

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**

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

**JUNE 30, 2017 AND 2016**

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## 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, 2017 and 2016, 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, 2017 and 2016, 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 18, 2017, 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.

*Jane Marcus & McQuade PA*

Washington, DC  
November 18, 2017

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

	2017	2016
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 829,119	\$ 961,184
Accounts receivable	39,752	17,463
Grants receivable	201,445	123,450
Prepaid expenses	25,493	15,091
Total Current Assets	1,095,809	1,117,188
<b>NON-CURRENT ASSETS</b>		
Property and equipment, net	5,204,078	5,179,788
Deposits	14,002	92,622
Total Non-Current Assets	5,218,080	5,272,410
<b>TOTAL ASSETS</b>	<b>\$ 6,313,889</b>	<b>\$ 6,389,598</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 228,773	\$ 364,025
Accrued expenses	170,373	207,449
Deferred revenue	608	-
Deposits	2,260	-
Line of credit	132,495	174,663
Capital lease obligation, current portion	7,190	8,642
Note payable, current portion	104,430	43,435
Total Current Liabilities	646,129	798,214
<b>LONG-TERM LIABILITIES</b>		
Capital lease obligation, net of current portion	17,265	23,248
Note payable, net	3,875,438	3,975,822
Total Long-Term Liabilities	3,892,703	3,999,070
Total Liabilities	4,538,832	4,797,284
<b>NET ASSETS</b>		
Unrestricted	1,553,557	1,511,314
Temporarily restricted	221,500	81,000
Total Net Assets	1,775,057	1,592,314
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,313,889</b>	<b>\$ 6,389,598</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, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
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>
<b>EXPENSES</b>			
Educational services	4,549,158	-	4,549,158
Support services:			
Management and general	822,563	-	822,563
Fundraising	296,272	-	296,272
Total Support Services	<u>1,118,835</u>	<u>-</u>	<u>1,118,835</u>
Total Expenses	<u>5,667,993</u>	<u>-</u>	<u>5,667,993</u>
<b>CHANGE IN NET ASSETS</b>	42,243	140,500	182,743
<b>NET ASSETS, beginning of year</b>	<u>1,511,314</u>	<u>81,000</u>	<u>1,592,314</u>
<b>NET ASSETS, end of year</b>	<u>\$ 1,553,557</u>	<u>\$ 221,500</u>	<u>\$ 1,775,057</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, 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
Program and 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 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>	
<b>Personnel Costs</b>				
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
<b>Total Personnel Costs</b>	<u>2,689,603</u>	<u>596,571</u>	<u>62,340</u>	<u>3,348,514</u>
<b>Direct Student Costs</b>				
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
<b>Total Direct Student Costs</b>	<u>614,618</u>	<u>-</u>	<u>-</u>	<u>614,618</u>
<b>Occupancy</b>				
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
<b>Total Occupancy Expense</b>	<u>857,054</u>	<u>161,239</u>	<u>16,425</u>	<u>1,034,718</u>
<b>Office Expense</b>				
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
<b>Total Office Expense</b>	<u>129,019</u>	<u>17,484</u>	<u>10,954</u>	<u>157,457</u>
<b>General Expenses</b>				
Authorizer fee	38,661	7,328	741	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
<b>Total General Expenses</b>	<u>258,864</u>	<u>47,269</u>	<u>206,553</u>	<u>512,686</u>
<b>Total Expenses</b>	<u>\$ 4,549,158</u>	<u>\$ 822,563</u>	<u>\$ 296,272</u>	<u>\$ 5,667,993</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**

