

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**

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

**JUNE 30, 2016 AND 2015**

## TABLE OF CONTENTS

	<u>Page No.</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 - 2
<b>FINANCIAL STATEMENTS:</b>	
Statements of Financial Position	3
Statement of Activities, Year Ended June 30, 2016	4
Statement of Activities, Year Ended June 30, 2015	5
Statement of Functional Expenses, Year Ended June 30, 2016	6
Statement of Functional Expenses, Year Ended June 30, 2015	7
Statements of Cash Flows	8
Notes to the Financial Statements	9 - 17
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>	18 - 19



## 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, 2016 and 2015, 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, 2016 and 2015, 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 xxx 2016, 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.

*James Maruca & M<sup>o</sup>Quade PA*

Washington, DC  
December 12, 2016

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2016 AND 2015**

	2016	2015
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 961,184	\$ 754,391
Accounts receivable	17,463	4,663
Grants receivable	123,450	252,737
Prepaid expenses	15,091	48,482
Total Current Assets	1,117,188	1,060,273
<b>NON-CURRENT ASSETS</b>		
Property and equipment, net	5,179,788	480,282
Deposits	92,622	13,909
Debt issuance costs, net	113,900	-
Total Non-Current Assets	5,386,310	494,191
<b>TOTAL ASSETS</b>	<b>\$ 6,503,498</b>	<b>\$ 1,554,464</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 364,025	\$ 58,639
Accrued expenses	207,449	152,262
Deferred revenue	-	3,125
Line of credit	174,663	-
Capital lease obligation, current portion	8,642	8,242
Note payable, current portion	43,435	-
Total Current Liabilities	798,214	222,268
<b>LONG-TERM LIABILITIES</b>		
Capital lease obligation, net of current portion	23,248	31,891
Note payable, net of current portion	4,089,722	-
Total Long-Term Liabilities	4,112,970	31,891
Total Liabilities	4,911,184	254,159
<b>NET ASSETS</b>		
Unrestricted	1,511,314	944,757
Temporarily restricted	81,000	355,548
Total Net Assets	1,592,314	1,300,305
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,503,498</b>	<b>\$ 1,554,464</b>

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, 2016**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Per pupil appropriations	\$ 2,870,719	\$ -	\$ 2,870,719
Per pupil facility allowance	1,043,416	-	1,043,416
Federal and local government grants	352,484	-	352,484
Contributions and other grants	482,724	181,500	664,224
In-kind contributions	2,000	-	2,000
Interest	5,292	-	5,292
Other income	43,377	-	43,377
Net assets released from restrictions	456,048	(456,048)	-
Total Revenue and Support	<u>5,256,060</u>	<u>(274,548)</u>	<u>4,981,512</u>
<b>EXPENSES</b>			
Educational services	3,833,245	-	3,833,245
Support services:			
Management and general	516,967	-	516,967
Fundraising	339,291	-	339,291
Total Support Services	<u>856,258</u>	<u>-</u>	<u>856,258</u>
Total Expenses	<u>4,689,503</u>	<u>-</u>	<u>4,689,503</u>
<b>CHANGE IN NET ASSETS</b>	566,557	(274,548)	292,009
<b>NET ASSETS, beginning of year</b>	<u>944,757</u>	<u>355,548</u>	<u>1,300,305</u>
<b>NET ASSETS, end of year</b>	<u><u>\$ 1,511,314</u></u>	<u><u>\$ 81,000</u></u>	<u><u>\$ 1,592,314</u></u>

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, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Per pupil appropriations	\$ 2,162,657	\$ -	\$ 2,162,657
Per pupil facility allowance	786,432	-	786,432
Federal and local government grants	525,779	-	525,779
Contributions and other grants	255,934	449,800	705,734
In-kind contributions	100,211	-	100,211
Fundraising events	21,744	-	21,744
Loss on assets disposal	(3,225)	-	(3,225)
Other income	18,029	-	18,029
Net assets released from restrictions	768,231	(768,231)	-
Total Revenue and Support	<u>4,635,792</u>	<u>(318,431)</u>	<u>4,317,361</u>
<b>EXPENSES</b>			
Educational services	3,095,103	-	3,095,103
Support services:			
Management and general	444,607	-	444,607
Fundraising	298,442	-	298,442
Total Support Services	<u>743,049</u>	<u>-</u>	<u>743,049</u>
Total Expenses	<u>3,838,152</u>	<u>-</u>	<u>3,838,152</u>
<b>CHANGE IN NET ASSETS</b>	797,640	(318,431)	479,209
<b>NET ASSETS, beginning of year</b>	<u>147,117</u>	<u>673,979</u>	<u>821,096</u>
<b>NET ASSETS, end of year</b>	<u>\$ 944,757</u>	<u>\$ 355,548</u>	<u>\$ 1,300,305</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, 2016**

