

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
(Together With Independent Auditor's Report)

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees
Ideal Academy Public Charter School
Washington, D.C.

Report on Financial Statements

We have audited the accompanying financial statements of Ideal Academy Public Charter School (the School) which comprise the statement of financial position as of June 30, 2016 and the related statements of activities and changes in net assets and cash flows for the year 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 the 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 audit. We conducted our audit 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 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, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

The School's fiscal year 2015 financial statements were audited by other auditors, who expressed an unmodified opinion on the financial statements in a report dated November 30, 2015.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses on page 11 is presented for the purpose of additional analysis 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the 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 the School's internal control over financial reporting and compliance.

Bert Smith & Co.

December 13, 2016
Washington, D.C.

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash	\$ 83,172	\$ 64,087
Cash Held for Debt Reserve	542,575	171,804
Due from District of Columbia Government	103,561	75,057
Pledges Receivable	20,000	-
Other Assets	3,797	1,700
Total Current Assets	<u>753,105</u>	<u>312,648</u>
Noncurrent Assets		
Deposits	27,093	5,460
Pledges Receivable	80,000	-
Property and Equipment, net	11,955,609	12,320,626
Total Noncurrent Assets	<u>12,062,702</u>	<u>12,326,086</u>
Total Assets	<u><u>\$12,815,807</u></u>	<u><u>\$12,638,734</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 165,676	\$ 261,057
Accrued Wages and Taxes	200,833	120,452
Accrued Interest	36,088	-
Line of Credit	200,000	-
Capital Lease Payable	18,095	7,125
Notes Payable	539,658	435,375
Total Current Liabilities	<u>1,160,350</u>	<u>824,009</u>
Noncurrent Liabilities		
Capital Lease Payable	67,763	7,242
Notes Payable	9,451,416	10,083,461
Total Noncurrent Liabilities	<u>9,519,179</u>	<u>10,090,703</u>
Total Liabilities	<u>10,679,529</u>	<u>10,914,712</u>
Unrestricted Net Assets	<u>2,136,278</u>	<u>1,724,022</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$12,815,807</u></u>	<u><u>\$12,638,734</u></u>

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

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Unrestricted Revenue and Support		
Per Pupil Allotment	\$ 4,907,901	\$ 4,893,308
Federal Revenue	339,124	477,920
Local Grant Revenue	119,327	60,678
Rental Income	43,215	-
Contributions	100,958	1,678
Donated Services	-	22,323
Fundraising Revenue	3,954	3,603
Other Revenue	<u>134,230</u>	<u>7,021</u>
Total Unrestricted Revenue and Support	<u>5,648,709</u>	<u>5,466,531</u>
Expenses		
Program Services	4,103,239	4,431,309
General and Administration	1,133,214	681,117
Fundraising	<u>-</u>	<u>16,618</u>
Total Expenses	<u>5,236,453</u>	<u>5,129,044</u>
Changes In Net Assets	412,256	337,487
Net Assets, Beginning of Year	<u>1,724,022</u>	<u>1,386,535</u>
Net Assets, End of Year	<u><u>\$ 2,136,278</u></u>	<u><u>\$ 1,724,022</u></u>

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

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Changes in Net Assets	\$ 412,256	\$ 337,487
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	476,077	452,493
Provision for Doubtful Accounts	-	71,122
<i>(Increase) Decrease in Assets:</i>		
Receivables	(128,504)	(55,173)
Other Assets	(2,097)	6,093
Deposits	(21,633)	-
<i>Increase (Decrease) in Liabilities:</i>		
Accounts Payable	(95,381)	83,117
Accrued Expenses	80,381	(163,524)
Accrued Interest	36,088	-
Deferred Revenue	-	(147,917)
Net Cash Providing by Operating Activities	<u>757,187</u>	<u>583,698</u>
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(29,060)	(48,254)
Net Cash Used in Investing Activities	<u>(29,060)</u>	<u>(48,254)</u>
Cash Flows from Financing Activities		
Proceeds form Line of Credit	200,000	-
Payments on Capital Lease Payable	(10,509)	(5,733)
Payments on Notes Payables	(527,762)	(564,192)
Net Cash Used in Financing Activities	<u>(338,271)</u>	<u>(569,925)</u>
Net Increase (Decrease) in Cash	389,856	(34,481)
Cash, Beginning of Year	235,891	270,372
Cash, End of Year	<u>\$ 625,747</u>	<u>\$ 235,891</u>
Supplemental Disclosures		
Interest Expense Paid	<u>\$ 348,855</u>	<u>\$ 328,159</u>
Equipment Purchased Under Capital Lease	<u>\$ 82,000</u>	<u>\$ -</u>

