

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(Together With Independent Auditor's Report)



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FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Ideal Academy Public Charter School
Washington, D.C.

Report on Financial Statements

We have audited the accompanying financial statements of Ideal Academy Public Charter School (the School) which comprise the statement of financial position as of June 30, 2018 and the related statements of activities and changes in net assets 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 the 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 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 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.

Emphasis of Matter

The School plans to cease operations at June 30, 2019. On November 8, 2018, the School entered into a Memorandum of Understanding with Friendship Public Charter School (FPCS) that set forth its intentions to acquire the School's assets and assume operations of the School commencing July 1, 2019. Our opinion has not been modified with respect to this matter.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of functional expenses and vendors paid over \$25,000 on pages 12 and 13 are presented for the purpose of additional analysis and are 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Report on Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated, November 29, 2017. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2017, is consistent in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the 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.

Bert & Smith & Co

December 14, 2018
Washington, D.C.

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets		
Current Assets		
Cash	\$ 518,584	\$ 96,537
Cash Held for Debt Reserve	70,973	625,604
Due from District	214,725	224,414
Other Assets	2,861	8,781
Total Current Assets	807,143	955,336
Noncurrent Assets		
Deposits	23,437	27,093
Property and Equipment, net	11,156,891	11,526,450
Total Noncurrent Assets	11,180,328	11,553,543
Total Assets	\$11,987,471	\$12,508,879
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 125,278	\$ 179,897
Accrued Wages and Taxes	106,058	195,092
Accrued Interest	-	36,009
Capital Lease Payable	13,248	11,991
Notes Payable	597,441	1,804,834
Total Current Liabilities	842,025	2,227,823
Noncurrent Liabilities		
Capital Lease Payable	42,524	55,772
Notes Payable, net	8,143,768	7,673,979
Total Noncurrent Liabilities	8,186,292	7,729,751
Total Liabilities	9,028,317	9,957,574
Unrestricted Net Assets	2,959,154	2,551,305
Total Liabilities and Net Assets	\$11,987,471	\$12,508,879

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

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Revenue and Support		
Per Pupil Allotment	\$ 4,943,844	\$ 4,845,544
Federal Revenue	484,930	457,916
Local Grant Revenue	92,764	39,911
Rental Income	37,736	43,625
Contributions	11,207	8,901
Other Revenue	71,954	31,752
Total Revenue and Support	<u>5,642,435</u>	<u>5,427,649</u>
 Expenses		
Program Services	4,060,341	3,926,787
General and Administration	1,174,245	1,085,835
Total Expenses	<u>5,234,586</u>	<u>5,012,622</u>
 Changes In Net Assets	407,849	415,027
Net Assets, Beginning of Year	<u>2,551,305</u>	<u>2,136,278</u>
Net Assets, End of Year	<u>\$ 2,959,154</u>	<u>\$ 2,551,305</u>

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

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash Flows from Operating Activities		
Changes in Net Assets	\$ 407,849	\$ 415,027
<i>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:</i>		
Depreciation and Amortization	421,000	442,121
Provision for Doubtful Accounts	-	101,000
<i>(Increase) Decrease in Assets:</i>		
Receivables	9,689	(121,853)
Other Assets	(49,984)	(4,984)
Deposits	3,656	-
<i>Increase (Decrease) in Liabilities:</i>		
Accounts Payable	(54,619)	(7,920)
Accrued Expenses	(89,033)	16,400
Accrued Interest	(36,009)	(79)
Net Cash Provided by Operating Activities	612,549	839,712
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(51,442)	(12,962)
Net Cash Used in Investing Activities	(51,442)	(12,962)
Cash Flows from Financing Activities		
Payments on Line of Credit	-	(200,000)
Payments on Capital Lease Payable	(11,991)	(18,095)
Proceeds from Notes Payable	1,200,000	-
Payments on Notes Payables	(1,881,700)	(512,261)
Net Cash Used in Financing Activities	(693,691)	(730,356)
Net (Decrease) Increase in Cash	(132,584)	96,394
Cash, Beginning of Year	722,141	625,747
Cash, End of Year	\$ 589,557	\$ 722,141
Supplemental Disclosures		
Interest Expense Paid	\$ 302,179	\$ 368,864

