

**HOPE COMMUNITY PUBLIC CHARTER SCHOOL, INC.  
d/b/a IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

**Financial Statements and Supplemental Schedules Together with  
Reports of Independent Public Accountants**

**For the Years Ended June 30, 2018 and 2017**



**JUNE 30, 2018 AND 2017**

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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Board of Directors of the  
Hope Community Public Charter School, Inc.  
d/b/a Imagine Hope Community Charter School

### **Report on the Financial Statements**

We have audited the accompanying statements of financial position of Hope Community Public Charter School, Inc., d/b/a Imagine Hope Community Charter School (the School) as of June 30, 2018 and 2017, and the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the auditing standards established pursuant to the District of Columbia School Reform Act, Public law No. 104-134, 110 Stat. 1321-121, 2204(c)(ii)(B)(ix)(1996); D.C. Official Code 38-1802.04(ii)(B)(2001, as amended). 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 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 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.

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 the School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplemental schedules of revenue and expenses by campus and of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying schedule of expenditures of Federal awards, is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and 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 the School's internal control over financial reporting and compliance.

Washington, D.C.  
November 30, 2018

A handwritten signature in black ink that reads "SB &amp; Company, LLC".

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Statements of Financial Position As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ 5,450,473	\$ 4,725,725
Grants receivable	860,521	859,266
Prepaid expense	12,767	-
Due from related party, net	-	198,940
Property and equipment, net	95,516	215,314
<b>Total Assets</b>	<b><u>\$ 6,419,277</u></b>	<b><u>\$ 5,999,245</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 384,016	\$ 664,123
Accrued salaries and payroll withholdings	515,439	473,659
Due to related party	57,561	-
<b>Total Liabilities</b>	<b><u>957,016</u></b>	<b><u>1,137,782</u></b>
<b>Net Assets</b>		
Unrestricted	5,462,261	4,861,463
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 6,419,277</u></b>	<b><u>\$ 5,999,245</u></b>

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

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Statements of Activities and Change in Net Assets For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Revenue and Other Support</b>		
Tuition - per pupil funding allocation	\$ 12,509,924	\$ 13,622,561
DC facilities allowance	2,410,510	2,755,368
Federal entitlements and grants	1,101,145	954,458
Student activities	133,119	87,570
Other revenue	241,349	102,790
<b>Total Revenue and Other Support</b>	<u>16,396,047</u>	<u>17,522,747</u>
<b>Expenses</b>		
Educational services	12,949,518	13,202,053
General and administrative	2,845,731	2,945,913
<b>Total Expenses</b>	<u>15,795,249</u>	<u>16,147,966</u>
Change in Net Assets	600,798	1,374,781
Net assets, beginning of year	4,861,463	3,486,682
<b>Net Assets, End of Year</b>	<u>\$ 5,462,261</u>	<u>\$ 4,861,463</u>

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

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 600,798	\$ 1,374,781
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	153,990	168,329
Effect of changes in non-cash assets and liabilities:		
Grants receivable	(1,255)	(179,979)
Due to/from related party, net	256,501	24,115
Prepaid expenses	(12,767)	13,803
Accounts payable	(280,107)	196,589
Accrued salaries and payroll withholdings	41,780	(163,628)
<b>Net Cash from Operating Activities</b>	<u>758,940</u>	<u>1,434,010</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	<u>(34,192)</u>	<u>(115,097)</u>
Net change in cash	724,748	1,318,913
Cash, beginning of year	4,725,725	3,406,812
<b>Cash, End of Year</b>	<u><u>\$ 5,450,473</u></u>	<u><u>\$ 4,725,725</u></u>

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

# **IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

## **Notes to the Financial Statements**

**June 30, 2018 and 2017**

### **1. ORGANIZATION**

Hope Community Charter School, Inc., d/b/a Imagine Hope Community Charter School (the School) is a not-for-profit organization incorporated on September 21, 2004, and located in Washington, DC. The School was incorporated exclusively for educational purposes and is authorized by the District of Columbia Public Charter School Board (the Board). The current charter covers a term of 15 years through August 22, 2020 and may be renewed at the discretion of the Board. The School is also part of the District of Columbia Public School System. The School is tuition-free and serves Washington, DC children in grades pre-kindergarten to eighth grade at two campuses, Tolson and Lamond. The School's mission is to shape the hearts and minds of its students positively, by providing them with an academically rigorous, content rich curriculum, in an environment in which character is molded and promoted and a community which builds trusting relationships with others.

