

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL

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

JUNE 30, 2019 AND 2018

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Independent Auditor's Report

To the Board of Directors
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, 2019 and 2018, 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, 2019 and 2018, 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 December 19, 2019, on our consideration of Academy of Hope Adult Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Academy of Hope Adult Public Charter School's internal control over financial reporting and compliance.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules on pages 22-23, as required by D.C. Public Charter School Board ("DCPCSB"), are the responsibility of management, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Jane Marusa & McQuade PA

Washington, DC
December 19, 2019

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,100,528	\$ 775,551
Accounts receivable	3,195	21,744
Grants receivable	160,711	322,041
Prepaid expenses	58,386	19,390
Total Current Assets	1,322,820	1,138,726
NON-CURRENT ASSETS		
Property and equipment, net	5,338,582	5,255,105
Deposits	169,108	14,039
Total Non-Current Assets	5,507,690	5,269,144
TOTAL ASSETS	\$ 6,830,510	\$ 6,407,870
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 214,496	\$ 149,228
Accrued expenses	192,763	234,906
Deferred revenue	273	608
Deposits	2,260	2,260
Line of credit	82,809	82,809
Capital lease obligation, current portion	14,448	7,558
Notes payable, current portion	66,986	57,508
Total Current Liabilities	574,035	534,877
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	46,178	9,707
Notes payable, net of current portion	3,895,041	3,875,207
Total Long-Term Liabilities	3,941,219	3,884,914
Total Liabilities	4,515,254	4,419,791
NET ASSETS		
Without donor restrictions	1,980,423	1,893,079
With donor restrictions	334,833	95,000
Total Net Assets	2,315,256	1,988,079
TOTAL LIABILITIES AND NET ASSETS	\$ 6,830,510	\$ 6,407,870

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, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 4,372,871	\$ -	\$ 4,372,871
Per pupil facility allowance	1,504,243	-	1,504,243
Federal and local government grants	577,110	-	577,110
Contributions and other grants	468,613	398,800	867,413
Rental income	23,934	-	23,934
Interest	2,147	-	2,147
In-kind contributions	2,126	-	2,126
Program and other income	2,359	-	2,359
Net assets released from restrictions	158,967	(158,967)	-
Total Revenue and Support	7,112,370	239,833	7,352,203
EXPENSES			
Educational services	5,600,989	-	5,600,989
Support services:			
Management and general	932,203	-	932,203
Fundraising	491,834	-	491,834
Total Support Services	1,424,037	-	1,424,037
Total Expenses	7,025,026	-	7,025,026
CHANGE IN NET ASSETS	87,344	239,833	327,177
NET ASSETS, beginning of year	1,893,079	95,000	1,988,079
NET ASSETS, end of year	\$ 1,980,423	\$ 334,833	\$ 2,315,256

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

	Without Donor Restrictions	With Donor Restrictions	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 FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Educational Services	Support Services		Total Expenses
		Management and General	Fundraising	
Personnel Costs				
Salaries	\$ 2,798,662	\$ 438,888	\$ 223,623	\$ 3,461,173
Payroll taxes	229,104	36,337	18,493	283,934
Employee benefits	416,638	59,726	33,440	509,804
Total Personnel Costs	3,444,404	534,951	275,556	4,254,911
Direct Student Costs				
Recruitment	20,001	-	-	20,001
Assessment materials/program evaluation	24,282	-	-	24,282
Student assistance	67,174	-	-	67,174
Contracted instruction fees	586,946	-	-	586,946
Educational supplies and textbooks	56,686	-	-	56,686
Student events	49,643	-	-	49,643
Total Direct Student Costs	804,732	-	-	804,732
Occupancy				
Rent	251,483	39,439	20,094	311,016
Contracted building services	127,476	19,990	10,186	157,652
Depreciation and amortization	198,627	31,149	15,871	245,647
Maintenance and repairs	75,857	11,896	6,061	93,814
Interest	150,063	23,532	11,991	185,586
Utilities	125,276	19,646	10,010	154,932
Total Occupancy Expense	928,782	145,652	74,213	1,148,647
Office Expense				
Dues, subscriptions, and fees	17,993	21,671	4,436	44,100
Office equipment rental and maintenance	44,383	6,961	3,546	54,890
Supplies and materials	47,938	5,914	3,406	57,258
Printing and postage	852	119	14,658	15,629
Telephone/communication	45,921	7,201	4,246	57,368
Total Office Expense	157,087	41,866	30,292	229,245
General Expenses				
Authorizer fee	-	57,705	-	57,705
Fundraising fees	-	-	94,112	94,112
Professional fees	242,170	148,852	15,437	406,459
Insurance	14,130	2,216	1,129	17,475
Recruiting	4,672	733	373	5,778
Miscellaneous	5,012	228	722	5,962
Total General Expenses	265,984	209,734	111,773	587,491
Total Expenses	\$ 5,600,989	\$ 932,203	\$ 491,834	\$ 7,025,026

