DC PREP

Learning has no limits.

Financial Statements and Supplemental Information

For the Years Ended June 30, 2015 and 2014

and
Report Thereon

Reports Required in Accordance with Office of Management and Budget Circular A-133

For the Year Ended June 30, 2015

D.C. PREPARATORY ACADEMY

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For the Years Ended June 30, 2015 and 2014

Raffa

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy

Report on the Financial Statements

We have audited the accompanying financial statements of D.C. Preparatory Academy (DC Prep), which comprise the statements of financial position as of June 30, 2015 and 2014, 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 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 D.C. Preparatory Academy as of June 30, 2015 and 2014, 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.

Continued

Other Matters

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of disbursements on contracts over $25,000 on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 October 30, 2015, on our consideration of DC Prep's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DC Prep's internal control over financial reporting and compliance.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
October 30, 2015

D.C. PREPARATORY ACADEMY

STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,151,840	$ 7,929,999
Restricted cash – sinking funds	183,433	176,745
Grants and contributions receivable	353,000	502,348
Accounts receivable	1,629,237	1,556,424
Prepaid expenses	406,270	345,976
Total Current Assets	13,723,780	10,511,492
Restricted cash – reserve funds	1,193,220	233,872
Grants and contributions receivable, net	589,512	330,085
Deferred financing costs, net	1,171,722	922,281
Deposits	200,037	221,083
Funds held by others	-	1,400,000
Fixed assets		
Land	1,685,820	1,685,820
Building and improvements	17,226,403	17,226,403
Leasehold improvements	26,715,320	3,912,645
Furniture, fixtures and equipment	2,266,753	1,795,398
Construction in progress	-	16,078,353
Total Fixed Assets	47,894,296	40,698,619
Less: Accumulated Depreciation	(6,343,885)	(4,686,843)
Fixed Assets, Net	41,550,411	36,011,776
TOTAL ASSETS	$ 58,428,682	$ 49,630,589
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$ 700,858	$ 356,851
Construction payables	-	10,157,843
Accrued payroll and benefits	1,332,921	1,175,318
Deferred summer revenue	-	260,353
Other deferred revenue	33,745	92,042
Notes payable	450,000	430,000
Total Current Liabilities	2,517,524	12,472,407
Interest rate swaps liability	146,141	63,402
Notes payable	41,886,437	24,022,646
TOTAL LIABILITIES	44,550,102	36,558,455
NET ASSETS		
Unrestricted	11,578,732	11,903,610
Temporarily restricted	2,299,848	1,168,524
TOTAL NET ASSETS	13,878,580	13,072,134
TOTAL LIABILITIES AND NET ASSETS	$ 58,428,682	$ 49,630,589

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

D.C. PREPARATORY ACADEMY

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil allocation	$ 17,481,141	$ -	$ 17,481,141	$ 14,427,373	$ -	$ 14,427,373
Facility allowance	4,055,040	-	4,055,040	3,660,000	-	3,660,000
Private grants and contributions	1,364,375	1,851,854	3,216,229	810,104	430,489	1,240,593
Federal grants	1,570,766	-	1,570,766	1,832,812	-	1,832,812
Federal entitlements	978,970	-	978,970	948,039	-	948,039
Local government grants and program revenue	241,997	-	241,997	168,758	-	168,758
Other revenue	241,634	-	241,634	188,153	-	188,153
In-kind donations	39,869	-	39,869	227,859	-	227,859
Interest income	4,125	-	4,125	587	-	587
Net assets released from restriction:						
Satisfaction of time restrictions	391,250	(391,250)	-	441,000	(441,000)	-
Satisfaction of program restrictions	329,280	(329,280)	-	528,043	(528,043)	-
TOTAL REVENUE AND SUPPORT	26,698,447	1,131,324	27,829,771	23,232,728	(538,554)	22,694,174
EXPENSES						
Program Services	22,134,718	-	22,134,718	18,262,942	-	18,262,942
Supporting Services:						
Management and general	4,539,159	-	4,539,159	3,776,200	-	3,776,200
Development and fundraising	266,709	-	266,709	243,963	-	243,963
Total Supporting Services	4,805,868	-	4,805,868	4,020,163	-	4,020,163
TOTAL EXPENSES	26,940,586	-	26,940,586	22,283,105	-	22,283,105
Change in net assets before unrealized loss on interest rate swaps	(242,139)	1,131,324	889,185	949,623	(538,554)	411,069
Unrealized loss on interest rate swaps	(82,739)	-	(82,739)	(61,248)	-	(61,248)
CHANGE IN NET ASSETS	(324,878)	1,131,324	806,446	888,375	(538,554)	349,821
NET ASSETS, BEGINNING OF YEAR	11,903,610	1,168,524	13,072,134	11,015,235	1,707,078	12,722,313
NET ASSETS, END OF YEAR	$ 11,578,732	$ 2,299,848	$ 13,878,580	$ 11,903,610	$ 1,168,524	$ 13,072,134

