

**HOPE COMMUNITY PUBLIC CHARTER SCHOOL, INC.
d/b/a IMAGINE HOPE COMMUNITY CHARTER SCHOOL**

**Financial Statements and Supplemental Schedules Together with
Reports of Independent Public Accountants**

For the Years Ended June 30, 2019 and 2018



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JUNE 30, 2019 AND 2018

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of the
Hope Community Public Charter School, Inc.
d/b/a Imagine Hope Community Charter School

Report on the Financial Statements

We have audited the accompanying statements of financial position of Hope Community Public Charter School, Inc., d/b/a Imagine Hope Community Charter School (the School) as of June 30, 2019 and 2018, and the related statements of activities and change in net assets, 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; and the auditing standards established pursuant to the District of Columbia School Reform Act, Public law No. 104-134, 110 Stat. 1321-121, 2204(c)(ii)(B)(ix)(1996); D.C. Official Code 38-1802.04(ii)(B)(2001, as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 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 Matters

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplemental schedule of revenue and expenses by campus is presented for purposes of additional analysis and is not a required part of the basic financial statements. Also, the accompanying schedule of expenditures of Federal awards, is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of vendors contracted for services in excess of \$25,000, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the District of Columbia Public Charter School Board, and has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the 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



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compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Washington, D.C.
November 26, 2019

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IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Statements of Financial Position As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 6,416,788	\$ 5,450,473
Grants receivable and other	603,723	860,521
Prepaid expense	49,396	12,767
Property and equipment, net	150,980	95,516
Total Assets	<u>\$ 7,220,887</u>	<u>\$ 6,419,277</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 278,128	\$ 366,298
Accrued salaries and payroll withholdings	475,389	515,439
Due to related party	44,364	75,279
Total Liabilities	<u>797,881</u>	<u>957,016</u>
Net Assets		
Without donor restrictions	<u>6,423,006</u>	<u>5,462,261</u>
Total Liabilities and Net Assets	<u>\$ 7,220,887</u>	<u>\$ 6,419,277</u>

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

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Statements of Activities and Change in Net Assets For the Years Ended June 30, 2019 and 2018

CHANGE IN NET ASSETS	2019	2018
WITHOUT DONOR RESTRICTIONS		
Tuition - per pupil funding allocation	\$ 12,486,599	\$ 12,509,924
DC facilities allowance	2,417,883	2,410,510
Federal entitlements and grants	1,165,649	1,101,145
Student activities	93,949	133,119
Other revenue	75,498	241,349
Total Revenue and Other Support	16,239,578	16,396,047
Expenses		
Educational services	13,063,909	12,949,518
General and administrative	2,214,924	2,845,731
Total Expenses	15,278,833	15,795,249
Change in Net Assets	960,745	600,798
Net assets, beginning of year	5,462,261	4,861,463
Net Assets, End of Year	\$ 6,423,006	\$ 5,462,261

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

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Statement of Functional Expenses For the Year Ended June 30, 2019, with comparative totals for 2018

