS

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### 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 funds 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.

**ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL**

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**3. INVESTMENTS (CONTINUED)**

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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 statement of financial position and the statement of activities.

The following tables present by level, within the fair value hierarchy, the School's investments at fair value as of June 30, 2017. 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.

<u>June 30, 2017</u>	<u>Fair Value on a Recurring Basis</u>	<u>Quoted Market Prices in Active Market for Identical Assets (Level 1)</u>	<u>Other Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual funds	\$ 1,463,374	\$ 1,463,374	\$ -	\$ -

The aggregate cost basis, gross unrealized gains and losses, and fair market value of the mutual funds at June 30, 2017, are as follows:

<u>June 30, 2017</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Mutual funds	\$ 1,413,701	\$ 49,673	\$ -	\$ 1,463,374

The components of the activity of the School's mutual funds as of June 30, 2017 were as follows:

<u>June 30,</u>	<u>2017</u>
Investments, beginning of year	\$ -
Purchase of investments, including realized gains	1,413,701
Unrealized gain on investments reported at fair value	49,673
Investments, end of year	<u>\$ 1,463,374</u>

**4. AGREEMENT WITH SCHOOL FACILITY**

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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 committed 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, 2017 and 2016, the School did not incur any overtime fees.

**ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL**

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**5. PROPERTY AND EQUIPMENT**

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

	2017	2016	Estimated Useful Lives
Furniture and fixtures	\$ 265,374	\$ 265,374	5 years
Computers and servers	847,680	731,331	3 years
Software	54,545	54,545	5 years
Leasehold improvements	805,511	803,636	5 years
	<u>1,973,110</u>	<u>1,854,886</u>	
Less: accumulated depreciation and amortization	(1,469,100)	(1,107,585)	
	<u>\$ 504,010</u>	<u>\$ 747,301</u>	

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$361,515 and \$344,892, respectively.

**6. COMMITMENTS**

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The School leases telecommunications equipment and copiers under a non-cancelable operating lease which expired in 2017.

The leasing expense for the years ended June 30, 2017 and 2016 was \$10,892 and \$3,599, respectively, which is included in the accompanying statement of functional expenses under office expense.

**7. RETIREMENT PLAN**

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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 31<sup>st</sup>) 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, 2017 and 2016, retirement expense for the School was \$119,937 and \$122,353, respectively.

**8. RISK MANAGEMENT**

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- 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.
- C. The School's charter was renewed in 2013 for an additional five years. Although the School anticipates that these renewals will be granted by the authorizers, no assurance can be provided that these will occur.

**ST. HOPE LEADERSHIP ACADEMY CHARTER SCHOOL**

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**9. CONCENTRATIONS**

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- 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 95% of its total revenue from per pupil funding from the NYCDOE during the year ended June 30, 2017.
- C. The School's grants and other receivables consist of two major grantors at June 30, 2017.



**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

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, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 20, 2017.

**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 October 20, 2017.

**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  
October 20, 2017