The School's primary sources of support are local appropriations for charter schools from the District of Columbia Government.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Accounting**

The accompanying financial statements of the School are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### **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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Grants Receivable**

Grants receivable are recorded at their net realizable value. The School records an allowance for doubtful accounts equal to estimated losses that will be increased in the collection of receivables. The estimated losses are based on historical collection experience and the review of the current status of existing receivables. Management believes that all receivables were fully collectible as of June 30, 2018 and 2017.

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Notes to the Financial Statements June 30, 2018 and 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and Equipment

Property and equipment valued in excess of \$1,000, with an estimated useful life of more than one year, is capitalized and recorded at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful life of the asset. Replacements, maintenance, and repairs that do not improve the useful life of an asset are expensed as incurred.

#### Net Assets

Unrestricted net assets are assets and contributions that are not restricted by donors or for which restrictions have expired.

Temporarily restricted net assets are those whose uses by the School have been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as unrestricted net assets.

Permanently restricted net assets are those that are restricted by donors to be maintained by the School in perpetuity. There were no temporary or permanently restricted net assets as of June 30, 2018 and 2017.

#### Restricted and Unrestricted Support and Revenue

Contributions received are recorded as unrestricted, temporarily or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and change in net assets as net assets released from restriction.

#### Advertising Costs

Advertising costs are expensed when incurred. The costs of advertising are expensed when the services are received. Advertising expense for the years ended June 30, 2018 and 2017, were \$10,686 and \$28,306, respectively.

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Notes to the Financial Statements June 30, 2018 and 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the School.

#### Income Taxes

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The School performed an evaluation of uncertain tax positions for the year ended June 30, 2018, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of June 30, 2018, the statute of limitations for fiscal years 2014 through 2017, remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the School files tax returns. It is the School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

#### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard will require the entity to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases and Leases (Topic 842): Targeted Improvements*, which provide further clarity and transition options for adoption of FASB ASU No. 2016-02. These standards will be effective for periods beginning after December 15, 2019.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU No 2016-14 provides updated guidance on the reporting model for not-for-profits and is effective for periods beginning after December 15, 2017. ASU No. 2016-15 provides guidance on the statement of cash flows and is effective for periods beginning after December 15, 2018.

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Notes to the Financial Statements June 30, 2018 and 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Recent Accounting Pronouncements (continued)

In September 2017, the FASB issued ASU No. 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)*, that provides clarification on certain topics related to these topics. These standards are effective when the related previous amended standards become effective.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, that improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprise. This standard is effective for periods beginning after December 15, 2019.

Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

#### Subsequent Events

The School's management evaluated the accompanying financial statements for subsequent events and transactions through November 30, 2018, the date these financial statements were available for issue, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Notes to the Financial Statements June 30, 2018 and 2017

### 3. PROPERTY AND EQUIPMENT

As of June 30, 2018 and 2017, property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>	<u>Useful Lives</u>
Furniture and equipment	\$ 197,286	\$ 197,286	10 Years
Computer equipment	533,087	527,701	5 Years
Software	25,173	25,173	5 Years
Textbooks	611,031	611,031	3 Years
Leasehold improvements	108,414	79,608	10 Years
<b>Total</b>	<b>1,474,991</b>	<b>1,440,799</b>	
Less: accumulated depreciation	<u>1,379,475</u>	<u>1,225,485</u>	
<b>Property and Equipment, Net</b>	<b><u>\$ 95,516</u></b>	<b><u>\$ 215,314</u></b>	

Depreciation expense was \$153,990, and \$168,329, for the years ended June 30, 2018 and 2017, respectively.

### 4. RELATED PARTY TRANSACTIONS

The School entered into a charter school operating agreement with Imagine Schools, Inc. (Imagine), on August 22, 2005. The School and Imagine desired to create an enduring educational alliance, whereby the School and Imagine work cooperatively to promote educational excellence and innovation, based on their respective school designs, comprehensive educational programs, and management principles.

The School leases its facilities from an affiliate related to Imagine through common ownership (see Note 5).

