

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL

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

JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statement of Activities, Year Ended June 30, 2018	4
Statement of Activities, Year Ended June 30, 2017	5
Statement of Functional Expenses, Year Ended June 30, 2018	6
Statement of Functional Expenses, Year Ended June 30, 2017	7
Statements of Cash Flows	8
Notes to the Financial Statements	9 - 18
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	19 - 20



Independent Auditor's Report

To the Board of Trustees
Academy of Hope Adult Public Charter School
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Academy of Hope Adult Public Charter School, a non-profit organization, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, 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. 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.

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, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018, 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 the effectiveness of Academy of Hope Adult Public Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Academy of Hope Adult Public Charter School's internal control over financial reporting and compliance.

James Marissa & McQuade PA

Washington, DC
November 7, 2018

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 775,551	\$ 829,119
Accounts receivable	21,744	39,752
Grants receivable	322,041	201,445
Prepaid expenses	19,390	25,493
Total Current Assets	1,138,726	1,095,809
NON-CURRENT ASSETS		
Property and equipment, net	5,255,105	5,204,078
Deposits	14,039	14,002
Total Non-Current Assets	5,269,144	5,218,080
TOTAL ASSETS	\$ 6,407,870	\$ 6,313,889
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 149,228	\$ 228,773
Accrued expenses	234,906	170,373
Deferred revenue	608	608
Deposits	2,260	2,260
Line of credit	82,809	132,495
Capital lease obligation, current portion	7,558	7,190
Note payable, current portion	57,508	104,430
Total Current Liabilities	534,877	646,129
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	9,707	17,265
Note payable, net	3,875,207	3,875,438
Total Long-Term Liabilities	3,884,914	3,892,703
Total Liabilities	4,419,791	4,538,832
NET ASSETS		
Unrestricted	1,893,079	1,553,557
Temporarily restricted	95,000	221,500
Total Net Assets	1,988,079	1,775,057
TOTAL LIABILITIES AND NET ASSETS	\$ 6,407,870	\$ 6,313,889

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

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 3,591,900	\$ -	\$ 3,591,900
Per pupil facility allowance	1,232,393	-	1,232,393
Federal and local government grants	540,279	-	540,279
Contributions and other grants	287,258	220,000	507,258
Rental income	28,028	-	28,028
Interest	688	-	688
In-kind contributions	120,000	-	120,000
Loss on disposal of property and equipment	(1,758)	-	(1,758)
Program and other income	32,240	-	32,240
Net assets released from restrictions	346,500	(346,500)	-
Total Revenue and Support	6,177,528	(126,500)	6,051,028
EXPENSES			
Educational services	4,695,113	-	4,695,113
Support services:			
Management and general	796,776	-	796,776
Fundraising	346,117	-	346,117
Total Support Services	1,142,893	-	1,142,893
Total Expenses	5,838,006	-	5,838,006
CHANGE IN NET ASSETS	339,522	(126,500)	213,022
NET ASSETS, beginning of year	1,553,557	221,500	1,775,057
NET ASSETS, end of year	\$ 1,893,079	\$ 95,000	\$ 1,988,079

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

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 3,253,211	\$ -	\$ 3,253,211
Per pupil facility allowance	1,171,500	-	1,171,500
Federal and local government grants	298,729	-	298,729
Contributions and other grants	555,932	508,500	1,064,432
Rental income	10,785	-	10,785
Interest	2,718	-	2,718
Loss on disposal of property and equipment	(2,358)	-	(2,358)
Program and other income	51,719	-	51,719
Net assets released from restrictions	368,000	(368,000)	-
Total Revenue and Support	<u>5,710,236</u>	<u>140,500</u>	<u>5,850,736</u>
EXPENSES			
Educational services	4,510,497	-	4,510,497
Support services:			
Management and general	861,965	-	861,965
Fundraising	295,531	-	295,531
Total Support Services	<u>1,157,496</u>	<u>-</u>	<u>1,157,496</u>
Total Expenses	<u>5,667,993</u>	<u>-</u>	<u>5,667,993</u>
CHANGE IN NET ASSETS	42,243	140,500	182,743
NET ASSETS, beginning of year	<u>1,511,314</u>	<u>81,000</u>	<u>1,592,314</u>
NET ASSETS, end of year	<u><u>\$ 1,553,557</u></u>	<u><u>\$ 221,500</u></u>	<u><u>\$ 1,775,057</u></u>

