

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2015

TABLE OF CONTENTS

	<u>Page No.</u>
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 the Financial Statements	7 - 13
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>	14 - 15



Independent Auditor's Report

To the Board of Directors
Academy of Hope Adult Public Charter School
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Academy of Hope Adult Public Charter School ("AOH"), which comprise the statement of financial position as of June 30, 2015, 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 from 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 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 entity'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 entity'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.

Academy of Hope Adult Public Charter School
Independent Auditor's Report
Page Two

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 Academy of Hope Adult Public Charter School as of June 30, 2015, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015, on our consideration of Academy of Hope Adult Public 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 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 Academy of Hope Adult Public Charter School's internal control over financial reporting and compliance.

Jane Maruca & McQuade PA

Washington, DC
November 23, 2015

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	754,391
Grants receivable		257,400
Prepaid expenses		62,391
Total Current Assets		1,074,182

PROPERTY AND EQUIPMENT, net		480,282
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TOTAL ASSETS	\$	1,554,464
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	58,639
Accrued expenses		152,262
Capital lease obligation		8,242
Deferred revenue		3,125
Total Current Liabilities		222,268

LONG - TERM LIABILITIES

Capital lease obligation, net of current portion		31,891
Total Liabilities		254,159

NET ASSETS

Unrestricted net assets		944,757
Temporarily restricted net assets		355,548
Total Net Assets		1,300,305

TOTAL LIABILITIES AND NET ASSETS	\$	1,554,464
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See independent auditor's report and accompanying notes to the financial statements.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
PCSB Per pupil appropriations	\$ 2,162,657	\$ -	\$ 2,162,657
PCSB Per pupil facility allowance	786,432	-	786,432
Other government grants	525,779	-	525,779
Contributions and other grants	248,744	449,800	698,544
In-kind contributions	100,211	-	100,211
Special events	21,744	-	21,744
Student activity fees	7,190	-	7,190
Loss on assets disposal	(3,225)	-	(3,225)
Other income	18,029	-	18,029
Net assets released from restrictions	768,231	(768,231)	-
Total Revenue and Support	4,635,792	(318,431)	4,317,361
EXPENSES			
Educational services	3,095,103	-	3,095,103
Support services:			
Management and general	444,607	-	444,607
Fundraising	298,442	-	298,442
Total support services	743,049	-	743,049
Total Expenses	3,838,152	-	3,838,152
CHANGE IN NET ASSETS	797,640	(318,431)	479,209
NET ASSETS, beginning of year	147,117	673,979	821,096
NET ASSETS, end of year	\$ 944,757	\$ 355,548	\$ 1,300,305

See independent auditor's report and accompanying notes to the financial statements.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	<u>EDUCATIONAL SERVICES</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Personnel and Related Expenses:				
Salaries	\$ 1,738,503	\$ 233,557	\$ 73,310	\$ 2,045,370
Payroll taxes	147,292	21,847	6,217	175,356
Employee benefits	232,137	30,275	11,521	273,933
Total personnel and related expenses	<u>2,117,932</u>	<u>285,679</u>	<u>91,048</u>	<u>2,494,659</u>
Direct Student Costs:				
Recruitment	10,919	-	-	10,919
Assessment materials/program evaluation	12,599	989	-	13,588
Student assistance	26,480	-	-	26,480
Educational supplies and textbooks	44,984	7,577	16	52,577
Transportation	3,053	133	-	3,186
General Expenses:				
Administration fee	29,013	3,891	1,225	34,129
Board fees	3,184	804	1,677	5,665
Event services	2,861	238	9,883	12,982
Professional fees	362,555	12,587	176,913	552,055
Insurance	8,200	1,100	346	9,646
Interest expense	522	705	7	1,234
Staff meetings	1,279	5,293	215	6,787
Volunteer support	3,262	-	-	3,262
Miscellaneous	3,197	368	27	3,592
Occupancy:				
Rent	201,680	44,392	2,725	248,797
Depreciation and amortization	109,755	17,939	691	128,385
Maintenance and repairs	10,976	885	41	11,902
Utilities	2,355	1,895	31	4,281
Janitorial, security, and other building expenses	1,681	1,445	23	3,149
Moving expense	5,078	2,044	80	7,202
Office Expenses:				
Dues, subscriptions, and fees	20,950	19,364	1,564	41,878
Office equipment rental and maintenance	7,401	3,726	191	11,318
Supplies and materials	10,118	12,182	1,044	23,344
Payroll services	8,144	1,092	344	9,580
Printing and copying	5,628	1,469	8,174	15,271
Telephone/communication costs	81,297	18,810	2,177	102,284
Total	<u>\$ 3,095,103</u>	<u>\$ 444,607</u>	<u>\$ 298,442</u>	<u>\$ 3,838,152</u>