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

D.C. PREPARATORY ACADEMY

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2015 and 2014

	2015				2014			
	Programs	Management and General	Development and Fundraising	Total	Programs	Management and General	Development and Fundraising	Total
Personnel, Salaries and Benefits:								
Salaries	$ 12,566,234	$ 2,835,797	$ 130,396	$ 15,532,427	$ 11,215,890	$ 2,464,484	$ 134,165	$ 13,814,539
Employee benefits	1,221,357	250,753	11,065	1,483,175	986,803	190,017	9,749	1,186,569
Payroll taxes	1,002,506	211,340	9,389	1,223,235	908,426	185,383	9,813	1,103,622
Other staff-related expense	147,962	104,399	6,696	259,057	129,860	88,833	6,694	225,387
Professional development	103,893	32,311	1,737	137,941	135,642	82,415	6,064	224,121
Total Personnel, Salaries and Benefits	15,041,952	3,434,600	159,283	18,635,835	13,376,621	3,011,132	166,485	16,554,238
Direct Student Costs:								
Student food service program	716,230	-	-	716,230	655,281	-	-	655,281
Contracted instruction fees	303,640	-	-	303,640	288,328	-	-	288,328
Supplies, materials, snacks	213,672	-	-	213,672	145,854	-	-	145,854
Student assessments	143,159	-	-	143,159	76,844	-	-	76,844
Other student costs	140,739	-	-	140,739	133,604	-	-	133,604
Fieldwork and other transportation	119,561	-	-	119,561	99,309	-	-	99,309
Textbooks	74,069	-	-	74,069	69,231	-	-	69,231
Total Direct Student Costs	1,711,070	-	-	1,711,070	1,468,451	-	-	1,468,451
Occupancy Expenses:								
Depreciation and amortization – facilities	1,970,061	11,317	3,772	1,985,150	560,509	11,317	3,772	575,598
Interest	1,064,063	10,482	1,405	1,075,950	174,297	3,319	1,106	178,722
Contracted building services	478,357	6,257	2,086	486,700	414,761	6,227	2,076	423,064
Utilities and garbage removal	418,660	4,277	1,426	424,363	280,662	4,021	1,340	286,023
Facilities finance fees	288,072	4,885	1,628	294,585	227,308	5,142	1,714	234,164
Maintenance and repairs	226,063	3,296	1,099	230,458	80,643	1,479	493	82,615
Janitorial supplies	50,287	476	159	50,922	28,352	394	131	28,877
Rent	199	18,339	6,113	24,651	762,749	12,454	4,151	779,354
Facilities consulting services	-	6,075	2,025	8,100	90,938	-	-	90,938
Total Occupancy Expenses	4,495,762	65,404	19,713	4,580,879	2,620,219	44,353	14,783	2,679,355

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

Continued

D.C. PREPARATORY ACADEMY

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2015 and 2014

(continued)