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

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Ideal Academy Public Charter School (the School) was organization in 1999 to provide disadvantaged and at risk students with a learning environment where they develop and maximize their cognitive, cultural, and civic skills, becoming competent contributor to a global society. The School currently has 296 students and serves pre-school through eighth grade students. The School's major source of funding is an annual per pupil allotment from the Government of the District of Columbia (District). The School also receives funding from the federal government, student fees, and activities. These funds are expended on programs and activities designed to provide educational and related services to the School's students.

Basis of Accounting: The accompanying financial statements of the School have been prepared on the accrual basis of accounting.

Basis of Presentation: The School reports information regarding its financial position and activities in two classes of net assets: unrestricted net assets and temporarily restricted net assets.

- *Unrestricted Net Assets* - net assets that are not subject to donor-imposed stipulations.
- *Temporarily Restricted Net Assets* - net assets subject to donor-imposed stipulations that will be met either by actions of the School and/or the passage of time. The School did not have any temporarily restricted net assets at June 30, 2016.

Revenues are reported and recorded as unrestricted or temporarily restricted depending on the existence and/or nature of any donor restrictions. All donor-restricted contributions are reported as an increase in temporarily restricted. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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. If a donor restriction expires in the same reporting period, the School reports the contributions as unrestricted.

Revenue Recognition: The School records revenue when earned. Amounts received that have not been earned are recorded as deferred revenue.

Cash and Cash Equivalents: The School considers all highly liquid investments with maturities of three months or less to be cash equivalents. The School's cash are held at three financial institutions.

Property and Equipment: The School capitalizes all property and equipment with a unit cost of \$1,000 or more. Depreciation expense is recorded using the straight-line method over the property and equipment's estimated useful lives. Maintenance and repairs are expensed. The estimated useful lives are as follows:

Building and Improvements	7-40 Years
Equipment	3-7 Years
Furniture and Fixtures	7 Years
Vehicles	5 Years

Income Taxes: The School, a nonprofit organization operating under Section 501(c)(3) of the Internal Revenue Code, is generally exempt from federal, state and local income taxes, and, accordingly, no provision for income taxes is included in the financial statements.

Financial Accounting Standards Board (FASB), Accounting Standards Codification 740, *Income Taxes* (ASC 740) requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. As of June 30, 2016, management has assessed its various tax positions and it believes there are no liabilities for uncertain tax positions.

The School’s tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

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 certain amounts of assets and liabilities. These estimates also affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized as additional information on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2 CONCENTRATION OF CREDIT RISK

The School maintains its cash in three financial institutions. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016, the uninsured cash balance totaled \$351,132.

NOTE 3 RESTRICTED CASH

The School is required to make monthly deposits of \$14,600 into a reserve account until the loan with the financial institution matures. The deposits are to be used to make required prepayments of the loan. At June 30, 2016, the reserve account had a balance of \$542,575.

NOTE 4 DUE FROM DISTRICT GOVERNMENT

The School receives an annual per pupil allotment and federal funds as a pass-through from the District. At June 30, 2016, the amount due from the District was \$103,561.