The School pays Imagine an indirect cost allocation for the provision of on-going operational and financial support under an operating contract. This payment shall be equal to (i) 12% of the total revenue provided by state and local governments during each fiscal year plus (ii) a monthly administrative fee of \$2,500 per charter school campus. Included in general and administrative expense is indirect cost allocation expense of \$1,862,525 and \$2,102,225 for the years ended June 30, 2018 and 2017, respectively, and administrative expense of \$60,000 paid to Imagine for the years ended June 30, 2018 and 2017. As of June 30, 2018 and 2017, there was \$17,718 and \$106,643, respectively, in unpaid management fees recorded as accounts payable in the accompanying statements of financial position.

To the extent the School does not have sufficient funds to pay operating expenses, Imagine Schools, Inc. will forward funds to the School for payment of these expenses. Imagine Schools, Inc. is to be reimbursed for these amounts. Imagine Schools, Inc. did not charge any interest on these amounts advanced and outstanding during the years ended June 30, 2018 and 2017.

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Notes to the Financial Statements June 30, 2018 and 2017

### 4. RELATED PARTY TRANSACTIONS (continued)

Additionally, the School incurred certain costs on behalf of Imagine for certain payroll and other benefit-related costs. These costs are reimbursed to the School from Imagine. As of June 30, 2018 and 2017, \$57,561 was due to Imagine and \$198,940 was due from Imagine, respectively.

### 5. BUILDING LEASES AND COMMITMENTS (RELATED PARTY)

On May 4, 2007, the School entered into a lease agreement for the Tolson Campus, which is located at 2917 8th Street, NE, Washington, DC. The lease for this location was leased from Schoolhouse Finance, LLC (a company related to Imagine Schools, Inc.). This lease began on January 1, 2007, and is scheduled to continue until August 22, 2020, the end of the School's Charter period. The scheduled base monthly payments on this lease are \$98,782 per month with an increase clause applied to these amounts as described below.

The lease includes an escalation clause requiring increased payments equal to the Consumer Price Index (CPI) increase for the immediately preceding calendar year as reported by the Bureau of Labor Statistics plus 1.5%. The commitment payments reflected below include the 1.5% increase and an estimate of 3% per year for the CPI increase. In addition to the base rent, the School is also required to pay all real property taxes and all other taxes and assessments of any kind made upon all or any portion of the leased premises, including improvements, equipment, furniture, fixtures, and personal property.

On August 2, 2007, the School entered into an operating lease agreement with Schoolhouse Finance, LLC for the rental of additional school building space, the Lamond Campus, located at 6200 Kansas Avenue, NE, Washington, DC. Beginning on July 1, 2010, the scheduled base monthly payments on this lease are \$116,079 per month thereafter with an increase clause applied. The lease includes an escalation clause requiring increased payments equal to the CPI increase for the immediately preceding calendar year as reported by the Bureau of Labor Statistics.

The future minimum payments on the leases as of June 30, 2018, were as follows:

<b>Year Ended June 30,</b>	<b>Total</b>	<b>Tolson Campus</b>	<b>Lamond Campus</b>
2019	\$ 3,223,488	\$ 1,542,777	\$ 1,680,711
2020	3,320,192	1,589,060	1,731,132
2021	1,987,657	204,591	1,783,066
<b>Total</b>	<b>\$ 8,531,337</b>	<b>\$ 3,336,428</b>	<b>\$ 5,194,909</b>

Rent expense totaled \$2,990,857 and \$2,922,915 for the years ended June 30, 2018 and 2017, respectively.

# **IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

## **Notes to the Financial Statements June 30, 2018 and 2017**

### **6. CONTINGENCIES**

The School receives financial assistance from Federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's management believes such disallowance, if any, would be immaterial.

The School receives a substantial portion of its revenue from the District of Columbia. If a significant reduction in this revenue should occur, it may have an effect on the School's programs. During the years ended June 30, 2018 and 2017, the School earned revenue of \$16,021,579 and \$17,370,861, respectively, from the District of Columbia, which was 98% and 99% of the total revenue and support, respectively. These amounts are reflected as per pupil allocation, DC facilities allowance, and Federal grants and entitlements in the accompanying statements of activities and change in net assets.