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

	Educational Services	Support Services		Total Expenses
		Management and General	Fundraising	
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 Expenses				
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
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 327,177	\$ 213,022
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	245,647	210,417
Amortization of debt issuance costs	22,971	22,971
Loss on disposal of property and equipment	-	1,758
Decrease (increase) in operating assets:		
Accounts receivable	18,549	18,008
Grants receivable	161,330	(120,596)
Prepaid expenses	(38,996)	6,102
Deposits	(155,069)	(37)
Increase (decrease) in operating liabilities:		
Accounts payable	65,268	(79,545)
Accrued expenses	(42,143)	64,533
Deferred revenue	(335)	-
Net Cash Provided by Operating Activities	604,399	336,633
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(270,649)	(263,202)
Net Cash Used by Investing Activities	(270,649)	(263,202)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(59,392)	(70,124)
Proceeds from note payable	65,732	-
Principal payments on line of credit	-	(49,686)
Principal payments on capital leases	(15,113)	(7,189)
Net Cash Used by Financing Activities	(8,773)	(126,999)
NET CHANGE IN CASH AND CASH EQUIVALENTS	324,977	(53,568)
CASH AND CASH EQUIVALENTS - beginning of year	775,551	829,119
CASH AND CASH EQUIVALENTS - end of year	\$ 1,100,528	\$ 775,551
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 162,615	\$ 154,424
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION		
Acquisition of equipment under capital lease	\$ 71,755	\$ -
Termination of capital lease and return of equipment	\$ 13,200	\$ -

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, 2019 AND 2018

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 to operate at two facilities. During December 2016, the District of Columbia Public Charter School Board approved an amendment to AOH’s charter to operate at these 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.

Adoption of New Accounting Pronouncement

For the year ended June 30, 2019, Academy of Hope Adult Public Charter School adopted the Financial Accounting Standards Board’s Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Adoption of New Accounting Pronouncement – (continued)

The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the change to the net assets classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Financial Statement Presentation

Financial statement presentation follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Financial Statements of *Not-For-Profit* organizations. In accordance with the topic, net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of AOH and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met either by actions of Academy of Hope Adult Public Charter School and/or the passage of time or that must be maintained permanently by Academy of Hope Adult Public Charter School. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

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 information and existing economic conditions. As of June 30, 2019 and 2018, management believes all accounts and grants receivable are collectible, therefore no allowance for doubtful accounts or grants has been established.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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 using the straight line method, which approximates the effective interest method.

Revenue Recognition

Contributions are recognized as revenue in the period in which they are received. Grants are recognized as revenue in the period in which such promises or agreements are made. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions with donor restrictions become contributions without donor restrictions when the donor-imposed time restrictions expire, or the funds are used for the donor imposed restricted purpose and are then reclassified in the statements of activities as net assets released from restrictions.