NOTE 5 PLEDGES RECEIVABLE

The School received several pledges receivable from various donors that are payable over a five year period. At June 30, 2016, pledges consisted of the following:

Pledges Receivable	\$ 124,000
Allowance for Doubtful Accounts	(24,000)
Pledges Receivable, net	<u>\$ 100,000</u>
Due Within One Year	\$ 20,000
Due Within Two – Five Years	80,000
	<u>\$ 100,000</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at year-end:

Land	\$ 858,280
Building and Improvements	14,001,153
Equipment	547,700
Furniture and Fixtures	170,456
Vehicles	70,119
Total	<u>15,647,708</u>
Less: Accumulated Depreciation and Amortization	<u>(3,692,099)</u>
Property and Equipment, net	<u>\$11,955,609</u>

Depreciation and amortization expense during fiscal year 2016 was \$476,077.

NOTE 7 NOTES PAYABLE

On January 22, 2008, the District issued \$10,600,000 Series 2007 revenue bonds for the financing of the School's building. Pursuant to the bond issuance, the School entered into a loan agreement with the District. The loan is due December 2031 and has an interest rate of 3.206% per annum. The loan is secured by a first lien on the building. The interest paid on the loan during the fiscal year was \$279,417. At June 30, 2016, the total amount payable was \$8,374,352.

The District's Office of Public Charter School Financing Support (OPCSFS) loaned \$2,000,000 to the School for the financing of its building. The loan is due in January 2018 and has 4.0% interest rate. The loan is secured by a second lien on the building. The interest paid during the fiscal year was \$69,055. At June 30, 2016, the total amount payable was \$1,616,722.

The minimum principal payments as of June 30, 2016 are as follows:

NOTE 7 – NOTES PAYABLE**(CONTINUED)**

2017	\$ 539,658
2018	1,804,834
2019	381,991
2020	393,957
2021	407,593
Thereafter	6,463,042
	<u>\$9,991,074</u>
Current Portion	\$ 539,658
Long-term Portion	9,451,416
	<u>\$9,991,074</u>

The School is subject to compliance with certain covenants under each note:

District	
– Minimum Debt Service Coverage:	1:20
OPCSFS	
– Minimum Debt Service Coverage	1.20
– Minimum Net Asset Value	\$2,200,000
– Minimum Current Liquidity Ratio	1.20
– Maximum Balance Sheet Leverage	3.50

The School was in compliance with all the debt covenants except for OPCSFS' current liquidity ratio, minimum net asset value, and balance sheet leverage requirements. However, the School received a waiver from OPCSFS for the debt covenants.

NOTE 8 LINE OF CREDIT

The School obtained a \$200,000 line of credit from Premier Bank on June 29, 2016. The line of credit matures on November 1, 2016 and has a 4.5% interest rate. At June 30, 2016, the total amount payable was \$200,000.

NOTE 9 CAPITAL LEASE PAYABLE

The School has two equipment capital leases totaling \$111,500, which are payable over a number of years. The future minimum lease payments under the leases are as follows:

2017	\$ 25,479
2018	18,237
2019	18,237
2020	18,237
2021	18,237
Thereafter	12,158
Total	<u>110,585</u>
Less Representative Interest	<u>(24,727)</u>
Present Value of Minimum Lease Payments	85,858
Less Current Portion	<u>(18,095)</u>
Capital Lease Payable, noncurrent	<u>\$ 67,763</u>

Interest paid on the capital leases during fiscal year was \$1,074.

NOTE 10 RETIREMENT PLAN

The School's plan is a tax-deferred annuity plan under Section 403(b) of the Code. All full-time employees who are twenty-one years and older and are employed for more than thirty days are eligible to participate in a deferred retirement plan. During fiscal year 2016, the School was not required to make and did not make any contributions to the plan.

NOTE 11 PER PUPIL ALLOTMENT

The School receives an annual per pupil allotment from the District that is based on its student enrollment. The pupil allotment represented about 87% of the School's total revenue.

The per pupil allotment consist of the following for the fiscal year ended:

Education	\$3,983,197
Facilities	924,704
	<u>\$4,907,901</u>

NOTE 12 CONTINGENCIES

The School asserts that there have been no material claims, suits, or complaints filed nor any pending against the organization. In the opinion of legal counsel, all other matters which are asserted or unasserted are without merit and would not have a significant effect on the financial position or results of operations of the organization if disposed of unfavorably.