	2019			2018
	Educational Services	General and Administrative	Total	
Personnel Salaries and Benefits				
Principal and office salaries	\$ 909,555	\$ 227,389	\$ 1,136,944	\$ 1,786,770
Teacher salaries	4,071,166	-	4,071,166	3,772,863
Assistant teacher salaries and aides	732,891	-	732,891	696,515
Food service salaries	181,757	-	181,757	198,980
Facilities salaries	220,185	55,046	275,231	294,129
Fringe benefits	896,224	37,343	933,567	1,009,940
Payroll taxes	533,938	22,247	556,185	634,458
Total Personnel Salaries and Benefits	7,545,716	342,025	7,887,741	8,393,655
Direct Student Costs				
Textbooks and textbook depreciation	78,243	-	78,243	19,145
Classroom supplies	62,282	-	62,282	57,767
Contracted instructional/student services	293,758	-	293,758	355,043
Computer support and supplies	29,396	-	29,396	65,749
Student assessment materials	23,923	-	23,923	26,246
Food service costs	432,316	-	432,316	401,013
Professional development costs	80,559	-	80,559	140,155
Classroom furniture/fixture rental	1,234	-	1,234	6,999
Student activity expenses	118,844	-	118,844	121,041
Field trips and parental involvement costs	68,039	-	68,039	67,144
Nursing supplies	2,599	-	2,599	1,316
Total Direct Student Costs	1,191,193	-	1,191,193	1,261,618
Occupancy Costs				
Rent	2,922,905	121,788	3,044,693	2,990,857
Utilities	225,773	9,407	235,180	277,911
Repairs and maintenance	84,570	3,524	88,094	73,808
Custodian service	84,354	3,515	87,869	81,465
Other occupancy costs	49,548	2,065	51,613	18,391
Total Occupancy Costs	3,367,150	140,299	3,507,449	3,442,432
Office Expenses				
Office supplies and materials	47,115	47,116	94,231	119,818
Telecommunications	32,333	32,334	64,667	24,021
Staff meetings and meals	26,603	26,604	53,207	35,652
Printing and publications	21,826	21,826	43,652	35,688
Postage and shipping	1,882	1,883	3,765	5,371
Marketing and promotion	14,023	14,024	28,047	21,315
Total Office Expenses	143,782	143,787	287,569	241,865
General Expenses				
Insurance	65,582	2,733	68,315	120,525
Management fees and support fees	467,594	1,466,229	1,933,823	1,862,525
Start up development allocation	-	60,000	60,000	60,000
Charter administration fee	145,918	-	145,918	142,162
Board expenses	-	14,290	14,290	12,349
Professional services	41,587	41,587	83,174	104,128
Depreciation	95,387	3,974	99,361	153,990
Total General Expenses	816,068	1,588,813	2,404,881	2,455,679
Total Expenses	\$ 13,063,909	\$ 2,214,924	\$ 15,278,833	\$ 15,795,249

The accompanying notes are an integral part of this financial statement.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Statement of Functional Expenses For the Year Ended June 30, 2018

	Educational Services	General and Administrative	Total
Personnel Salaries and Benefits			
Principal and office salaries	\$ 1,429,416	\$ 357,354	\$ 1,786,770
Teacher salaries	3,772,863	-	3,772,863
Assistant teacher salaries and aides	696,515	-	696,515
Food service salaries	198,980	-	198,980
Facilities salaries	235,303	58,826	294,129
Fringe benefits	949,344	60,596	1,009,940
Payroll taxes	596,391	38,067	634,458
Total Personnel Salaries and Benefits	<u>7,878,812</u>	<u>514,843</u>	<u>8,393,655</u>
Direct Student Costs			
Textbooks and textbook depreciation	19,145	-	19,145
Classroom supplies	57,767	-	57,767
Contracted instructional/student services	355,043	-	355,043
Computer support and supplies	65,749	-	65,749
Student assessment materials	26,246	-	26,246
Food service costs	401,013	-	401,013
Professional development costs	140,155	-	140,155
Classroom furniture/fixture rental	6,999	-	6,999
Student activity expenses	121,041	-	121,041
Field trips and parental involvement costs	67,144	-	67,144
Nursing supplies	1,316	-	1,316
Total Direct Student Costs	<u>1,261,618</u>	<u>-</u>	<u>1,261,618</u>
Occupancy Costs			
Rent	2,811,406	179,451	2,990,857
Utilities	261,236	16,675	277,911
Repairs and maintenance	69,380	4,428	73,808
Custodian service	76,577	4,888	81,465
Other occupancy costs	17,288	1,103	18,391
Total Occupancy Costs	<u>3,235,887</u>	<u>206,545</u>	<u>3,442,432</u>
Office Expenses			
Office supplies and materials	59,909	59,909	119,818
Telecommunications	12,010	12,011	24,021
Staff meetings and meals	17,826	17,826	35,652
Printing and publications	17,844	17,844	35,688
Postage and shipping	2,685	2,686	5,371
Marketing and promotion	10,657	10,658	21,315
Total Office Expenses	<u>120,931</u>	<u>120,934</u>	<u>241,865</u>
General Expenses			
Insurance	113,293	7,232	120,525
Management fees and support fees	-	1,862,525	1,862,525
Start up development allocation	-	60,000	60,000
Charter administration fee	142,162	-	142,162
Board expenses	-	12,349	12,349
Professional services	52,064	52,064	104,128
Depreciation	144,751	9,239	153,990
Total General Expenses	<u>452,270</u>	<u>2,003,409</u>	<u>2,455,679</u>
Total Expenses	<u>\$ 12,949,518</u>	<u>\$ 2,845,731</u>	<u>\$ 15,795,249</u>