	Educational Services	Support Services		Total Expenses
		Management and General	Fundraising	
<b>Personnel Costs</b>				
Salaries	\$ 2,050,558	\$ 274,794	\$ 68,657	\$ 2,394,009
Payroll taxes	143,304	30,061	4,700	178,065
Employee benefits	272,927	52,043	8,391	333,361
<b>Total Personnel Costs</b>	<b>2,466,789</b>	<b>356,898</b>	<b>81,748</b>	<b>2,905,435</b>
<b>Direct Student Costs</b>				
Recruitment	186	-	-	186
Assessment materials/program evaluation	19,457	-	-	19,457
Student travel	29,188	-	-	29,188
Educational supplies and textbooks	22,490	6,525	-	29,015
<b>Total Direct Student Costs</b>	<b>71,321</b>	<b>6,525</b>	<b>-</b>	<b>77,846</b>
<b>General Expenses</b>				
Administration fee	39,626	4,324	1,213	45,163
Event services	28,117	958	-	29,075
Professional fees	491,455	26,471	223,056	740,982
Insurance	6,933	926	212	8,071
Miscellaneous	1,760	727	9,419	11,906
<b>Total General Expenses</b>	<b>567,891</b>	<b>33,406</b>	<b>233,900</b>	<b>835,197</b>
<b>Occupancy</b>				
Rent	327,122	54,374	4,712	386,208
Depreciation and amortization	187,149	14,437	5,729	207,315
Maintenance and repairs	-	6,485	-	6,485
Interest	28,184	3,761	863	32,808
Utilities	11,612	1,550	355	13,517
Janitorial	-	802	-	802
<b>Total Occupancy Expense</b>	<b>554,067</b>	<b>81,409</b>	<b>11,659</b>	<b>647,135</b>
<b>Office Expense</b>				
Dues, subscriptions, and fees	26,037	13,062	1,413	40,512
Office equipment rental and maintenance	9,978	2,196	286	12,460
Supplies and materials	34,907	11,545	488	46,940
Printing and postage	-	2,339	6,705	9,044
Telephone/communication costs	102,255	9,587	3,092	114,934
<b>Total Office Expense</b>	<b>173,177</b>	<b>38,729</b>	<b>11,984</b>	<b>223,890</b>
<b>Total Expenses</b>	<b>\$ 3,833,245</b>	<b>\$ 516,967</b>	<b>\$ 339,291</b>	<b>\$ 4,689,503</b>

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, 2015**

	Educational Services	Support Services		Total Expenses
		Management and General	Fundraising	
<b>Personnel Costs</b>				
Salaries	\$ 1,738,503	\$ 233,557	\$ 73,310	\$ 2,045,370
Payroll taxes	147,292	21,847	6,217	175,356
Employee benefits	232,137	30,275	11,521	273,933
<b>Total Personnel Costs</b>	<b>2,117,932</b>	<b>285,679</b>	<b>91,048</b>	<b>2,494,659</b>
<b>Direct Student Costs</b>				
Recruitment	10,919	-	-	10,919
Assessment materials/program evaluation	12,599	989	-	13,588
Student assistance	26,480	-	-	26,480
Educational supplies and textbooks	44,984	7,577	16	52,577
Student travel	3,053	133	-	3,186
<b>Total Direct Student Costs</b>	<b>98,035</b>	<b>8,699</b>	<b>16</b>	<b>106,750</b>
<b>General Expenses</b>				
Administration fee	29,013	3,891	1,225	34,129
Board fees	3,184	804	1,677	5,665
Event services	2,861	238	9,883	12,982
Professional fees	362,555	12,587	176,913	552,055
Insurance	8,200	1,100	346	9,646
Interest	522	705	7	1,234
Staff meetings	1,279	5,293	215	6,787
Volunteer support	3,262	-	-	3,262
Miscellaneous	3,197	368	27	3,592
<b>Total General Expenses</b>	<b>414,073</b>	<b>24,986</b>	<b>190,293</b>	<b>629,352</b>
<b>Occupancy</b>				
Rent	201,680	44,392	2,725	248,797
Depreciation and amortization	109,755	17,939	691	128,385
Maintenance and repairs	10,976	885	41	11,902
Utilities	2,355	1,895	31	4,281
Janitorial	1,681	1,445	23	3,149
Moving expense	5,078	2,044	80	7,202
<b>Total Occupancy Expense</b>	<b>331,525</b>	<b>68,600</b>	<b>3,591</b>	<b>403,716</b>
<b>Office Expenses</b>				
Dues, subscriptions, and fees	20,950	19,364	1,564	41,878
Office equipment rental and maintenance	7,401	3,726	191	11,318
Supplies and materials	10,118	12,182	1,044	23,344
Payroll services	8,144	1,092	344	9,580
Printing and postage	5,628	1,469	8,174	15,271
Telephone/communication costs	81,297	18,810	2,177	102,284
<b>Total Office Expense</b>	<b>133,538</b>	<b>56,643</b>	<b>13,494</b>	<b>203,675</b>
<b>Total Expenses</b>	<b>\$ 3,095,103</b>	<b>\$ 444,607</b>	<b>\$ 298,442</b>	<b>\$ 3,838,152</b>