See independent auditor's report and accompanying notes to the financial statements.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	479,209
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense		128,385
Loss on assets disposal		3,225
Decrease (increase) in operating assets:		
Accounts and grants receivable		319,768
Prepaid expenses and other assets		(46,841)
Increase (decrease) in operating liabilities:		
Accounts payable		16,029
Accrued expenses		98,156
Deferred revenue - summer school program		3,125
Net Cash Provided by Operating Activities		1,001,056

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment		(485,179)
Proceeds from sale of fixed assets		2,700
Net Cash Used By Investing Activities		(482,479)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on note payable		(50,209)
Proceeds from capital leases		36,396
Net Cash Used for Financing Activities		(13,813)

NET INCREASE IN CASH AND CASH EQUIVALENTS 504,764

CASH AND CASH EQUIVALENTS - beginning of year 249,627

CASH AND CASH EQUIVALENTS - end of year \$ 754,391

SUPPLEMENTAL INFORMATION

Interest expense paid during the period	\$	1,234
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See independent auditor's report and accompanying notes to the financial statements.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A – NATURE OF ORGANIZATION

Academy of Hope Adult Public Charter School (“AOH”) was incorporated on May 30, 1990 as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as determined in an exemption letter dated September 12, 1991. Contributions to AOH are tax-deductible, within the limits described by the Code.

AOH provides high quality education and job skills training to low income and at-risk adults in Washington, D.C. The program creates a nurturing, individualized, student-centered learning environment for adult education, leading to improved literacy, the GED certificate, the National External Diploma Program, and computer training. The program also builds job readiness preparation through improved computer skills, pre-employment workshops, and resume and interview preparation. AOH annually serves approximately 350 under-educated, at-risk adults seeking educational and economic opportunity and stability. Since its inception, AOH has been primarily supported by a combination of public charter school funding, donations and grants from foundations, corporations, individuals, government grants, and program service fees.

On May 31, 2014, AOH’s articles of incorporation were amended and the name officially became Academy of Hope Adult Public Charter School. Effective July 1, 2014, AOH began operating as a District of Columbia Public Charter School. AOH receives funding and support from the District of Columbia Public Charter School Board in addition to other funding.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

AOH’s financial statements are maintained on the accrual basis of accounting. Therefore, revenues and related assets are recognized when earned, and expenses and related liabilities are recognized as obligations are incurred.

Financial Statement Presentation

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit-Entities*. In accordance with the topic, AOH is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of AOH and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Statement Presentation - continued

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of AOH and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by AOH. There were no permanently restricted net assets as of June 30, 2015.

Cash and Cash Equivalents

For purposes of the statement of cash flows, AOH considers all highly liquid funds, including savings accounts purchased with original maturities of three months or less, to be cash equivalents.

Grants Receivable

Grants receivable are recorded when billed and represent claims against third parties that will be settled in cash. Grants receivable are reported net of an allowance for doubtful accounts, if any. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, the age of outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. Past due grants receivable are written off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2015, the majority of the receivables are due from governmental agencies. Due to the nature of funding from the federal government and the District of Columbia, management believes that all receivables will be collected. Therefore, no allowance for doubtful accounts has been recorded.

Property and Equipment

Property and equipment valued in excess of \$500 are capitalized and recorded at cost, if purchased, and estimated fair value, if donated. Building improvements are capitalized at cost and amortized over the lesser of the remaining life of the building or the life of the asset.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment - continued

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment and software	3 -5	years
Furniture and equipment	5-7	years
Leasehold improvements	15	years

Revenue Recognition

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When restrictions are met within the same year as restricted funds are contributed, they are classified as unrestricted contributions.

Government grants and are recognized during the period in which the work is performed. Accordingly, grant funds received in the current fiscal year, for work to be performed in the next fiscal year are recorded as deferred revenue.

Activity fees are recognized at the time of the activity. This revenue represents amounts collected from students for, but not restricted to, field trips, meals, and other school related activities.

In-kind Contributions

In-kind contributions are recorded at fair value of the services or items received. AOH recognizes in-kind contributions that create or enhance non-financial assets or require specialized skills and are provided by individuals who possess those skills, and would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses

The costs of providing AOH's various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs, fundraising and supporting services benefited.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

NOTE C – INCOME TAX

AOH is a 501(c)(3) tax-exempt organization under Section 501(a) of the Internal Revenue Code. AOH is, however, subject to tax on business income unrelated to its exempt purpose. AOH is also exempt from the District of Columbia sales and property taxes. AOH files information returns as required.