	2015				2014			
	Programs	Management and General	Development and Fundraising	Total	Programs	Management and General	Development and Fundraising	Total
Office Expenses:								
Office supplies	$ 140,833	$ 30,179	$ 30,179	$ 201,191	$ 87,872	$ 18,830	$ 18,830	$ 125,532
Computer support expenses	152,860	34,346	1,589	188,795	244,790	53,400	2,933	301,123
Equipment rent and maintenance	89,827	19,249	19,249	128,325	85,077	18,231	18,231	121,539
Telecommunications	86,625	18,562	18,562	123,749	53,219	11,404	11,404	76,027
Printing and copying	13,378	2,867	2,867	19,112	25,237	5,408	5,408	36,053
Postage	10,056	2,155	2,155	14,366	8,814	1,889	1,889	12,592
Total Office Expenses	493,579	107,358	74,601	675,538	505,009	109,162	58,695	672,866
General Expenses:								
Accounting, auditing and payroll	-	301,575	-	301,575	-	229,119	-	229,119
Depreciation and amortization – operating assets	160,403	126,865	-	287,268	109,210	85,709	-	194,919
Authorizer fees	-	245,727	-	245,727	-	105,877	-	105,877
Other general expenses	76,200	102,230	250	178,680	51,481	47,871	72	99,424
Insurance	122,072	27,428	1,269	150,769	105,901	23,102	1,269	130,272
Legal fees	29,667	58,305	-	87,972	26,000	51,000	-	77,000
Dues, fees, licenses, and fines	3,763	69,667	-	73,430	50	52,375	80	52,505
Other professional and fundraising fees	250	-	11,593	11,843	-	16,500	2,579	19,079
Total General Expenses	392,355	931,797	13,112	1,337,264	292,642	611,553	4,000	908,195
TOTAL EXPENSES	$ 22,134,718	$ 4,539,159	$ 266,709	$ 26,940,586	$ 18,262,942	$ 3,776,200	$ 243,963	$ 22,283,105

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

D.C. PREPARATORY ACADEMY

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 806,446	$ 349,821
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,660,244	702,000
Amortization of deferred financing costs	612,174	68,517
Imputed interest on notes payable	29,854	(163,417)
Change in value of interest rate swaps	82,739	61,248
Change in allowance for loss on pledges	(650,000)	(50,000)
Changes in assets and liabilities:		
Grants and contributions receivable	539,921	446,355
Accounts receivable	(72,813)	(769,185)
Prepaid expenses	(60,294)	106,629
Deposits	21,046	(54,793)
Accounts payable and accrued expenses	344,007	(76,749)
Accrued payroll and benefits	157,603	126,663
Deferred summer revenue and other	(318,650)	126,898
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,152,277	873,987
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets, including construction costs	(17,356,722)	(9,872,100)
NET CASH USED IN INVESTING ACTIVITIES	(17,356,722)	(9,872,100)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	40,981,133	10,266,063
Principal payments on notes payable	(21,727,196)	(410,000)
Payments to sinking and reserve funds	(966,036)	(10,495)
Payments for loan financing costs	(861,615)	(566,227)
NET CASH PROVIDED BY FINANCING ACTIVITIES	17,426,286	9,279,341
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,221,841	281,228
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,929,999	7,648,771
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,151,840	$ 7,929,999
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	$ 1,040,424	$ 213,667
NONCASH TRANSACTIONS		
Noncash investing activities:		
Leasehold improvements costs	$ -	$ 10,014,427
Construction payable	-	(10,014,427)
	$ -	$ -

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

1. Organization and Summary of Significant Accounting Policies

Organization

D.C. Preparatory Academy (DC Prep) was incorporated as a District of Columbia charter school in 2001 to provide middle school students in Washington, DC with an outstanding education emphasizing academics, character and leadership. DC Prep has expanded to four schools – Edgewood Middle, Edgewood Elementary, Benning Middle and Benning Elementary School – and launched Anacostia Elementary in September 2015. Since its inception, DC Prep's revenue and other support has consisted primarily of per pupil funding, contributions and grants from the District of Columbia, and federal and private sources.

Basis of Accounting

DC Prep prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned, and expenses are recorded when the obligation is incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, money market funds and U.S. Treasury securities with maturities of less than 90 days. Under the terms of certain note payable agreements, DC Prep is required to maintain cash balances restricted for debt service reserves and sinking funds. This restricted cash is separately reported in the accompanying statements of financial position.

Accounts Receivable

Accounts receivable are primarily from the federal government. DC Prep uses the allowance method to record potentially uncollectible accounts. Management believes that all accounts receivable are fully collectible. Therefore, no allowance is deemed necessary.

Fixed Assets

Land, buildings, building improvements, furniture, leasehold improvements, fixtures and equipment, and construction in progress are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 39 years for the building and improvements and three to five years for furniture, fixtures and equipment. Leasehold improvements are amortized using the straight-line method over the remaining life of the lease. Construction in progress is not depreciated until the construction is completed and the asset is placed in service. The construction in progress as of June 30, 2014, represents leasehold improvement costs incurred for the Benning Campus cluster in connection with a ground lease with the District of Columbia. Expenditures for major repairs and improvements are capitalized, while expenditures for minor repairs and maintenance costs are expensed when incurred.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs consist of costs incurred in connection with the bond issuance, new market tax credit program, facility purchase and construction financing, and subsequent refinancing transactions. These costs are being amortized on a straight-line basis over the life of the liability to which the costs apply.