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

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Ideal Academy Public Charter School (the School) was organization in 1999 to provide disadvantaged and at risk students with a learning environment where they develop and maximize their cognitive, cultural, and civic skills, becoming competent contributor to a global society. The School serves pre-school through eighth grade students. The School's major source of funding is an annual per pupil allotment from the Government of the District of Columbia (District). The School also receives funding from the federal government, student fees, and activities. These funds are expended on programs and activities designed to provide educational and related services to the School's students.

Basis of Accounting: The accompanying financial statements of the School have been prepared on the accrual basis of accounting.

Basis of Presentation: The School reports information regarding its financial position and activities in two classes of net assets: unrestricted net assets and temporarily restricted net assets.

- *Unrestricted Net Assets* - net assets that are not subject to donor-imposed stipulations.
- *Temporarily Restricted Net Assets* - net assets subject to donor-imposed stipulations that will be met either by actions of the School and/or the passage of time. The School did not have any temporarily restricted net assets at June 30, 2018.

Revenues are reported and recorded as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in temporarily restricted. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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. If a donor restriction expires in the same reporting period, the School reports the contributions as unrestricted.

Revenue Recognition: The School records revenue when earned. Amounts received that have not been earned are recorded as deferred revenue.

Cash and Cash Equivalents: The School considers all highly liquid investments with maturities of three months or less to be cash equivalents. The School's cash are held at three financial institutions.

Property and Equipment: The School capitalizes all property and equipment with a unit cost of \$1,000 or more. Depreciation expense is recorded using the straight-line method over the property and equipment's estimated useful lives. Maintenance and repairs are expensed. The estimated useful lives are as follows:

Building and Improvements	7-40 Years
Equipment	3-7 Years
Furniture and Fixtures	7 Years
Vehicles	5 Years

Income Taxes: The School, a nonprofit organization operating under Section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal, state and local income taxes, and, accordingly, no provision for income taxes is included in the financial statements.

Financial Accounting Standards Board (FASB), Accounting Standards Codification 740, *Income Taxes* (ASC 740) requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. As of June 30, 2018, management has assessed its various tax positions and it believes there are no liabilities for uncertain tax positions.

The School’s tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

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 certain amounts of assets and liabilities. These estimates also affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized as additional information on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Pronouncements to Be Adopted: FASB 958, ASU-2016-14 “*Presentation of Financial Statements of Not-for-Profit Entities*”. This standard enhances disclosures and amends the requirements for financial statements and notes for non-profit organizations to require the presentation of the financial statements in two classes of net assets rather than for the currently required three classes. In addition, the amendment no longer requires the presentation or disclosure of the indirect method (reconciliation) if using the direct method. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The School has elected not to early implement.

Accounting Standards Update (ASU) Topic 230, ASU-2016-02 “*Statement of Cash Flows*”. The amendment require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should 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 amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The School has elected not to early implement.

NOTE 2 CONCENTRATION OF CREDIT RISK

The School maintains its cash in three financial institutions. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2018, the uninsured cash balance totaled \$266,119.

NOTE 3 CASH HELD FOR DEBT RESERVE

The School is required to make monthly deposits of \$10,000 into a reserve account until the loan with the financial institution matures. The deposits are to be used to make required prepayments of the loan. At June 30, 2018, the reserve account had a balance of \$70,973.

NOTE 4 DUE FROM DISTRICT

The School receives an annual per pupil allotment and federal funds as a pass-through from the District. At June 30, 2018, the amount due from the District was \$214,725.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at year-end:

Land	\$ 858,280
Building and Improvements	14,001,153
Equipment	578,445
Furniture and Fixtures	176,255
Vehicles	97,980
Total	<u>15,712,113</u>
Less: Accumulated Depreciation	<u>(4,555,222)</u>
Property and Equipment, net	<u>\$11,156,891</u>

Depreciation and amortization expense during fiscal year 2018 was \$421,000.