	<u>Support Services</u>			<u>Total Expenses</u>
	<u>Educational Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
<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>	<u>2,466,789</u>	<u>356,898</u>	<u>81,748</u>	<u>2,905,435</u>
<b>Direct Student Costs</b>				
Recruitment	186	-	-	186
Assessment materials/program evaluation	19,457	-	-	19,457
Student assistance	32,122	-	-	32,122
Educational supplies and textbooks	37,656	6,525	-	44,181
Food	8,199	958	-	9,157
Miscellaneous	1,818	-	-	1,818
<b>Total Direct Student Costs</b>	<u>99,438</u>	<u>7,483</u>	<u>-</u>	<u>106,921</u>
<b>Occupancy</b>				
Rent	327,122	54,374	4,712	386,208
Depreciation and amortization	186,281	14,370	5,707	206,358
Maintenance and repairs	-	6,485	-	6,485
Interest	29,052	3,828	885	33,765
Utilities	11,612	1,550	355	13,517
Janitorial	-	802	-	802
<b>Total Occupancy Expense</b>	<u>554,067</u>	<u>81,409</u>	<u>11,659</u>	<u>647,135</u>
<b>Office Expenses</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	102,255	9,587	3,092	114,934
<b>Total Office Expense</b>	<u>173,177</u>	<u>38,729</u>	<u>11,984</u>	<u>223,890</u>
<b>General Expenses</b>				
Authorizer fee	39,626	4,324	1,213	45,163
Contracted instruction fees	409,562	10,218	218,011	637,791
Professional fees	81,893	16,253	5,045	103,191
Insurance	6,933	926	212	8,071
Miscellaneous	1,760	727	9,419	11,906
<b>Total General Expenses</b>	<u>539,774</u>	<u>32,448</u>	<u>233,900</u>	<u>806,122</u>
<b>Total Expenses</b>	<u>\$ 3,833,245</u>	<u>\$ 516,967</u>	<u>\$ 339,291</u>	<u>\$ 4,689,503</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, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 182,743	\$ 292,009
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	283,377	206,358
Amortization of debt issuance costs	26,800	957
Loss on disposal of property and equipment	2,358	-
Decrease (increase) in operating assets:		
Accounts receivable	(22,289)	(12,800)
Grants receivable	(77,995)	129,287
Prepaid expenses	(10,403)	33,390
Deposits	78,620	(78,713)
Increase (decrease) in operating liabilities:		
Accounts payable	(135,252)	305,386
Accrued expenses	(37,076)	55,187
Deferred revenue	608	(3,125)
Deposits	2,260	-
Net Cash Provided by Operating Activities	293,751	927,936
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(310,396)	(591,201)
Net Cash Used by Investing Activities	(310,396)	(591,201)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on note payable	(66,189)	(6,843)
Principal payments on line of credit	(42,168)	-
Debt issuance costs incurred	-	(114,857)
Principal payments on capital leases	(7,063)	(8,242)
Net Cash Used by Financing Activities	(115,420)	(129,942)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(132,065)	206,793
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	961,184	754,391
<b>CASH AND CASH EQUIVALENTS - end of year</b>	\$ 829,119	\$ 961,184
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 118,904	\$ 32,808
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION</b>		
Acquisition of equipment under capital lease	\$ 22,506	\$ -
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, 2017 AND 2016**

**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 (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.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(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, 2017 and 2016.

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, 2017 and 2016, 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, 2017 AND 2016**  
(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 \$21,843 and \$49,127 for special education enhancements for the years ended June 30, 2017 and 2016, 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.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

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

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.

Reclassifications

Certain amounts for the year ended June 30, 2016 have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

**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 2013 through 2015 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, 2017. Amortization expense and accumulated amortization on capital lease equipment totaled \$5,855 and \$9,361 as of June 30, 2017 respectively, and \$8,488 and \$11,487 as of June 30, 2016, respectively.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

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

Depreciation and amortization expense of other property and equipment for the years ended June 30, 2017 and 2016 totaled \$277,522 and \$197,870, respectively.

Property and equipment consists of the following as of June 30, 2017 and 2016:

	2017	2016
Land	\$ 1,660,000	\$ 1,660,000
Building	3,326,511	2,940,000
Construction in progress	-	273,926
Furniture and equipment	557,844	612,620
Leasehold improvements	188,481	348,892
Leased equipment	33,024	42,441
Vehicle	2,000	2,000
	5,767,860	5,879,879
Less: accumulated depreciation and amortization	(563,782)	(700,091)
Property and Equipment, Net	\$ 5,204,078	\$ 5,179,788