The accompanying notes are an integral part of this financial statement.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Statements of Cash Flows For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 960,745	\$ 600,798
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	99,361	153,990
Effect of changes in non-cash assets and liabilities:		
Grants receivable	256,798	(1,255)
Due to/from related party, net	(30,915)	256,501
Prepaid expenses	(36,629)	(12,767)
Accounts payable	(88,170)	(280,107)
Accrued salaries and payroll withholdings	(40,050)	41,780
Net Cash from Operating Activities	<u>1,121,140</u>	<u>758,940</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(154,825)	(34,192)
Net change in cash	966,315	724,748
Cash, beginning of year	5,450,473	4,725,725
Cash, End of Year	<u>\$ 6,416,788</u>	<u>\$ 5,450,473</u>

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

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Financial Statements June 30, 2019 and 2018

1. ORGANIZATION

Hope Community Charter School, Inc., d/b/a Imagine Hope Community Charter School (the School) is a not-for-profit organization incorporated on September 21, 2004, and located in Washington, DC. The School was incorporated exclusively for educational purposes and is authorized by the District of Columbia Public Charter School Board (the Board). The current charter covers a term of 15 years through August 22, 2020 and may be renewed at the discretion of the Board. The School is also part of the District of Columbia Public School System. The School is tuition-free and serves Washington, DC children in grades pre-kindergarten to eighth grade at two campuses, Tolson and Lamond. The School's mission is to shape the hearts and minds of its students positively, by providing them with an academically rigorous, content rich curriculum, in an environment in which character is molded and promoted and a community which builds trusting relationships with others.

The School's primary sources of support are local appropriations for charter schools from the District of Columbia Government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the School are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Grants Receivable

Grants receivable consist primarily of amounts due from governmental agencies and are recorded at their net realizable value. The School records an allowance for doubtful accounts equal to estimated losses that will be increased in the collection of receivables. The estimated losses are based on historical collection experience and the review of the current status of existing receivables. Management believes that all receivables were fully collectible as of June 30, 2019 and 2018.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Financial Statements June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment valued in excess of \$1,000, with an estimated useful life of more than one year, is capitalized and recorded at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful life of the asset. Replacements, maintenance, and repairs that do not improve the useful life of an asset are expensed as incurred.

Net Assets

Net assets without donor restrictions are assets and contributions that are not restricted by donors, or for which restrictions have expired.

Net assets with donor restrictions are those whose use by the School has been restricted by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions.

There were no net assets with donor restrictions as of June 30, 2019 and 2018.

Restricted and Unrestricted Support and Revenue

Contributions received are recorded as net assets without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted support is reported as an increase in net assets, depending on the nature of the restriction.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restrictions.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended June 30, 2019 and 2018, were \$20,075 and \$10,686, respectively.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Financial Statements June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets and in the statement of functional expenses. Expenses are charged directly to program services, general and fundraising based on specific identification, when determinable. Salaries and benefits are charged to programs based on time and effort. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the School and administration. The basis of the allocation for most general and administrative costs is direct salaries, while direct student costs are 100% attributed to educational programs.