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, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 292,009	\$ 479,209
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	207,315	128,385
Loss on assets disposal	-	3,225
Decrease (increase) in operating assets:		
Accounts receivable	(12,800)	(4,663)
Grants receivable	129,287	324,431
Prepaid expenses	33,390	(32,932)
Deposits	(78,713)	(13,909)
Increase (decrease) in operating liabilities:		
Accounts payable	305,386	16,029
Accrued expenses	55,187	98,156
Deferred revenue	(3,125)	3,125
Net Cash Provided by Operating Activities	927,936	1,001,056
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(591,201)	(442,738)
Proceeds from sale of property and equipment	-	2,700
Net Cash Used By Investing Activities	(591,201)	(440,038)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on note payable	(6,843)	(50,209)
Debt issuance costs incurred	(114,857)	-
Principal payments on capital leases	(8,242)	(6,045)
Net Cash Provided By (Used By) Financing Activities	(129,942)	(56,254)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	206,793	504,764
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	754,391	249,627
<b>CASH AND CASH EQUIVALENTS - end of year</b>	\$ 961,184	\$ 754,391
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 32,808	\$ 1,234
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION</b>		
Acquisition of equipment under capital lease	\$ -	\$ 42,441
Acquisition of property and equipment by debt proceeds	\$ 4,086,114	\$ -

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, 2016 AND 2015**

**NOTE A – NATURE OF ORGANIZATION**

Academy of Hope Adult Public Charter School (“AOH”) was incorporated on May 30, 1990 as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code (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.

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 (GED or National External 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 500 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 Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit-Entities*. In accordance with the topic, AOH is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of AOH and changes therein are classified and reported as follows:

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

*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.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
(continued)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Financial Statement Presentation - continued

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, 2016 and 2015.

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 recorded when promised or when related expenses have been incurred, and represent claims against third parties that will be settled in cash. Accounts and grants receivable are reported net of an allowance for doubtful accounts, if any. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, the age of outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. Past due grants receivable are written off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2016 and 2015, the majority of the receivables are due from governmental agencies. Due to the nature of funding from the federal government and the District of Columbia, management believes that all receivables will be collected. Therefore, no allowance for doubtful accounts has been recorded.

Property and Equipment

Property and equipment valued in excess of \$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, 2016 AND 2015**  
(continued)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Debt Issuance Costs

Issuance costs incurred in securing debt have been capitalized. These costs are amortized over the remaining period of the loan, 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.

Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations includes \$49,127 and \$0 for special education enhancements for the years ended June 30, 2016 and 2015, 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.

In-kind Contributions

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

Functional Allocation of Expenses

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

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.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
(continued)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Use of Estimates - continued

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 2012 through 2014 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 includes on-going renovation, construction, and building improvements projects as of June 30, 2016. Amortization expense and accumulated amortization on capital lease equipment totaled \$8,488 and \$11,487 as of June 30, 2016, respectively, and \$5,024 and \$2,999 as of June 30, 2015, respectively. Depreciation and amortization expense for the years ended June 30, 2016 and 2015 totaled \$198,827 and \$123,361 respectively.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
(continued)

**NOTE D – PROPERTY AND EQUIPMENT - continued**

Property and equipment consists of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,660,000	\$ -
Building	2,940,000	-
Construction in progress	273,926	-
Furniture and equipment	612,620	582,683
Leasehold improvements	348,892	348,892
Leased equipment	42,441	42,441
Vehicle	2,000	-
Subtotal	<u>5,879,879</u>	<u>974,016</u>
Less: accumulated depreciation and amortization	<u>(700,091)</u>	<u>(493,734)</u>
Property and Equipment, Net	<u><u>\$ 5,179,788</u></u>	<u><u>\$ 480,282</u></u>

**NOTE E – CAPITAL LEASES**

AOH leases two copiers under capital lease agreements signed in September 2014, and April 2015, respectively. The lease agreements expire in September 2020 and March 2020, respectively. Both leased assets are capitalized at a combined cost of \$42,441. Capital lease obligations totaled \$31,890 and \$40,133, as of June 30, 2016 and 2015, respectively.