**NOTE E – CAPITAL LEASES**

AOH leases two copiers under capital lease agreements signed in September 2016, and September 2014, respectively. The lease agreements expire in September 2020 and September 2021, respectively. Both leased assets are capitalized at a combined cost of \$33,024. Capital lease obligations totaled \$24,455 and \$31,890, as of June 30, 2017 and 2016, respectively.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE E – CAPITAL LEASES - continued**

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

2018	\$ 8,250
2019	8,250
2020	6,265
2021	2,824
2022	<u>997</u>
Net minimum lease payments	26,586
Amount representing interest	<u>(2,131)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 24,455</u>

**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 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 3.50% per annum. During this period, interest only shall be 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 1<sup>st</sup> 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 \$3,661,972 due at maturity. The outstanding balance on the note totaled \$4,066,968 and \$4,133,157, respectively as of June 30, 2017 and 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, 2017 AND 2016**  
(continued)

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

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

	2017	2016
Note payable	\$ 4,066,968	\$ 4,133,157
Less: debt issuance costs, net of accumulated amortization	(87,100)	(113,900)
Note Payable, Net	\$ 3,979,868	\$ 4,019,257

In prior years AOH reported debt issuance costs as a deferred charge in the statement of financial position and amortization of such costs in the statement of activities as depreciation and amortization. To comply with the new GAAP presentation requirements, in 2017 AOH began reporting such costs as a direct deduction from the carrying amount of the related debt and reclassified prior year amounts, resulting in a reduction of total June 30, 2016 assets by \$113,900. The change did not affect net assets.

Similarly, AOH now reports amortization of debt issuance costs as interest expense and reclassified 2016 amounts accordingly. As a result, reported interest expense in 2016 was increased (and depreciation and amortization decreased) by \$957, with no effect on the change in net assets. The amortization of debt issuance costs as interest expense for the year ended June 30, 2017, was \$26,800.

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

	2017	2016
Debt issuance costs	\$ 114,857	\$ 114,857
Less accumulated amortization	(27,757)	(957)
Debt Issuance Costs, Net	\$ 87,100	\$ 113,900

Interest of \$145,704 and \$33,765 was expensed for the years ended June 30, 2017 and 2016, respectively.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

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

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

2018	\$	104,430
2019		105,673
2020		109,423
2021		3,747,442
Total		\$ 4,066,968

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 July 14, 2018, and accrues interest at the Bank’s prime rate per annum, which was 4.25% and 3.50% per annum as of June 30, 2017 and 2016, respectively. Principal and interest payments are due quarterly. The outstanding balance on the line of credit was \$132,495 and \$174,663, respectively as of June 30, 2017 and 2016.

AOH also has an additional \$200,000 line of credit with the Bank that expires in September 2018, and bears interest at a rate of 5.25% 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 6.05% and 5.30% as of June 30, 2017 and 2016, respectively. The line of credit expires in April 2018. There were no outstanding balances on both lines of credit as of June 30, 2017 and 2016, respectively.

**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 \$0 and \$2,000, respectively for the years ended June 30, 2017 and 2016.

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**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, 2017 and 2016, 76% and 79% 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 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. Both sublease agreements were not renewed following purchase of the building that AOH currently operates.

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 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. Future minimum lease payments for the year ending June 30, 2018 under this sublease total \$227,089.

Total rent expense for the years ended June 30, 2017 and 2016 totaled \$286,644 and \$386,208, respectively.

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 are as follows for years ending June 30:

2018	\$ 27,305
2019	16,079
Total	<u>\$ 43,384</u>

**ACADEMY OF HOPE ADULT PUBLIC CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE J – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2017 and 2016, were restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Policy and advocacy	\$ 40,000	\$ -
Student transportation	1,500	-
Building improvements	50,000	-
Career support	30,000	30,000
Time restricted	<u>100,000</u>	<u>51,000</u>
Total	<u>\$ 221,500</u>	<u>\$ 81,000</u>

**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 \$35,850 and \$22,047, respectively for the years ended June 30, 2017 and 2016, 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 18, 2017, 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, 2017, 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 18, 2017.

**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 Marston & McQuade PA*

Washington, DC  
November 18, 2017