NOTE 6 NOTES PAYABLE

On January 22, 2008, the District issued \$10,600,000 Series 2007 revenue bonds for the financing of the School's building. Pursuant to the bond issuance, the School entered into a loan agreement with the District. The loan is due December 2031 and has an interest rate of 3.206% per annum. The loan is secured by a first lien on the building. The interest paid on the loan during the fiscal year was \$239,276. At June 30, 2018, the total amount payable was \$7,673,949.

In December 2017, the School obtained a \$1,200,000 loan from another financial institution that refinanced its District Office of Public Charter School Financing Support loan. Before the refinance, the School paid interest totaling \$13,885 on the loan. The current loan is due in five years and has 5.00% interest rate. The loan is secured by a second lien on the building. The School incurred loan costs totaling \$55,904 which was capitalized and amortized over the life of the loan. Interest expense in 2018 was \$5,591.

The interest paid during the fiscal year was \$39,133. At June 30, 2018, the total amount payable was \$1,093,105.

The School obtained a \$27,331 loan to purchase a van. The loan is payable within 5 years and has an interest rate of 9.605%. The interest paid during the fiscal year was \$1,542. At June 30, 2018, the total amount payable was \$24,469.

The minimum principal payments as of June 30, 2018 are as follows:

2019	\$ 608,621
2020	632,475
2021	658,840
2022	685,603
2023	571,848
Thereafter	<u>5,634,135</u>
	<u>\$8,791,523</u>

<u>Notes Payable</u>	<u>Unamortized Loan Costs</u>	<u>Net Notes Payable</u>
\$ 608,621	\$ (11,180)	\$ 597,441
<u>8,182,902</u>	<u>(39,134)</u>	<u>8,143,768</u>
<u>\$ 8,791,523</u>	<u>\$ (50,314)</u>	<u>\$ 8,741,209</u>

The School is required to maintain debt service coverage of 1:20. As of June 30, 2018, the School was in compliance with the debt covenant.

NOTE 7 CAPITAL LEASE PAYABLE

The School had one equipment capital lease totaling \$82,000, which is payable over six years. The future minimum lease payments under the lease are as follows:

2019	\$ 18,237
2020	18,237
2021	18,237
2022	<u>12,158</u>
Total	66,869
Less Representative Interest	<u>(11,097)</u>
Present Value of Minimum Lease Payments	55,772
Less Current Portion	<u>(13,248)</u>
Capital Lease Payable, noncurrent	<u>\$ 42,524</u>

Interest paid on the capital lease during fiscal year was \$6,246. The amortization expense which was included in depreciation expense was \$11,714. At June 30, 2018, the accumulated amortization was \$27,333.

NOTE 8 RETIREMENT PLAN

The School’s plan is a tax-deferred annuity plan under Section 403(b) of the Code. All full-time employees who are twenty-one years and older and are employed for more than thirty days are eligible to participate in a deferred retirement plan. During fiscal year 2018, the School was not required to make and did not make any contributions to the plan.

NOTE 9 PER PUPIL ALLOTMENT

The School receives an annual per pupil allotment from the District that is based on its student enrollment. The pupil allotment represented about 88% of the School’s total revenue.

The per pupil allotment consist of the following for the fiscal year ended:

Education	\$4,021,146
Facilities	<u>922,698</u>
	<u>\$4,943,844</u>

NOTE 10 CONTINGENCIES

The School asserts has one pending claim related to a traffic accident occurred by an independent contractor working for the school. In the opinion of legal counsel, there is a 60% chance of a favorable outcome. Since the claim is in the discovery phase and the mediation is not scheduled until March 2019, no liability has been recorded in the School’s accounting records.

NOTE 11 SUBSEQUENT EVENTS

The School plans to cease operations at June 30, 2019. On November 8, 2018, the School entered into a Memorandum of Understanding with Friendship Public Charter School (FPCS) that set forth its intentions to acquire the School’s assets and assume operations of the School commencing July 1, 2019.