Classification of Net Assets

The net assets of DC Prep are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for general support of DC Prep's operations.
- Temporarily restricted amounts are specifically restricted by donors or grantors for various purposes or time periods.

Revenue Recognition

Grants and contributions of cash and other assets are reported as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets for a particular purpose or for a specific period of time. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Contributions and grants are reported as revenue in the year in which payments are received and/or unconditional promises are made.

Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

Federal and Charter School Funding

DC Prep receives a per pupil student allocation and facility allowance from the District of Columbia, as well as federal funding, to cover the cost of academic expenses. Revenue is recognized ratably over the academic year. Payments received for the summer following the academic year are reported as deferred summer revenue in the accompanying statements of financial position.

In-Kind Donations

In-kind donations reflect professional consulting and other services that have been contributed to DC Prep. These services include publication production, facilities consulting and legal services. Donated professional services are valued at their estimated fair value based on the type of professional services provided. These services are recognized both as revenue and expenses if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not donated. Donated services are valued at a cost consistent with amounts paid for similar services by DC Prep or at the services' estimated fair value. Also included with in-kind donations is the imputed interest on a noninterest-bearing loan.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Estimates

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon estimates deemed to justify the benefits received by those programs and supporting services.

2. Grants and Contributions Receivable

Grants and contributions receivable consist of unconditional promises to give by individuals and foundations as of June 30, 2015 and 2014. DC Prep established an allowance for pledges that are potentially uncollectible. Grants and contributions receivable are due as follows:

	2015	2014
Due in less than one year	$ 353,000	$ 502,348
Due in one to five years	300,000	339,650
Due after five years	350,000	650,000
Total Grants and Contributions Receivable	1,003,000	1,491,998
Less: Allowance for Loss on Pledges	-	(650,000)
Less: Present Value Discount	(60,488)	(9,565)
Grants and Contributions Receivable, Net	$ 942,512	$ 832,433

Discount rates between 1.9% and 2.5% were used to calculate the net present value of multiyear grants and contributions, depending on the year of each gift.

As of June 30, 2015 and 2014, DC Prep's conditional grants from funders totaled $646,000 and $98,000, respectively. The grants will be paid and recognized as revenue if DC Prep meets certain milestones.

3. Funds Held by Others

As part of the new construction financing for the Benning Campus cluster, a debt service reserve fund was established in the amount of $1,400,000 as required by the loan agreements with Building Hope and the District of Columbia, through the Office of Public Charter School Financing and Support (see Note 4). The fund was held in the name of the Charter School Incubator Initiative, a non-profit partnership between Building Hope and the District of Columbia Office of the State Superintendent of Education. DC Prep was able to direct the Charter School Incubator Initiative to draw on the reserve if it was unable to make any principal or interest payments to Building Hope or the District of Columbia Office of Public Charter School Financing and Support as required by the loan agreements. DC Prep was required to reimburse the debt service reserve fund for any amounts drawn, but did not have the obligation to do so if such amounts would violate any of DC Prep's covenants under its senior loans. The debt service reserve fund was shown as an asset held in the possession of others in the accompanying statement of financial position as of June 30, 2014. The debt service reserve was released during the December 2014 refinance of the Benning Campus Cluster construction financing. The reserve was applied to the Charter School Incubator Initiative note, discussed below, and the balance was returned to DC Prep.

4. Notes Payable

In June 2005, the District of Columbia issued $5,500,000 of tax-exempt variable rate demand revenue bonds (the Series 2005 Bonds), the proceeds of which were loaned to DC Prep. DC Prep is required to make deposits into a sinking fund, which is used for redemption of the Series 2005 Bonds. The sinking fund is to be held in a trust and invested in money market funds. Principal payments are funded through the sinking fund, payable every first business day in June, and commenced in the fiscal year ended June 30, 2008, starting at $120,000. The payments increase each year to a final payment of $360,000 in 2032. Interest is payable monthly and is calculated on a floating seven-day rate currently based on the Bond Market Association (BMA) Index. The average interest rate was approximately 0.10% and 0.11% during the years ended June 30, 2015 and 2014, respectively. The bond proceeds were used in part to repay the outstanding notes payable used to finance the purchase and initial renovation of DC Prep's first middle school building. The outstanding balance on this loan was $4,355,000 and $4,520,000 as of June 30, 2015 and 2014, respectively.