Income Taxes

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The School performed an evaluation of uncertain tax positions for the year ended June 30, 2019, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of June 30, 2019, the statute of limitations for fiscal years 2015 through 2019, remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the School files tax returns. It is the School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Implemented Pronouncements

In August 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14)*. These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment returns, expenses, liquidity and availability of resources, and presentation of operating cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. The School implemented ASU 2016-14 for the year ended June 30, 2019. The adoption of this standard resulted in certain reclassifications of prior year amounts.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Financial Statements June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard will require the entity to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases and Leases (Topic 842): Targeted Improvements*, which provide further clarity and transition options for adoption of FASB ASU No. 2016-02. These standards will be effective for periods beginning after December 15, 2020.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, that improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. This standard is effective for periods beginning after December 15, 2019.

Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

Subsequent Events

The School's management evaluated the accompanying financial statements for subsequent events and transactions through November 26, 2019, the date these financial statements were available for issue, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Financial Statements June 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity and Availability of Resources

The table below presents financial assets available to be used within one year as of June 30, 2019:

Cash	\$	6,416,788
Grants receivable and other		<u>603,723</u>
Total Financial assets available to meet cash needs for general expenses within one year	\$	<u>7,020,511</u>

The School has sufficient financial assets available within one year of June 30, 2019, to satisfy operating expenses. The School has a goal to maintain financial assets on hand to meet at least 45 days of operating expenses. Additionally, its current ratio goal (total current assets to current liabilities) is 1.0. The School has a policy to structure its financial assets to be available for its general expenditures, liabilities and other obligations as they come due. To help manage unanticipated liquidity needs, Imagine Schools, Inc. may loan funds to the School to satisfy operating needs.

3. PROPERTY AND EQUIPMENT

As of June 30, 2019 and 2018, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>	<u>Useful Lives</u>
Furniture and equipment	\$ 226,928	\$ 197,286	10 Years
Computer equipment	383,265	533,087	5 Years
Software	17,907	25,173	5 Years
Textbooks	57,627	611,031	3 Years
Leasehold improvements	<u>158,913</u>	<u>108,414</u>	10 Years
Total	844,640	1,474,991	
Less: accumulated depreciation	<u>693,660</u>	<u>1,379,475</u>	
Property and Equipment, Net	\$ 150,980	\$ 95,516	

Depreciation expense was \$99,361, and \$153,991, for the years ended June 30, 2019 and 2018, respectively.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Financial Statements June 30, 2019 and 2018

4. RELATED PARTY TRANSACTIONS

The School entered into a charter school operating agreement with Imagine Schools, Inc., on August 22, 2005. The School and Imagine Schools, Inc. desired to create an enduring educational alliance, whereby the School and Imagine work cooperatively to promote educational excellence and innovation, based on their respective school designs, comprehensive educational programs, and management principles.

The School leases its facilities from an affiliate related to Imagine through common ownership (see Note 5).

The School pays Imagine Schools, Inc. an indirect cost allocation for the provision of on-going operational and financial support under an operating contract. This payment shall be equal to (i) 12% of the total revenue provided by state and local governments during each fiscal year plus (ii) a monthly administrative fee of \$2,500 per charter school campus. Included in general and administrative expense is indirect cost allocation expense of \$1,933,823 and \$1,862,525 for the years ended June 30, 2019 and 2018, respectively, and administrative expense of \$60,000 paid to Imagine for the years ended June 30, 2019 and 2018. As of June 30, 2019 and 2018, there was \$44,364 and \$17,718, respectively, in unpaid management fees recorded as due to related party in the accompanying statements of financial position.

As disclosed in Note 1, to the extent the School does not have sufficient funds to pay operating expenses, Imagine Schools, Inc. may forward funds to the School to support operations. Imagine Schools, Inc. is to be reimbursed for these amounts. Imagine Schools, Inc. does not charge interest on funds advanced to the School.

Additionally, the School may incur certain costs on behalf of Imagine Schools, Inc. for certain payroll and other benefit-related costs. These costs are reimbursed to the School from Imagine Schools, Inc. As of June 30, 2019 and 2018, amounts due to Imagine were \$44,364 and \$57,561, respectively.