The School has evaluated subsequent events through December 14, 2018, which is the date the financial statements were available to be issued. This review and evaluation revealed no additional material events that would have an effect on the accompanying financial statements.

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

	Program Services	General and Administration	2018	2017
Personnel Costs				
Salaries	\$ 2,095,214	\$ 722,369	\$ 2,817,583	\$ 2,587,536
Employee Benefits	133,891	42,839	176,730	159,164
Payroll Taxes	194,337	62,180	256,517	241,101
Recruitment Expense	-	-	-	3,452
Professional Development	4,952	1,584	6,536	1,192
Total Personnel Costs	2,428,394	828,972	3,257,366	2,992,445
Direct Student Costs				
Supplies and Materials	40,816	-	40,816	42,756
Food Service	199,396	-	199,396	131,325
Student Assessment Materials	18,987	-	18,987	28,260
Contracted Instruction	111,263	-	111,263	116,000
Transportation	148,490	-	148,490	157,042
Other Student Costs	33,878	-	33,878	23,259
Total Direct Student Costs	552,830	-	552,830	498,642
Occupancy Expenses				
Mortgage Interest	194,327	62,177	256,504	359,149
Maintenance and Repairs	30,394	9,725	40,119	20,194
Utilities	111,931	35,813	147,744	183,713
Contracted Building Services	33,201	10,623	43,824	69,728
Total Occupancy Expenses	369,853	118,338	488,191	632,784
Office Expenses				
Supplies and Materials	14,374	4,599	18,973	17,996
Equipment Rental and Maintenance	18,508	5,922	24,430	25,991
Accounting and Auditing	113,686	36,375	150,061	111,357
Printing and Copying	942	301	1,243	1,288
Postage and Shipping	2,073	663	2,736	2,119
Other Office Expenses	33,423	10,694	44,117	40,445
Total Office Expenses	183,006	58,554	241,560	199,196
General Expenses				
Depreciation and Amortization	318,950	102,050	421,000	442,121
Insurance	28,820	9,221	38,041	39,452
Professional Fees	4,197	1,343	5,540	12,585
Interest Expense	11,673	3,735	15,408	9,636
Administration Fee	38,831	12,424	51,255	50,624
Provision for Doubtful Accounts	-	-	-	101,000
Other General Expense	123,787	39,608	163,395	34,137
Total General Expenses	526,258	168,381	694,639	689,555
Total Expenses	\$ 4,060,341	\$ 1,174,245	\$ 5,234,586	\$ 5,012,622

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
SUPPLEMENTAL SCHEDULE OF VENDORS PAID OF \$25,000
FOR THE YEAR ENDED JUNE 30, 2018

Vendor	Type of Service	Total
Bert Smith & Co	Audit	\$ 25,000
Language Stars LLC	Foreign Language	\$ 29,700
Sovereign Insurance Group	Insurance	\$ 29,774
Mid-Atlantic Children's Services, Inc.	Special Education	\$ 30,206
DC Water and Sewer Authority	Water Service	\$ 31,982
Coastal Healthcare Services	Special Education	\$ 35,203
DC Public Charter School Board	Administrative Fee	\$ 48,755
Douglas & Boykin, PLLC	Legal Fees	\$ 58,794
ACS Business & Accounting Solutions, LLC	Accounting Services	\$ 63,268
Pepco	Electricity	\$120,209
Steve's School Bus Service	Transportation Services	\$134,710
Revolution Foods Inc.	Food Services	\$187,287
Kaiser Permanente	Health Insurance	\$222,559

**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***

The Board of Trustees
Ideal Academy Public Charter School
Washington, D.C.

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 Ideal Academy Public Charter School (the School), which comprise the statement of financial position as of June 30, 2018, and related statement of activities and changes in net assets for the year ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 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.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bert Smith & Co

December 14, 2018
Washington, D.C.