AOH believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

AOH’s income tax returns are subject to examination by the Internal Revenue Service (“IRS”) for a period of three years from the date they were filed, except under certain circumstances. The Form 990 tax returns for the years 2011 through 2013 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2015:

Leasehold improvements	\$ 348,892
Computer equipment and software	72,866
Furniture and equipment	552,258
Total	<u>974,016</u>
Less accumulated depreciation	(493,734)
Property and equipment, net	<u><u>\$ 480,282</u></u>

Depreciation expense for the year ended June 30, 2015 totaled \$128,385.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(continued)

NOTE E – CONCENTRATION OF RISK

AOH receives a substantial amount of funding from the District of Columbia based on student enrollment according to the Uniform per Student Funding Formula developed by the Mayor and City Council. For the year ended June 30, 2015, AOH recognized revenue received from the District of Columbia Board of Education totaling \$2,949,089. Reduction of this source of support would have a significant impact on AOH's programs and activities.

AOH maintains cash balances at financial institutions deemed to be creditworthy. Balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000, per financial institution. Cash balances, may at times exceed the federally insured limit; however, AOH believes it is not exposed to any significant credit risk on cash or cash equivalents.

NOTE F – LINE OF CREDIT

Pursuant to two agreements, AOH has a \$200,000 line of credit with PNC Bank, with an annual interest rate of prime plus 1%, and a \$350,000 unsecured line of credit with Capital One Bank with an annual interest rate of prime plus 1.8%. There were no outstanding balances on the lines as of June 30, 2015.

NOTE G – IN-KIND CONTRIBUTIONS

Individuals and other groups contribute substantial amounts of materials and services toward the fulfillment of programs initiated by AOH. To the extent that contributions of materials made are objectively measurable and represent program or support expenditures that would otherwise be incurred by AOH, they would be reflected in both public support and program expense in the accompanying financial statements. With respect to donated services and materials, AOH recorded contributions and corresponding expenses for the fair value totaling \$100,211 for the year ended June 30, 2015.

NOTE H – CAPITAL LEASE

AOH leases two copiers under capital lease agreements signed in September 2014, and April 2015, respectively. The lease agreements expire in September 2020 and March 2020, respectively. Both leased assets are capitalized at a combined cost of \$42,441. Capital lease obligations totaled \$40,133 as of the year ending June 30, 2015.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(continued)

NOTE H – CAPITAL LEASE - continued

Future principal payments on the capital leases are due as follows for the years ending June 30:

2016	\$ 8,242
2017	8,203
2018	8,622
2019	9,064
2020	6,002
Total	<u><u>\$ 40,133</u></u>

Accumulated amortization as of June 30, 2015, totaled \$5,024.

NOTE I – OPERATING LEASES

AOH subleases office space located at 601 Edgewood Street, NE. in Washington, D.C. under an operating sublease agreement that commenced on December 15, 2006 and expires on December 15, 2016. Monthly rental payments under this sublease are \$5,837. In June 2014, AOH amended the above sublease agreement to include an additional 1,926 square feet located at 635 Edgewood Street, NE. in Washington, D.C.

AOH also subleases office space located at 421 Alabama Avenue, SE. in Washington, D.C. This sublease agreement commenced on August 8, 2015, and was amended on February 1, 2015. The lease expires on September 14, 2017. Monthly rental payments under this sublease for the year ended June 30, 2015 are \$17,405 with a three percent increase effective at the beginning of September during the lease term. Monthly rental payments under this sublease for the year ended June 30, 2015 are \$17,405 with a three percent increase effective at the beginning of September during the lease term.

The future minimum lease payments due under these subleases are as follows:

2016	\$ 249,099
2017	220,479
2018	36,925
Total	<u><u>\$ 506,503</u></u>

Total rent expense for the year ended June 30, 2015 totaled \$248,797.

AOH also has use of donated space of approximately 2,600 square feet.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(continued)

NOTE J – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015, were restricted for the following purposes:

Purpose restricted - Career Pathways	\$ 72,722
Purpose restricted - Policy and Advocacy	43,496
Purpose restricted - Feasibility Study and Ward 8 Career Center	132,330
Purpose restricted - Career Support	30,000
Time Restricted	77,000
Total	<u>\$ 355,548</u>

NOTE K - SUBSEQUENT EVENTS

In preparing these financial statements, AOH’s management has evaluated events and transactions for potential recognition or disclosure through November 23, 2015, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required recognition or additional disclosure.



**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 Directors
Academy of Hope Adult Public Charter School
Washington, DC

We have audited, in accordance with the 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 Academy of Hope Adult Public Charter School ("AOH"), which comprise the statements of financial position as of June 30, 2015, 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 November 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of financial statements, we considered AOH'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 for expressing an opinion on the effectiveness of AOH's internal control. Accordingly, we do not express an opinion on the effectiveness of AOH'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 not been identified.

To the Board of Directors
Academy of Hope Adult Public Charter School
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AOH'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 and 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 AOH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AOH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jane Marusa & M. R. Rude PA

Washington, DC
November 23, 2015