5. BUILDING LEASES AND COMMITMENTS (RELATED PARTY)

On May 4, 2007, the School entered into a lease agreement for the Tolson Campus, which is located at 2917 8th Street, NE, Washington, DC. The lease for this location was leased from Schoolhouse Finance, LLC (a company related to Imagine Schools, Inc.). This lease began on January 1, 2007, and is scheduled to continue until August 22, 2020, the end of the School's Charter period. The scheduled base monthly payments on this lease are \$98,782 per month with an increase clause applied to these amounts as described below.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Financial Statements June 30, 2019 and 2018

5. BUILDING LEASES AND COMMITMENTS (RELATED PARTY) (continued)

The lease includes an escalation clause requiring increased payments equal to the Consumer Price Index (CPI) increase for the immediately preceding calendar year as reported by the Bureau of Labor Statistics plus 1.5%. The commitment payments reflected below include the 1.5% increase and an estimate of 3% per year for the CPI increase. In addition to the base rent, the School is also required to pay all real property taxes and all other taxes and assessments of any kind made upon all or any portion of the leased premises, including improvements, equipment, furniture, fixtures, and personal property.

On August 2, 2007, the School entered into an operating lease agreement with Schoolhouse Finance, LLC for the rental of additional school building space, the Lamond Campus, located at 6200 Kansas Avenue, NE, Washington, DC. Beginning on July 1, 2010, the scheduled base monthly payments on this lease are \$116,079 per month thereafter with an increase clause applied. The lease includes an escalation clause requiring increased payments equal to the CPI increase for the immediately preceding calendar year as reported by the Bureau of Labor Statistics.

The future minimum payments on the leases as of June 30, 2019, were as follows:

<u>Year Ended June 30,</u>	<u>Total</u>	<u>Tolson Campus</u>	<u>Lamond Campus</u>
2020	\$ 3,320,192	\$ 1,589,060	\$ 1,731,132
2021	1,987,657	204,591	1,783,066
Total	\$ 5,307,849	\$ 1,793,651	\$ 3,514,198

Rent expense totaled \$3,044,693 and \$2,990,857 for the years ended June 30, 2019 and 2018, respectively.

6. CONTINGENCIES

Grant

The School receives financial assistance from Federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's management believes such disallowance, if any, would be immaterial.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Financial Statements June 30, 2019 and 2018

6. CONTINGENCIES (continued)

The School receives a substantial portion of its revenue from the District of Columbia. If a significant reduction in this revenue should occur, it may have an effect on the School's programs. During the years ended June 30, 2019 and 2018, the School earned revenue of \$16,070,131 and \$16,021,579, respectively, from the District of Columbia, which was 99% and 98% of the total revenue and support, respectively. These amounts are reflected as per pupil allocation, DC facilities allowance, and Federal grants and entitlements in the accompanying statements of activities and change in net assets.

Litigation

The School may be subject to various claims and legal proceedings covering a wide range of matters that may arise in the ordinary course of its activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the School.

7. RETIREMENT PLAN

Certain employees of the School are covered by a defined contribution retirement plan. The School is required to contribute a matching contribution at a rate of up to 5% of annual eligible employee compensation. The School's contributions for the years ended June 30, 2019 and 2018, were \$130,303 and \$265,489, respectively.

SUPPLEMENTAL SCHEDULES

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

**Supplemental Schedule of Revenue and Expenses by Campus
For the Year Ended June 30, 2019, with Comparative Totals for 2018**

	2019			2018 Total
	Tolson	Lamond	Total	
CHANGE IN NET ASSETS				
WITHOUT DONOR RESTRICTIONS				
Tuition - per pupil	\$ 7,902,528	\$ 4,584,071	\$ 12,486,599	\$ 12,509,924
DC facilities allowance	1,517,295	900,588	2,417,883	2,410,510
Federal entitlements and grants	769,513	396,136	1,165,649	1,101,145
Student activities	36,149	57,800	93,949	133,119
Other revenue	37,636	37,862	75,498	241,349
Total Revenues and Other Support	10,263,121	5,976,457	16,239,578	16,396,047
Expenses				
Personnel salaries and benefits	5,007,854	2,879,887	7,887,741	8,393,655
Direct student costs	765,134	426,059	1,191,193	1,261,618
Occupancy costs	1,651,223	1,856,226	3,507,449	3,442,432
Office expenses	165,872	121,697	287,569	241,865
General expenses	1,492,375	912,506	2,404,881	2,455,679
Total Expenses	9,082,458	6,196,375	15,278,833	15,795,249
Change in Net Assets	\$ 1,180,663	\$ (219,918)	\$ 960,745	\$ 600,798