Grants

Grant revenues are received primarily from the District of Columbia Government. The grants are subject to audit by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

Per Pupil Appropriations

AOH receives a student allocation on a per-pupil basis from the District of Columbia. Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. There were no per pupil appropriations for special education enhancements for the years ended June 30, 2019 and 2018.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Method Used for Allocation of Expenses from Management and General Activities

The financial statements report certain categories of expenses that are attributable to more than one program or a supporting function such as management and general activities. Expenses of this nature are allocated on a reasonable basis that is consistently applied. Allocated expenses include depreciation and amortization, office and occupancy costs, salaries and benefits, and other general organizational costs which are allocated on the basis of time worked.

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. AOH's information returns for the years ending June 30, 2016 through 2018 are open for examination by the IRS, although no request has been made as of the date of these financial statements.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE D – AVAILABLE RESOURCES AND LIQUIDITY

AOH regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to prudently invest available funds. AOH’s sources of liquidity at its disposal include cash and cash equivalents and receivables.

In addition to financial assets available to meet general expenditures over the next 12 months, AOH operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The following reflects AOH’s financial assets as of June 30:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,100,528	\$ 775,551
Current receivable	<u>163,906</u>	<u>343,785</u>
Total Financial Assets	1,264,434	1,119,336
Encumbered net assets with donor restrictions for the next one year	<u>(334,833)</u>	<u>(95,000)</u>
Total Financial Assets Available to meet Cash Needs for General Expenditures Within One Year	<u>\$ 929,601</u>	<u>\$ 1,024,336</u>

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,660,000	\$ 1,660,000
Building	3,480,373	3,456,561
Construction in progress	33,825	-
Furniture and equipment	582,942	492,085
Leasehold improvements	220,378	188,481
Leased equipment	82,273	33,024
Vehicle	<u>68,031</u>	<u>2,000</u>
	6,127,822	5,832,151
Less: accumulated depreciation and amortization	<u>(789,240)</u>	<u>(577,046)</u>
Property and Equipment, Net	<u>\$ 5,338,582</u>	<u>\$ 5,255,105</u>

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE E – PROPERTY AND EQUIPMENT - continued

Construction in progress included renovation, construction, and building improvements projects as of June 30, 2019. Amortization expense and accumulated amortization on capital lease equipment totaled \$15,188 and \$21,777 as of June 30, 2019 respectively, and \$6,604 and \$15,966 as of June 30, 2018, respectively.

Depreciation and amortization expense of other property and equipment for the years ended June 30, 2019 and 2018 totaled \$230,459 and \$203,813, respectively.

NOTE F – 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. The 2016 lease agreement was terminated as of September 10, 2018.

During 2019, AOH entered into an agreement for six new copiers. In connection with the new copier lease the vendor repaid the remaining obligation on the terminated lease and returned the equipment. The net book value of the equipment and the remaining recorded balance of the lease obligation were substantially equal at approximately \$13,200. This is considered a noncash transaction for purposes of the statement of cash flows.

Leased assets are capitalized at a combined cost of \$82,273 and \$33,024 as of June 30, 2019 and 2018, respectively. Capital lease obligations totaled \$60,626 and \$17,265, as of June 30, 2019 and 2018, respectively.

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

2020	\$ 15,400
2021	15,006
2022	15,006
2023	15,006
2024	<u>2,501</u>
Net minimum lease payments	62,919
Amount representing interest	<u>(2,293)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 60,626</u>

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE G – 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 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 \$3,944,855 and \$3,996,844, respectively as of June 30, 2019 and 2018.

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

In October 2018, AOH obtained a \$65,731 note payable in acquisition of a 2018 Ford Shuttle bus from tcf Equipment Finance. Commencing on November 2, 2018 and continuing on the 2nd day of each month thereafter, principal and interest, at a fixed rate of 7.56% per annum, shall be payable in equal monthly installments in an amount sufficient to amortize the outstanding principal over a 5-year term. The note is scheduled to mature October 2, 2023. The outstanding balance on the note totaled \$58,331 as of June 30, 2019.