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

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	<u>Support Services</u>			<u>Total Expenses</u>
	<u>Educational Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Personnel Costs				
Salaries	\$ 2,337,938	\$ 438,390	\$ 96,487	\$ 2,872,815
Payroll taxes	185,781	34,722	7,956	228,459
Employee benefits	322,654	57,499	13,216	393,369
Total Personnel Costs	<u>2,846,373</u>	<u>530,611</u>	<u>117,659</u>	<u>3,494,643</u>
Direct Student Costs				
Recruitment	12,134	-	-	12,134
Assessment materials/program evaluation	27,304	-	-	27,304
Student assistance	40,730	-	-	40,730
Contracted instruction fees	465,375	-	-	465,375
Educational supplies and textbooks	59,482	-	-	59,482
Total Direct Student Costs	<u>605,025</u>	<u>-</u>	<u>-</u>	<u>605,025</u>
Occupancy				
Rent	245,283	47,349	10,442	303,074
Contracted building services	89,083	17,196	3,792	110,071
Depreciation and amortization	170,120	33,055	7,242	210,417
Maintenance and repairs	97,039	8,682	4,131	109,852
Interest	143,569	27,714	6,112	177,395
Utilities	82,403	15,907	3,508	101,818
Total Occupancy Expense	<u>827,497</u>	<u>149,903</u>	<u>35,227</u>	<u>1,012,627</u>
Office Expense				
Dues, subscriptions, and fees	10,519	1,568	2,336	14,423
Office equipment rental and maintenance	23,332	4,504	993	28,829
Supplies and materials	51,434	8,445	2,178	62,057
Printing and postage	3,636	255	9,794	13,685
Telephone/communication	31,374	6,057	1,336	38,767
Total Office Expense	<u>120,295</u>	<u>20,829</u>	<u>16,637</u>	<u>157,761</u>
General Expenses				
Authorizer fee	-	48,896	-	48,896
Fundraising contract staff	-	-	134,000	134,000
Professional fees	263,183	40,970	40,324	344,477
Insurance	11,392	2,199	485	14,076
Recruiting	16,165	2,752	607	19,524
Miscellaneous	5,183	616	1,178	6,977
Total General Expenses	<u>295,923</u>	<u>95,433</u>	<u>176,594</u>	<u>567,950</u>
Total Expenses	<u>\$ 4,695,113</u>	<u>\$ 796,776</u>	<u>\$ 346,117</u>	<u>\$ 5,838,006</u>

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

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	<u>Support Services</u>			<u>Total Expenses</u>
	<u>Educational Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Personnel Costs				
Salaries	\$ 2,190,621	\$ 504,314	\$ 48,950	\$ 2,743,885
Payroll taxes	176,139	34,880	3,498	214,517
Employee benefits	322,843	57,377	9,892	390,112
Total Personnel Costs	<u>2,689,603</u>	<u>596,571</u>	<u>62,340</u>	<u>3,348,514</u>
Direct Student Costs				
Recruitment	10,092	-	-	10,092
Assessment materials/program evaluation	8,265	-	-	8,265
Student assistance	40,577	-	-	40,577
Contracted instruction fees	504,934	-	-	504,934
Educational supplies and textbooks	30,737	-	-	30,737
Food	13,890	-	-	13,890
Miscellaneous	6,123	-	-	6,123
Total Direct Student Costs	<u>614,618</u>	<u>-</u>	<u>-</u>	<u>614,618</u>
Occupancy				
Rent	237,144	44,955	4,545	286,644
Contracted building services	120,816	22,904	2,315	146,035
Depreciation and amortization	235,263	43,605	4,509	283,377
Maintenance and repairs	51,143	9,695	980	61,818
Interest	120,741	22,649	2,314	145,704
Utilities	91,947	17,431	1,762	111,140
Total Occupancy Expense	<u>857,054</u>	<u>161,239</u>	<u>16,425</u>	<u>1,034,718</u>
Office Expenses				
Dues, subscriptions, and fees	29,509	1,134	2,143	32,786
Office equipment rental and maintenance	15,878	3,652	300	19,830
Supplies and materials	45,865	5,880	1,610	53,355
Printing and postage	3,356	418	6,254	10,028
Telephone/communication	34,411	6,400	647	41,458
Total Office Expense	<u>129,019</u>	<u>17,484</u>	<u>10,954</u>	<u>157,457</u>
General Expenses				
Authorizer fee	-	46,730	-	46,730
Fundraising contract staff	-	-	174,841	174,841
Professional fees	200,782	36,198	30,594	267,574
Insurance	11,598	2,198	222	14,018
Recruiting	6,320	1,291	-	7,611
Miscellaneous	1,503	254	155	1,912
Total General Expenses	<u>220,203</u>	<u>86,671</u>	<u>205,812</u>	<u>512,686</u>
Total Expenses	<u>\$ 4,510,497</u>	<u>\$ 861,965</u>	<u>\$ 295,531</u>	<u>\$ 5,667,993</u>