NOTE 13 SUBSEQUENT EVENTS

The School has evaluated any subsequent events through December 13, 2016, which is the date the financial statements were available to be issued. This review and evaluation revealed no material events that would have an effect on the accompanying financial statements.

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	Program Services	General and Administration	2016	2015
Personnel Costs				
Salaries	\$ 2,076,743	\$ 664,458	\$ 2,741,201	\$ 2,773,817
Employee Benefits	172,826	55,297	228,123	191,651
Payroll Taxes	195,699	62,615	258,314	211,589
Recruitment Expense	4,798	1,535	6,333	-
Professional Development	14,876	4,760	19,636	46,296
Total Personnel Costs	<u>2,464,942</u>	<u>788,665</u>	<u>3,253,607</u>	<u>3,223,353</u>
Direct Student Costs				
Supplies and Materials	18,931	-	18,931	18,287
Food Service	202,406	-	202,406	217,084
Student Assessment Materials	28,641	-	28,641	17,051
Donated Goods and Services	-	-	-	22,323
Contracted Instruction	161,535	-	161,535	90,521
Transportation	132,952	-	132,952	126,098
Other Student Costs	16,975	-	16,975	-
Total Direct Student Costs	<u>561,440</u>	<u>-</u>	<u>561,440</u>	<u>491,364</u>
Occupancy Expenses				
Mortgage Interest	290,819	93,050	383,869	324,306
Maintenance and Repairs	10,937	3,499	14,436	25,716
Utilities	111,067	35,537	146,604	158,480
Building Supplies and Materials	-	-	-	18,175
Contracted Building Services	55,051	17,614	72,665	35,396
Total Occupancy Expenses	<u>467,874</u>	<u>149,700</u>	<u>617,574</u>	<u>562,073</u>
Office Expenses				
Supplies and Materials	7,188	2,300	9,488	12,434
Equipment Rental and Maintenance	23,608	7,553	31,161	29,758
Accounting and Auditing	35,260	11,282	46,542	45,663
Printing and Copying	1,145	366	1,511	10,770
Postage and Shipping	2,739	876	3,615	-
Computer Services	-	-	-	12,676
Other Office Expenses	28,524	9,127	37,651	18,383
Total Office Expenses	<u>98,464</u>	<u>31,504</u>	<u>129,968</u>	<u>129,684</u>
General Expenses				
Depreciation and Amortization	360,676	115,401	476,077	452,493
Insurance	54,496	17,437	71,933	74,797
Food Services/Catering	-	-	-	11,500
Professional Fees	28,745	9,197	37,942	-
Interest Expense	814	260	1,074	3,853
Administration Fee	41,795	13,373	55,168	54,234
Provision for Doubtful Accounts	-	-	-	71,122
Other General Expense	23,993	7,677	31,670	54,571
Total General Expenses	<u>510,519</u>	<u>163,345</u>	<u>673,864</u>	<u>722,570</u>
Total Expenses	<u>\$ 4,103,239</u>	<u>\$ 1,133,214</u>	<u>\$ 5,236,453</u>	<u>\$ 5,129,044</u>

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



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**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**

The Board of Trustees
Ideal Academy Public Charter School
Washington, D.C.

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 Ideal Academy Public Charter School (the School), which comprise the statement of financial position as of June 30, 2016, and related statement of activities and changes in net assets for the year ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2016.

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.

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* as items 2016-01.

Management's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bert Smith & Co.

December 13, 2016
Washington, D.C.

IDEAL ACADEMY PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

2016-01 Accurate Reporting of All Paid Compensation

Compensation paid to employees who performed extra duties and worked on a local grant were not included in the required payroll filings. As a result, the appropriate amount of taxes was not paid by the School and employee.

All compensation paid to employees should be included in the payroll filings with the Federal and State services and the appropriate amount of payroll taxes should be withheld and paid.

Management's Response: The school has made adjustments in the current year to correct this finding.