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

	2019	2018
Note payable - Property	\$ 3,944,855	\$ 3,996,844
Note payable - Vehicle	58,331	-
Less: current installments	(66,986)	(57,508)
Less: debt issuance costs, net of accumulated amortization	(41,159)	(64,129)
Notes Payable, Net	\$ 3,895,041	\$ 3,875,207

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE G – NOTE PAYABLE AND LINES OF CREDIT – continued

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

	2019	2018
Debt issuance costs	\$ 114,857	\$ 114,857
Less accumulated amortization	(73,698)	(50,728)
Debt Issuance Costs, Net	\$ 41,159	\$ 64,129

Interest of \$185,586 and \$177,395, including amortization of debt issuance cost of \$22,971 and \$22,971 was expensed for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$ 66,986
2021	3,902,436
2022	13,745
2023	14,821
2024	5,198
Total	\$ 4,003,186

Lines of Credit

As part of the term note above, AOH obtained a \$500,000 committed revolving line of credit from PNC 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, 2020, and accrues interest at PNC’s prime rate per annum, which was 5.50% and 5.00% per annum as of June 30, 2019 and 2018, respectively. Principal and interest payments are due quarterly. The outstanding balance on the line of credit was \$82,809 and \$82,809, respectively as of June 30, 2019 and 2018.

AOH also has an additional \$200,000 line of credit with PNC that also expires July 14, 2020 and bears interest at PNC’s prime rate per annum, which was 5.5% per annum. There were no outstanding balances on this line of credit as of June 30, 2019 and 2018, 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 7.3% and 6.8% as of June 30, 2019 and 2018, respectively. The line of credit expires April 16, 2020. There were no outstanding balances on this line of credit as of June 30, 2019 and 2018, respectively.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE H – 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 assets for the fair value totaling \$2,126 (computers) and \$120,000 (new roof), respectively for the years ended June 30, 2019 and 2018.

NOTE I – CONCENTRATIONS OF RISK

AOH is supported primarily through local and federal appropriations and grants. For the years ended June 30, 2019 and 2018, 88% and 89%, respectively, of total revenue and support was provided by one government agency. Reduction of this source of support would have a significant impact on the school's programs and activities.

AOH maintains its cash in several financial institutions. The cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. AOH's cash routinely exceeds the FDIC limit. Management does not believe AOH is exposed to any significant credit risk on its cash and cash equivalents.

NOTE J – OPERATING LEASES

AOH subleases office space from an unrelated private party located at 421 Alabama Avenue, SE in Washington, DC. The sublease agreement which previously called for monthly rent of \$19,016 was modified on June 30, 2018 and expires on January 31, 2035. Monthly rental payments under this sublease, based upon 16,066 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 include 8,093 square feet of additional space on the third floor of the building.

As part of the lease amendment AOH has agreed to complete \$1,800,000 of renovations to the additional space, \$1,200,000 to be completed by August 31, 2022 with the entire project completed by June 30 2027. AOH is required to report progress on the renovations including invoices to the landlord beginning October 1, 2019. As compensation for these renovations AOH will receive rent abatements beginning in July 2019 through 2027 at the rate of \$16,667 a month or \$200,000 a year during 2020 through 2025 and \$25,000 a month or \$300,000 during 2026 and 2027. To the extent that renovation costs through June 30, 2027 do not reach \$1,800,000 AOH will be required to repay the abatements to the extent of the shortfall.

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE J – OPERATING LEASES – continued

As part of the lease amendment the security deposit was increased from \$13,909 to \$169,108 upon completion of the renovations the security deposit will be reduced by \$42,277.