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

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 213,022	\$ 182,743
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	210,417	283,377
Amortization of debt issuance costs	22,971	26,800
Loss on disposal of property and equipment	1,758	2,358
Decrease (increase) in operating assets:		
Accounts receivable	18,008	(22,289)
Grants receivable	(120,596)	(77,995)
Prepaid expenses	6,102	(10,403)
Deposits	(37)	78,620
Increase (decrease) in operating liabilities:		
Accounts payable	(79,545)	(135,252)
Accrued expenses	64,533	(37,076)
Deferred revenue	-	608
Deposits	-	2,260
Net Cash Provided by Operating Activities	336,633	293,751
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(263,202)	(310,396)
Net Cash Used by Investing Activities	(263,202)	(310,396)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(70,124)	(66,189)
Principal payments on line of credit	(49,686)	(42,168)
Principal payments on capital leases	(7,189)	(7,063)
Net Cash Used by Financing Activities	(126,999)	(115,420)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(53,568)	(132,065)
CASH AND CASH EQUIVALENTS - beginning of year	829,119	961,184
CASH AND CASH EQUIVALENTS - end of year	\$ 775,551	\$ 829,119
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 154,424	\$ 118,904
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION		
Acquisition of equipment under capital lease	\$ -	\$ 22,506

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

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 (the “Code”), as determined in an exemption letter dated September 12, 1991. Contributions to AOH are tax-deductible, within the limits described by the Code.

On June 24, 2014, AOH entered into a 15 year Charter School Agreement with the District of Columbia Public Charter School Board. During December 2016, the District of Columbia Public Charter School Board approved an amendment to AOH’s charter to operate at two facilities.

AOH’s mission is to provide high quality education and services that change lives and improve our communities. At the heart of AOH’s programs are core academic classes that range from beginning literacy skills through preparation for a secondary credential (High School Diploma Program) to college preparation and dual enrollment with a local college. AOH supplements these classes with computer literacy, career development and case management services. Our career development program includes career exploration, job search assistance and certifications (MOS, IC3, Food Handlers and Customer Service).

Each year AOH serves over 600 adults in the District of Columbia, 18 years old to 65 and older, who want to earn a high school credential or who need to improve their basic skills to qualify for job training or further education. AOH is supported by a combination of public charter school funding, donations and grants from foundations, corporations, individuals, government grants, and program service fees.

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 Accounting Standards 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, 2018 AND 2017
(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, 2018 and 2017.

Cash and Cash Equivalents

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

Accounts and Grants Receivable

Accounts and grants receivable are stated at the amount management expects to collect from balances outstanding at year end. Annually, management determines if an allowance for doubtful accounts or grants is necessary based upon review of outstanding receivables, historical collection of information and existing economic conditions. As of June 30, 2018 and 2017, management believes all accounts and grants receivable are collectible, therefore no allowance for doubtful accounts or grants has been established.

Property and Equipment

Property and equipment valued in excess of \$1,000 are capitalized and recorded at cost, if purchased, and estimated fair value, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from 2 to 39 years. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Leasehold improvements are amortized over the lesser of their useful life or the lease term. Repairs and maintenance are charged to expense when incurred.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Debt Issuance Costs

Costs incurred in securing debt have been capitalized and are reported in the statements of financial position as a direct reduction from the related debt liability. These costs are amortized over the remaining period of debt as interest expense, which approximates the effective interest method.