### **7. RETIREMENT PLAN**

Various contracted employees of the School are covered by a defined contribution retirement plan. The School is required to contribute a matching contribution at a rate of up to 5% of annual eligible employee compensation. The School's contributions for the years ended June 30, 2018 and 2017, were \$265,489 and \$141,195, respectively.

## **SUPPLEMENTAL SCHEDULES**

**IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

**Supplemental Schedule of Revenue and Expenses by Campus  
For the Year Ended June 30, 2018, with Comparative Totals for 2017**

	2018			2017 Total
	Tolson	Lamond	Total	
<b>Revenues and Other Support</b>				
Tuition - per pupil	\$ 7,758,964	\$ 4,750,960	\$ 12,509,924	\$ 13,622,561
DC facilities allowance	1,494,516	915,994	2,410,510	2,755,368
Federal entitlements and grants	636,159	464,986	1,101,145	954,458
Student activities	34,935	98,184	133,119	87,570
Other revenue	210,825	30,524	241,349	102,790
<b>Total Revenues and Other Support</b>	<b>10,135,399</b>	<b>6,260,648</b>	<b>16,396,047</b>	<b>17,522,747</b>
<b>Expenses</b>				
Personnel, salaries and benefits	5,218,377	3,175,278	8,393,655	8,331,289
Direct student costs	820,278	441,340	1,261,618	1,423,095
Occupancy costs	1,635,300	1,807,132	3,442,432	3,391,675
Office expenses	166,202	75,663	241,865	236,354
General expenses	1,577,468	878,211	2,455,679	2,765,553
<b>Total Expenses</b>	<b>9,417,625</b>	<b>6,377,624</b>	<b>15,795,249</b>	<b>16,147,966</b>
<b>Change in Net Assets</b>	<b>\$ 717,774</b>	<b>\$ (116,976)</b>	<b>\$ 600,798</b>	<b>\$ 1,374,781</b>

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Supplemental Schedule of Functional Expenses For the Year Ended June 30, 2018, with Comparative Totals for 2017

	2018			2017
	Educational Services	General and Administrative	Total	
<b>Personnel Salaries and Benefits</b>				
Principal and office salaries	\$ 1,429,416	\$ 357,354	\$ 1,786,770	\$ 1,405,138
Teacher salaries	3,772,863	-	3,772,863	4,398,189
Assistant teacher salaries and aides	696,515	-	696,515	593,048
Food service salaries	198,980	-	198,980	207,953
Facilities salaries	235,303	58,826	294,129	275,403
Fringe benefits	949,344	60,596	1,009,940	910,810
Payroll taxes	596,391	38,067	634,458	540,748
<b>Total Personnel Salaries and Benefits</b>	<b>7,878,812</b>	<b>514,843</b>	<b>8,393,655</b>	<b>8,331,289</b>
<b>Direct Student Costs</b>				
Textbooks and textbook depreciation	19,145	-	19,145	106,356
Classroom supplies	57,767	-	57,767	45,362
Contracted instructional/student services	355,043	-	355,043	319,971
Computer support and supplies	65,749	-	65,749	64,822
Student assessment materials	26,246	-	26,246	22,657
Food service costs	401,013	-	401,013	502,063
Professional development costs	140,155	-	140,155	178,384
Classroom furniture/fixtures rental	6,999	-	6,999	-
Student activity expenses	121,041	-	121,041	108,452
Field trips and parental involvement costs	67,144	-	67,144	73,780
Nursing supplies	1,316	-	1,316	1,248
<b>Total Direct Student Costs</b>	<b>1,261,618</b>	<b>-</b>	<b>1,261,618</b>	<b>1,423,095</b>
<b>Occupancy Costs</b>				
Rent	2,811,406	179,451	2,990,857	2,922,915
Utilities	261,236	16,675	277,911	243,320
Repairs and maintenance	69,380	4,428	73,808	154,357
Custodian service	76,577	4,888	81,465	51,789
Other occupancy costs	17,288	1,103	18,391	19,294
<b>Total Occupancy Costs</b>	<b>3,235,887</b>	<b>206,545</b>	<b>3,442,432</b>	<b>3,391,675</b>
<b>Office Expenses</b>				
Office supplies and materials	59,909	59,909	119,818	59,366
Telecommunications	12,010	12,011	24,021	31,358
Staff meetings and meals	17,826	17,826	35,652	44,944
Printing and publications	17,844	17,844	35,688	46,615
Postage and shipping	2,685	2,686	5,371	5,808
Marketing and promotion	10,657	10,658	21,315	48,263
<b>Total Office Expenses</b>	<b>120,931</b>	<b>120,934</b>	<b>241,865</b>	<b>236,354</b>
<b>General Expenses</b>				
Insurance	113,293	7,232	120,525	138,428
Management fees and support fees	-	1,862,525	1,862,525	2,102,225
Start up development allocation	-	60,000	60,000	60,000
Charter administration fee	142,162	-	142,162	177,696
Board expenses	-	12,349	12,349	6,973
Professional services	52,064	52,064	104,128	93,946
Depreciation	144,751	9,239	153,990	168,329
Bad debt expense	-	-	-	17,956
<b>Total General Expenses</b>	<b>452,270</b>	<b>2,003,409</b>	<b>2,455,679</b>	<b>2,765,553</b>
<b>Total Expenses</b>	<b>\$ 12,949,518</b>	<b>\$ 2,845,731</b>	<b>\$ 15,795,249</b>	<b>\$ 16,147,966</b>