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

2017	\$ 10,050
2018	9,611
2019	9,611
2020	<u>5,689</u>
Net minimum lease payments	34,961
Amount representing interest	<u>(3,071)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 31,890</u></u>

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
(continued)

**NOTE F – DEBT ISSUANCE COSTS**

The following is a summary of debt issuance costs as of June 30, 2016:

Debt issuance costs	\$ 114,857
Less: allowance for amortization	<u>(957)</u>
Debt Issuance Costs, Net	<u><u>\$ 113,900</u></u>

Amortization expense totaled \$957 for the year ended June 30, 2016.

**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 personal property. The note will initially bear interest at the Bank’s prime from April 15, 2016 through January 1, 2017. As of June 30, 2016, the Bank’s prime rate was 3.5% per annum. During this period, interest only shall be due and payable monthly. Commencing as of January 1, 2017, the note will convert to a fixed interest rate, and shall bear interest at a rate per annum equal to the rate as then offered by the Bank, for a term of not less than 51 months. Commencing on February 1, 2017, and continuing on the 1<sup>st</sup> day of each month thereafter, principal and interest 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. The outstanding balance on the note totaled \$4,133,157 as of June 30, 2016.

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

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
(continued)

**NOTE G – NOTE PAYABLE AND LINES OF CREDIT – continued**

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

2017	\$ 43,435
2018	106,862
2019	110,663
2020	114,599
2021	118,674
Thereafter	3,638,924
Total	<u>\$ 4,133,157</u>

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 18<sup>th</sup> Place NE, Washington, DC. The line of credit expires in April 2017, or such later date as designated by the Bank, and accrues interest at the Bank’s prime rate per annum, which was 3.5% per annum as of June 30, 2016. Principal and interest payments are due quarterly. The outstanding balance on the line of credit was \$174,663 as of June 30, 2016.

AOH also has an additional \$200,000 line of credit with the Bank that expires in February 2017, and bears interest at a rate of 4.5% per annum.

AOH has 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 5.30% as of June 30, 2016. The line of credit expires in April 2017. There were no outstanding balances on both lines of credit as of June 30, 2016 and 2015, respectively.

**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 expenses for the fair value totaling \$2,000 and \$100,211, respectively for the years ended June 30, 2016 and 2015.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
(continued)

**NOTE I – CONCENTRATION OF RISK**

AOH receives a substantial amount of funding from the District of Columbia based on student enrollment according to the Uniform per Student Funding Formula developed by the Mayor and City Council. For the years ended June 30, 2016 and 2015, AOH recognized revenue received from the District of Columbia Board of Education totaling \$3,914,135 and \$2,949,089, respectively. 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 J – OPERATING LEASES**

AOH subleased office space from an unrelated private party located at 601 Edgewood Street, NE in Washington, DC under an operating sublease agreement that commenced on December 15, 2006 and expired in July 2016. Monthly rental payments under this sublease were \$5,837. AOH also had an additional 1,926 square feet located at 635 Edgewood Street, NE in Washington, DC under the above sublease agreement.

AOH also 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 September 14, 2017. Monthly rental payments under this sublease were \$17,405 through September 2015, after which a three percent increase is applied each September for the remainder of the lease term.

Total rent expense for the years ended June 30, 2016 and 2015 totaled \$386,208 and \$248,797, respectively.

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

2017	\$ 226,316
2018	<u>36,925</u>
Total	<u><u>\$ 263,241</u></u>

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**  
(continued)

**NOTE K – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2016 and 2015, were restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Career Pathways	\$ -	\$ 72,722
Policy and advocacy	-	43,496
Feasibility Study and Ward 8 Career Center	-	132,330
Career support	30,000	30,000
Time restricted	<u>51,000</u>	<u>77,000</u>
Total	<u>\$ 81,000</u>	<u>\$ 355,548</u>

**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 \$22,047 and \$9,846, respectively for the years ended June 30, 2016 and 2015, respectively.

**NOTE M - SUBSEQUENT EVENTS**

In July 2016, AOH moved to a new school location in which it had purchased a building prior to June 30, 2016. In preparing these financial statements, AOH’s management has evaluated events and transactions for potential recognition or disclosure through December 12, 2016, 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, 2016, 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 12, 2016.

**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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of AOH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AOH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Jane Marston & McQuade PA*

Washington, DC  
December 12, 2016