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

**Schedule of Vendors Contracted for Services in Excess of \$25,000
For the Year Ended June 30, 2019**

(UNAUDITED)

<u>Vendor Name</u>	<u>Service Provided</u>	<u>Amount Paid</u>	<u>Related Party</u>
Aetna	Medical & Life Insurance	\$ 1,597,058	No
Align Staffing	Temporary Staffing	198,561	No
All Seasons Transmission	Bus Transportation	50,349	No
Comcast	Internet	52,562	No
DCPCSB	Fee	295,890	No
Early Autism	SPED Service	63,560	No
Imagine Schools Indirect Fee	Management Agreement	3,867,335	Yes
Imagine	Costs paid by the Mgmt Co.	734,642	Yes
Mutual of Omaha	Dental Insurance	241,912	No
Paradigm Therapy Partners	SPED Service	491,340	No
Revolution Foods	Cafeteria Food Provider	757,236	No
Roth Staffing	Temporary Staffing	48,802	No
SB & Company	Outside Auditor	54,200	No
Schoolhouse Finance	Rent	6,148,766	Yes
S.Freedman & Sons Inc.	Janitorial services & supplies	61,628	No
Staples	Office supplies, office equipment	121,418	No
UGI Energy Inc.	Electric Service Provider	167,586	No
Washington Gas	Gas Service Provider	48,853	No
Waste Management	Trash collection	66,106	No

SINGLE AUDIT



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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
Imagine Hope Community Charter School, Inc.
d/b/a Imagine Hope Community Charter Schools

We have audited 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, the financial statements of Hope Community Charter School, Inc., d/b/a Imagine Hope Community Charter Schools (the School), 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 November 26, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

The School's Response to Findings

The School's response to the findings identified in our audit is described in the accompanying schedule of corrective action. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Washington, D.C.
November 26, 2019

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Directors
Imagine Hope Community Charter School, Inc.
d/b/a Imagine Hope Community Charter School

Report on Compliance for Each Major Federal Program

We have audited Hope Community Charter School, Inc., d/b/a Imagine Hope Community Charter School's (the School) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the School's major Federal programs for the year ended June 30, 2019. The School's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of current year findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the year ended June 30, 2019.



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Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Washington, D.C.
November 26, 2019

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identification Number	Total Federal Expenditures	Pass-Through to Subrecipients
U.S. Department of Education				
<u>Pass-through from D.C. Public Schools</u>				
Title I Grants to Local Education Agencies	84.010A	82010A	\$ 359,075	\$ -
Supporting Effective Instruction State Grants	84.367A	82367A	73,396	-
Title III Part A - English Language Acquisition State Grants	84.365A	82365A	12,444	-
Title IV - Student Support and Academic Enrichment	84.424A	84.424A	45,965	-
Special Education - Grants to States	84.027A	82027A	135,202	-
Special Education Preschool Grants	84.173A	82173A	1,099	-
DC School Choice Incentive Program	84.370C	84.370C	175,410	-
Total U.S. Department of Education			<u>802,591</u>	<u>-</u>
U.S. Department of Agriculture				
<u>Direct Program</u>				
Child Nutrition Cluster				
National School Lunch Program	10.555	N/A	91,155	-
School Breakfast Program	10.553	N/A	222,284	-
Summer Food Service Program for Children	10.559	N/A	6,398	-
Child Nutrition Cluster Total			<u>319,837</u>	<u>-</u>
Fresh Fruit and Vegetable Program	10.582	N/A	25,219	-
National School Lunch	10.555	N/A	18,001	-
Total U.S. Department of Agriculture			<u>363,057</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 1,165,648</u>	<u>\$ -</u>

The accompanying notes are an integral part of this Schedule.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Imagine Hope Community Charter School, Inc., Imagine Hope Community Charter Schools (the School) are included in the scope of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant program noted below. The program on the schedule of expenditures of Federal awards represents all Federal award programs with fiscal year 2019, cash or non-cash expenditure activities. For single audit testing, we tested to ensure coverage of at least 20% of Federally granted funds. Actual coverage is 31%. The major programs tested are listed below.