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.

AOH receives a student allocation on a per-pupil basis from the District of Columbia to cover the cost of academic expenses. Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations includes \$0 and \$21,843 for special education enhancements for the years ended June 30, 2018 and 2017, respectively.

Government grants 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.

Program and other income is primarily from exploratory comprehensive career assessment's and is recognized when the service is provided.

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.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 information 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 information returns for the years 2014 through 2016 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

Construction in progress included renovation, construction, and building improvements projects as of June 30, 2018. Amortization expense and accumulated amortization on capital lease equipment totaled \$6,605 and \$15,966 as of June 30, 2018 respectively, and \$5,855 and \$9,361 as of June 30, 2017, respectively.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE D – PROPERTY AND EQUIPMENT - continued

Depreciation and amortization expense of other property and equipment for the years ended June 30, 2018 and 2017 totaled \$203,813 and \$277,522, respectively.

Property and equipment consists of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,660,000	\$ 1,660,000
Building	3,456,561	3,326,511
Furniture and equipment	492,085	557,844
Leasehold improvements	188,481	188,481
Leased equipment	33,024	33,024
Vehicle	<u>2,000</u>	<u>2,000</u>
	5,832,151	5,767,860
Less: accumulated depreciation and amortization	<u>(577,046)</u>	<u>(563,782)</u>
Property and Equipment, Net	<u>\$ 5,255,105</u>	<u>\$ 5,204,078</u>

NOTE E – CAPITAL LEASES

AOH leases six copiers under two capital lease agreements signed in September 2016, and September 2014, respectively. The lease agreements expire in September 2020 and September 2021, respectively. Leased assets are capitalized at a combined cost of \$33,024. Capital lease obligations totaled \$17,265 and \$24,455, as of June 30, 2018 and 2017, respectively.

Minimum future lease payments under capital leases are due as follows for the years ending June 30:

2019	\$ 8,250
2020	6,265
2021	2,824
2022	<u>997</u>
Net minimum lease payments	18,336
Amount representing interest	<u>(1,071)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 17,265</u>

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE F – NOTE PAYABLE AND LINES OF CREDIT

Term Note

In April 2016, AOH obtained a \$4,140,000 term note from PNC Bank (the “Bank”) to acquire property. The note is secured by AOH’s personal property. The note initially bore interest at the Bank’s prime from April 15, 2016 through January 1, 2017. During this period, interest only was due and payable monthly. On January 1, 2017, AOH entered into an agreement to convert the note to a fixed interest rate, and shall bear interest at a rate per annum equal to the rate as then offered by the Bank. The effective interest rate for the period of January 1, 2017 through July 31, 2017 was 1.812% per annum, in accordance with the terms of the agreement. Commencing on August 1, 2017, and continuing on the 1st day of each month thereafter, principal and interest, at a fixed rate of 3.81% per annum, shall be payable in equal monthly installments in an amount sufficient to amortize the outstanding principal over a 25 year term. The note is scheduled to mature April 15, 2021, with a balloon payment of \$3,842,045 due at maturity. The outstanding balance on the note totaled \$3,996,844 and \$4,066,968, respectively as of June 30, 2018 and 2017.

Debt covenants contain certain restrictive, financial, and non financial covenants. In the opinion of management, AOH has complied with the required covenants.

Long-term debt as of June 30, consisted of the following:

	2018	2017
Note payable	\$ 3,996,844	\$ 4,066,968
Less: current installments	(57,508)	(104,430)
Less: debt issuance costs, net of accumulated amortization	(64,129)	(87,100)
Note Payable, Net	\$ 3,875,207	\$ 3,875,438

The amortization of debt issuance costs as interest expense for the years ended June 30, 2018 and 2017, was \$22,971 and \$26,800, respectively.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE F – NOTE PAYABLE AND LINES OF CREDIT – continued

Debt issuance costs and accumulated amortization are as follows as of June 30:

	2018	2017
Debt issuance costs	\$ 114,857	\$ 114,857
Less accumulated amortization	(50,728)	(27,757)
Debt Issuance Costs, Net	\$ 64,129	\$ 87,100

Interest of \$177,395 and \$145,704 was expensed for the years ended June 30, 2018 and 2017, respectively.