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Supplemental Schedule of Functional Expenses For the Year Ended June 30, 2018

	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Total</u>
<b>Personnel Salaries and Benefits</b>			
Principal and office salaries	\$ 1,124,110	\$ 281,028	\$ 1,405,138
Teacher salaries	4,398,189	-	4,398,189
Assistant teacher salaries and aides	593,048	-	593,048
Food service salaries	207,953	-	207,953
Facilities salaries	220,322	55,081	275,403
Fringe benefits	865,269	45,541	910,810
Payroll taxes	513,711	27,037	540,748
<b>Total Personnel Salaries and Benefits</b>	<u>7,922,602</u>	<u>408,687</u>	<u>8,331,289</u>
<b>Direct Student Costs</b>			
Textbooks and textbook depreciation	106,356	-	106,356
Classroom supplies	45,362	-	45,362
Contracted instructional/student services	319,971	-	319,971
Computer support and supplies	64,822	-	64,822
Student assessment materials	22,657	-	22,657
Food service costs	502,063	-	502,063
Professional development costs	178,384	-	178,384
Classroom furniture/fixture rental	-	-	-
Student activity expenses	108,452	-	108,452
Field trips and parental involvement costs	73,780	-	73,780
Nursing supplies	1,248	-	1,248
<b>Total Direct Student Costs</b>	<u>1,423,095</u>	<u>-</u>	<u>1,423,095</u>
<b>Occupancy Costs</b>			
Rent	2,776,769	146,146	2,922,915
Utilities	231,154	12,166	243,320
Repairs and maintenance	146,639	7,718	154,357
Custodian service	49,200	2,589	51,789
Other occupancy costs	18,329	965	19,294
<b>Total Occupancy Costs</b>	<u>3,222,091</u>	<u>169,584</u>	<u>3,391,675</u>
<b>Office Expenses</b>			
Office supplies and materials	29,683	29,683	59,366
Telecommunications	15,679	15,679	31,358
Staff meetings and meals	22,472	22,472	44,944
Printing and publications	23,307	23,308	46,615
Postage and shipping	2,904	2,904	5,808
Marketing and promotion	24,131	24,132	48,263
<b>Total Office Expenses</b>	<u>118,176</u>	<u>118,178</u>	<u>236,354</u>
<b>General Expenses</b>			
Insurance	131,507	6,921	138,428
Management fees and support fees	-	2,102,225	2,102,225
Start up development allocation	-	60,000	60,000
Charter administration fee	177,696	-	177,696
Board expenses	-	6,973	6,973
Professional services	46,973	46,973	93,946
Depreciation	159,913	8,416	168,329
Bad debt expense	-	17,956	17,956
<b>Total General Expenses</b>	<u>516,089</u>	<u>2,249,464</u>	<u>2,765,553</u>
<b>Total Expenses</b>	<u>\$ 13,202,053</u>	<u>\$ 2,945,913</u>	<u>\$ 16,147,966</u>



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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  
Imagine Hope Community Charter School, Inc.  
d/b/a Imagine Hope Community Charter Schools

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 Hope Community Charter School, Inc., d/b/a Imagine Hope Community Charter Schools (the School), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 30, 2018.