Expenditures reported on the schedule of expenditures of Federal awards (the Schedule) the cost principles contained in the Single Audit, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

<u>Major Program</u>	<u>Federal CFDA Number</u>	<u>Pass Through Number</u>	<u>Federal Expenditures</u>
Title I Grants to Local Education Agencies	84.010A	82010A	<u>\$ 359,075</u>
Total			

2. Basis of Presentation

The accompanying Schedule includes the Federal award activity of the School and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of the cost principles contained in the Single Audit.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Section I – Summary of Independent Public Accountants’ Results

Financial Statements

Type of independent public accountants’ report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Type of independent public accountants’ report issued on compliance for major programs Unmodified

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No

Identification of Major Program:

<u>Major Program</u>	<u>CFDA Number</u>	<u>Number</u>	<u>Expenditures</u>
Title I Grants to Local Education Agencies	84.010A	82010A	\$ 359,075
Total			

Dollar threshold used to determine Type A and B programs \$ 750,000

Is the School qualified as a low risk auditee? Yes

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019**

Section II –Financial Statement Findings

Refer to 2019-001.

Section III –Federal Award Findings

None noted.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

Finding: 2019-001

Type of Finding – Significant Deficiency and Noncompliance with Contract Provisions

Repeat Finding: No

Criteria

In accordance with Section 2.3 of the Charter School Agreement (the Agreement) between the School and the District of Columbia Public Charter School Board (DC PCSB), enrollment shall only be open to any pupil in pre-kindergarten through eighth grade, who reside in the District of Columbia. Students who are not residents of the District of Columbia may not be enrolled.

Condition

During our audit, it came to our attention that there were students from the State of Maryland enrolled for school year 2018-19.

Cause

The School did not have adequate internal controls over compliance in place to ensure the review of the eligibility requirements in accordance with the terms set-forth in the Agreement with DC PCSB.

Effect

Improper eligibility procedures could allow for errors in admission of students in accordance with regulations. Additionally, noncompliance with the terms set-forth in the Agreement could jeopardize the School's charter status and result in liabilities to the DC PCSB.

Recommendation

We recommend the School continue to reinforce its processes and procedures to ensure eligibility and enrollment is adequately reviewed by appropriate supervisory personnel. The enrollment of eligible students is integral in maintaining a good status with the DC PCSB and in determining proper revenue recognition for the School.

Questioned Costs

Unknown.

Management Response

Management agrees with the finding. See schedule of corrective action.



Schedule of Corrective Action

November 26, 2019

Finding 2019-001 – Significant Deficiency and Noncompliance with Contract Provisions

Responsible Official's Response and Corrective Action Plan

The School became aware of the violation of the DC charter law precluding the enrollment of students not residents of DC this summer (2019). The School immediately notified the Senior Management of Imagine Schools Inc., the School's Board of Directors and reported the violation to OSSE. Discussions were held with staff to determine the extent and reason for the non-compliance. A plan of correction was put in place by the Regional Director. New staff members have been hired with experience in student records and familiarity with the residency law in DC. They began the process of examining all student records for compliance with the law, updating student files with new and complete documentation that is in compliance with residency requirements for DC charter schools. In addition, they have informed those parents/guardians not in compliance and worked with them to guarantee they are in compliance with the residency law. The School believes it will be able to monitor compliance in the future and residency violations.

Person Responsible for Corrective Action
Regional Director, Imagine Schools, Inc.

Planned Implementation Date
Effective immediately.

IMAGINE HOPE COMMUNITY CHARTER SCHOOL

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2019**

There were no prior year findings in the June 30, 2018, single audit report.