Total rent expense for the years ended June 30, 2019 and 2018 totaled \$311,016 and \$303,074, respectively. Following is a schedule of future minimum payments, net of abatements, required under the above operating lease for the remaining lease term for years ending June 30:

2020	\$ 121,119
2021	129,147
2022	307,324
2022	320,007
2024	333,007
2025 and thereafter	<u>6,020,119</u>
Total	<u><u>\$ 7,230,723</u></u>

AOH subleased office space to an unrelated private party under an agreement that commenced on February 9, 2017, and expired February 7, 2019. Rental income was \$23,934 and \$28,028 for the years ended June 30, 2019 and 2018, respectively.

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2019 and 2018, were restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Strategic planning and student information system	\$ 243,866	\$ -
Workforce collaboration	-	35,000
Career support	30,000	30,000
Hope market analysis	25,000	-
Ford foundation partnership event	5,000	-
Time restricted	-	30,000
Technology upgrades	25,000	-
Race equity framework	5,967	-
Total	<u><u>\$ 334,833</u></u>	<u><u>\$ 95,000</u></u>

ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE L – 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 \$58,560 and \$43,932, respectively for the years ended June 30, 2019 and 2018, respectively.

NOTE M – SUBSEQUENT EVENTS

In preparing these financial statements, AOH's management has evaluated events and transactions for potential recognition or disclosure through December 19, 2019, 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 Directors
Academy of Hope Adult Public Charter School
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Academy of Hope Adult Public Charter School ("AOH"), a nonprofit organization, which comprise the statement of financial position as of June 30, 2019, 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 December 19, 2019.

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 Warner & McQuade PA

Washington, DC
December 19, 2019

SUPPLEMENTAL SCHEDULES

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
SUPPLEMENTAL SCHEDULE OF VENDORS PAID OVER \$25,000
YEAR ENDED JUNE 30, 2019**

<u>Vendor Name</u>	<u>Services Provided</u>	<u>Amount Paid</u>
DC Health Link	Health Insurance	\$ 323,418
Benefits Mall	Dental, Life, & Disability Insurance	47,535
Benjamin Office Supply & Services, Inc.	Furniture and equipment	27,513
Centric Telecom, Inc	Telephone Service	39,490
Colonial Bus	Fixed assets	60,862
Community IT Innovators	IT support	125,725
CroppMetcalf	HVAC Service	48,485
DC Public Charter School Board	Charter School Authorizer Fee	56,838
DC Water and Sewer Authority	Water	27,273
Dell Marketing L.P.	Computers and equipment	85,939
EdOps	Financial Services	79,850
EmpowerK12	Strategic Data and Analytics Support	29,000
KIPP DC	Rent & Facility Operating Costs	311,016
LGC Security LLC	Security Service	28,331
Literacy Volunteers and Advocates	Contracted Instruction	207,240
Lynn English Consulting, Inc	Development Consulting	76,200
Pepco	Electricity	93,797
PerCon Contracting LLC	Transportation Service	28,717
PMM Companies	Janitorial Service	106,717
PNC Bank	Loan & Line of Credit Interest	161,048
Professionals for Nonprofits	Contracted Staff	27,200
Simply Consulting	Contracted Instruction	37,156
Staples	Supplies	40,792
Stoiber & Associates PC	Architect Design Service	25,186
The Hartford	Insurance	27,552

Note: The above schedule includes all vendors/contractors paid equal to or greater than \$25,000 for which either a formal contract was executed or no formal contract was entered into, executed or negotiated.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL
 SUPPLEMENTAL SCHEDULE OF AWARDED VENDOR CONTRACTS OVER \$25,000
 YEAR ENDED JUNE 30, 2019**

<u>Vendor Name</u>	<u>Services Provided</u>	<u>Approximate</u>
Ampersand Education	Strategic Consulting	Over \$25,000
LookThink	Student Information System design, & development Services	Over \$25,000
The Webster Group	Event Management, Fundraising & Production Services	Over \$25,000

Note: The above schedule includes only those contracts entered into by the School as of June 30, 2019 for services that will amount to more than \$25,000 over the term of the contract, services have not begun, nor had anything been paid as of June 30, 2019.