***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.



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### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School’s financial statements are free from 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*.

### **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.

Washington, D.C.  
November 30, 2018

A handwritten signature in black ink that reads "SB &amp; Company, LLC". The signature is written in a cursive, flowing style.



**S B & COMPANY, LLC**  
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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors  
Imagine Hope Community Charter School, Inc.  
d/b/a Imagine Hope Community Charter School

**Report on Compliance for Each Major Federal Program**

We have audited Hope Community Charter School, Inc., d/b/a Imagine Hope Community Charter School's (the School) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the School's major Federal programs for the year ended June 30, 2018. The School's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of current year findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the year ended June 30, 2018.



## **Report on Internal Control over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Washington, D.C.  
November 30, 2018

**IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Identification Number</u>	<u>Total Federal Expenditures</u>	<u>Pass Through to Subrecipients</u>
<b>U.S. Department of Education</b>				
<b><u>Pass-through from D.C. Public Schools</u></b>				
Title I Grants to Local Education Agencies	84.010A	82010A	\$ 401,761	\$ -
Supporting Effective Instruction State Grants	84.367A	82367A	89,794	-
Title III Part A - English Language Acquisition State Grants	84.365A	82365A	16,949	-
Title IV - Student Support and Academic Enrichment	84.424A	84.424A	14,660	-
Special Education - Grants to States	84.027A	82027A	224,879	-
Special Education Preschool Grants	84.173A	82173A	1,316	-
DC School Choice Incentive Program	84.370C	84.370C	<u>84,237</u>	<u>-</u>
<b>Total U.S. Department of Education</b>			<u>833,596</u>	<u>-</u>
<b>U.S. Department of Agriculture</b>				
<b><u>Direct Program</u></b>				
Child Nutrition Cluster				
National School Lunch Program	10.555	N/A	167,986	-
School Snack Program	10.555	N/A	1,637	-
School Breakfast Program	10.553	N/A	<u>78,528</u>	<u>-</u>
Child Nutrition Cluster Total			248,151	-
Fresh Fruit and Vegetable Program	10.582	N/A	<u>19,398</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>			<u>267,549</u>	<u>-</u>
<b>Total Federal Expenditures</b>			<u>\$ 1,101,145</u>	<u>\$ -</u>

The accompanying notes are an integral part of this Schedule.

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Imagine Hope Community Charter School, Inc., Imagine Hope Community Charter Schools (the School) are included in the scope of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirement, Cost Principles, and Audit Requirements for Federal Awards* (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant program noted below. The program on the schedule of expenditures of Federal awards represents all Federal award programs with fiscal year 2018, cash or non-cash expenditure activities. For single audit testing, we tested to ensure coverage of at least 40% of Federally granted funds. Actual coverage is 59%. The major programs tested are listed below.

Expenditures reported on the schedule of expenditures of Federal awards (the Schedule) are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

<u>Major Program</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Federal Expenditures</u>
Title I Grants to Local Education Agencies	84.010A	82010A	\$ 401,761
USDA Child Nutrition Cluster	10.555, 10.553	N/A	248,151
Total			<u>\$ 649,912</u>

### 2. Basis of Presentation

The accompanying Schedule includes the Federal award activity of the School and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirement, Cost Principles, and Audit Requirements for Federal Awards*.

**IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018**

**Section I – Summary of Independent Public Accountants’ Results**

**Financial Statements**

Type of independent public accountants’ report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Type of independent public accountants’ report issued on compliance for major programs	Unmodified
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No

**Identification of Major Program:**

<u>Major Program</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Federal Expenditures</u>
Title I Grants to Local Education Agencies	84.010A	82010A	\$ 401,761
USDA Child Nutrition Cluster	10.555, 10.553	N/A	248,151
Total			<u>\$ 649,912</u>

Dollar threshold used to determine Type A and B programs	\$ 750,000
Is the School qualified as a low risk auditee?	No

**IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018**

**Section II –Financial Statement Findings**

None noted.

**Section III –Federal Award Findings**

None noted.