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

2019	\$	57,508
2020		54,672
2021		3,884,664
Total	\$	3,996,844

Lines of Credit

As part of the term note above, AOH obtained a \$500,000 committed revolving line of credit from the Bank to be used for AOH’s property renovations on the building located at 2315 18th Place NE, Washington, DC. The line of credit expires July 14, 2019, and accrues interest at the Bank’s prime rate per annum, which was 5.00% and 4.25% per annum as of June 30, 2018 and 2017, respectively. Principal and interest payments are due quarterly. The outstanding balance on the line of credit was \$82,809 and \$132,495, respectively as of June 30, 2018 and 2017.

AOH also has an additional \$200,000 line of credit with the Bank that also expires July 14, 2019, and bears interest at a rate of 5.25% per annum. There were no outstanding balances on this line of credit as of June 30, 2018 and 2017, respectively.

AOH had a \$350,000 unsecured line of credit with Capital One Bank with an annual interest rate of prime plus 1.8% per annum, which was 6.8% and 6.05% as of June 30, 2018 and 2017, respectively. The line of credit expires April 16, 2019. There were no outstanding balances on this line of credit as of June 30, 2018 and 2017, respectively.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE G – IN-KIND CONTRIBUTIONS

Individuals and other groups contribute substantial amounts of materials and services to support the mission of 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 \$120,000 and \$0, respectively for the years ended June 30, 2018 and 2017.

NOTE H – CONCENTRATIONS OF RISK

AOH is dependent on per-pupil funding from the District of Columbia Public School system as authorized by the District of Columbia Public Charter School Board. For the years ended June 30, 2018 and 2017, 80% and 76% respectively, of total revenue and support was provided by per-pupil funding. 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 FDIC limit; however, AOH believes it is not exposed to any significant credit risk on cash or cash equivalents.

NOTE I – OPERATING LEASES

AOH subleases office space from an unrelated private party located at 421 Alabama Avenue, SE in Washington, DC. The sublease agreement commenced on August 8, 2015, and expires on July 1, 2018. Monthly rental payments under this sublease were \$18,462 through August 2017, and were increased to \$19,016 beginning September 1, 2017 to the remainder of the lease term.

AOH signed a modification of the sublease, which commenced on June 30, 2018 and expires on January 31, 2035. Monthly rental payments under this sublease, based upon square feet, are \$26,107 for the first year, with 2.5% annual increases for the remainder of the lease term.

Commencing on July 1, 2021, the subleased property will expand to included additional space on the third floor of the building.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE I – OPERATING LEASES – continued

Total rent expense for the years ended June 30, 2018 and 2017 totaled \$303,074 and \$286,644, respectively. Following is a schedule of future minimum payments required under the above operating lease for the remaining lease terms for years ending June 30:

2019	\$ 313,287
2020	321,119
2021	329,147
2022	507,324
2023 and thereafter	<u>7,873,133</u>
Total	<u><u>\$9,344,010</u></u>

AOH subleases office space to an unrelated private party under an agreement that commenced on February 9, 2017, and expires February 7, 2019. Monthly payments under the agreement are \$2,260 until January 2018, and \$2,297 for the remainder of the lease term. Future minimum rental receipts for year ending June 30, 2019 total \$16,079.

NOTE J – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017, were restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Workforce collaboration	\$ 35,000	\$ -
Career support	30,000	30,000
Policy and advocacy	-	40,000
Student transportation	-	1,500
Building improvements	-	50,000
Time restricted	<u>30,000</u>	<u>100,000</u>
Total	<u><u>\$ 95,000</u></u>	<u><u>\$ 221,500</u></u>

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE K – RETIREMENT PLAN

AOH established a 403(b) defined contribution retirement plan for the benefit of its eligible employees. AOH makes a discretionary matching contribution to the plan each year. AOH contributed \$43,932 and \$35,850, respectively for the years ended June 30, 2018 and 2017, respectively.

NOTE L – SUBSEQUENT EVENTS

In preparing these financial statements, AOH's management has evaluated events and transactions for potential recognition or disclosure through November 7, 2018, which is the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation of subsequent events 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 Trustees
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"), a nonprofit organization, which comprise the statement of financial position as of June 30, 2018, 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 7, 2018.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AOH'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 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 Murren & McQuade PA

Washington, DC
November 7, 2018