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Schedule of Prior Year Findings and Questioned Costs For the Year Ended June 30, 2018

Reference Number: 2017-001

All programs

### Type of Finding – Material Weakness over Financial Reporting

#### *Criteria*

Per the Uniform Guidance, the School must maintain an adequate system of internal control over financial reporting in order to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting principles.

#### *Condition*

During our audit, we identified several key accounts that had not been reviewed as of June 30, 2017. As a result, the financial statements as of and for the year ended June 30, 2017, required additional time and analysis before the financial statements could be finalized and available for issuance.

#### *Cause*

The School does not have adequate internal controls over financial reporting in place to ensure the review and analysis for certain key accounts on a timely basis.

#### *Effect*

The delay in completing account analysis for the financial statement accounts could allow for misstatements, errors and irregularities to go undetected. Also, accurate financial information was not available to make management decisions.

#### *Recommendation*

We recommend the School continue to reinforce its processes and procedures to ensure reconciliations and account analyses are completed and renewed by appropriate supervisory personnel. The School should ensure accurate interim and year-end financial statements. Accurate financial information is vital to make management decisions that impact the School.

#### *Questioned Costs*

Unknown.

## **IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

### **Schedule of Prior Year Findings and Questioned Costs For the Year Ended June 30, 2018**

**Reference Number: 2017-001**

#### ***Corrective Action Plan and Management's Response***

We will update our financial processes and procedures to ensure that reconciliations and account analyses are completed and reviewed by the Regional Finance Director monthly. Exceptions will be discussed and remedied. Of particular importance is the following: a detailed by vendor analysis and aging of accounts payable, a detailed analysis and aging of all receivables (in particular grant receivables), detailed reporting for each fundraising activity, analysis and detail of the due to/due from accounts, and the tracking of fixed asset acquisitions and the detail of accumulated depreciation. Bank reconciliations are now being accomplished monthly. We will implement this process beginning with the January monthly reports. There are existing monthly meetings of the Board Finance Team and associated reporting. As a result of this finding, a formal set of financial statements will be prepared each quarter. These reports will include a statement of financial position, a statement of activities and changes in net assets, a statement of cash flows and a statement of functional expenses. It is believed this quarterly reporting will greatly facilitate audit readiness.

#### ***Current Year Status***

The School brought in new leadership and partnered with an external accounting firm to ensure that reconciliations for accounts are done timely and correctly. The School also strengthened its closing process with monthly reconciliations.

# IMAGINE HOPE COMMUNITY CHARTER SCHOOL

## Schedule of Prior Year Findings and Questioned Costs For the Year Ended June 30, 2018

Reference Number: 2017-002

United States Department of Agriculture  
CFDA No. 10.555 – National School Lunch Program

### Type of Finding – Noncompliance and Significant Deficiency over Activities Allowed or Unallowed and Allowable Cost Principles and Period of Availability

#### *Criteria*

Uniform Grant Guidance requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The characteristics of internal control are presented in the context of the components of internal control discussed in Internal Control-Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

2 CFR part 200 states that for a cost to be allowable under an award, the cost must be adequately documented. Costs must also conform to any limitations or exclusions set-forth in the award agreement.

#### *Condition*

During our audit, we noted that for three (3) out of three (3) monthly invoices selected for testing, there was no evidence of approval.

#### *Cause*

The School did not have controls in place to sufficiently document evidence of approved charged to Federal programs.

#### *Effect*

The possibility exists that the School is not in compliance with the activities allowed or unallowed and allowable cost/cost principles requirements and period of performance.

#### *Recommendation*

We recommend the implementation of a policy to document the review of all invoices, either by sign-offs of authorized personnel or in the form of electronic/ e-mail correspondence, in order to provide evidence that expenses and disbursements are properly approved by the appropriate person.

#### *Questioned Costs*

Unknown.

**IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

**Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended June 30, 2018**

**Reference Number: 2017-002**

***Responsible Official's Response and Corrective Action Plan***

All documented policies and procedures for our respective financial processes will be reviewed and updated immediately. This work will be re-activated and needs to be completed and coordinated with the Board Treasurer and will be supplemented by quarterly reviews. A confirmation package will be forwarded to the school leaders upon completion.

***Current Year Status***

During the audit, we noted that the School implemented controls to sufficiently document evidence of approved charges to Federal programs.