In June 2007, the District of Columbia issued $9,580,000 of tax-exempt variable rate demand revenue bonds (the Series 2007 Bonds) and loaned the proceeds to DC Prep to refinance a loan to fund the acquisition of a building and renovation costs for a new preschool and elementary school. The building is adjacent to DC Prep's first middle school building. The Series 2007 Bonds required interest-only payments for two years, depending on construction periods. The Series 2007 Bonds then began amortizing, with an optional redemption over 25 years. DC Prep is required to make deposits into a sinking fund, which is used for redemption of the Series 2007 Bonds. The first sinking fund payment for principal was made in November 2008. The sinking fund is to be held in a trust and invested in money market funds. The first payment to bond holders was made in November 2009 for $210,000. The payments increase each year through November 2033 to a final payment of $630,000. Interest is payable monthly and is calculated on a floating seven-day rate currently based on the BMA Index. The

Continued

4. Notes Payable (continued)

average interest rate was approximately 0.10% and 0.11% during the years ended June 30, 2015 and 2014, respectively. The outstanding balance on this loan was $8,165,000 and $8,430,000 as of June 30, 2015 and 2014, respectively.

The Series 2005 and the Series 2007 Bonds are secured by the land, building and improvements of DC Prep. In order to provide enhanced security and liquidity for the weekly remarketing of the Series 2005 and Series 2007 Bonds, DC Prep entered into two separate letter of credit agreements with M&T Bank, which were coterminous, in 2009. On April 30, 2009, DC Prep entered into amendments to the letter of credit agreements, which extended the expiration dates of the letters of credit to June 15, 2011. DC Prep subsequently negotiated several successive extensions to the letters of credit such that the expiration date was extended to June 14, 2015, and during the year ended June 30, 2015, DC Prep again extended the agreements to June 14, 2019. Under the terms of the letter of credit agreements, the bank is obligated to lend funds to DC Prep in amounts sufficient to pay the purchase price of any bonds tendered for purchase that cannot be successfully remarketed. These letter of credit agreements have debt service reserve requirements. The letters of credit also have various financial covenants, including maintaining a certain debt service coverage ratio, minimum liquidity, and maximum annual capital expenditures. These financial covenants were modified during the year ended June 30, 2014, due to the new financing related to the Benning Campus cluster construction project (outlined below) in which documents were executed among DC Prep's existing and new lenders as part of that financing, and again during the year ended June 30, 2015, as the Benning construction financing was replaced with the New Markets Tax Credit (NMTC) financing.

For the year ended June 30, 2014, DC Prep exceeded the maximum capital expenditures of $150,000 allowed per the letter of credit agreement covenants. The bank waived this breach of covenant for the year ended June 30, 2014. During the year ended June 30, 2015, DC Prep's maximum capital expenditures ceiling was increased to $750,000 per year, excluding construction costs related to the Benning Campus cluster. DC Prep did not exceed this threshold for the year ended June 30, 2015, and therefore was in compliance with this covenant. As of June 30, 2015 and 2014, DC Prep was in compliance with all of the other covenants.

In conjunction with the Series 2005 Bonds, DC Prep entered into a reimbursement agreement with Building Hope, a nonprofit organization that assists quality charter schools. This agreement calls for Building Hope to provide M&T Bank with a guarantee of payment and performance to the bank of certain of DC Prep's obligations under the letter of credit agreement associated with the Series 2005 Bonds. The aggregate amount of indebtedness for which Building Hope shall be liable shall not exceed $520,000. Effective October 1, 2015, DC Prep signed an amendment to the letter of credit agreement releasing Building Hope of this guaranty and obligation.

In December 2013, DC Prep entered into a $1,000,000 subordinated loan agreement with Charter Fund, Inc., a charter school support organization. The loan is to provide general support for DC Prep in carrying out its tax-exempt purposes. The note is interest-only with a

Continued

4. Notes Payable (continued)

1% interest rate. The entire unpaid principal balance and accrued unpaid interest are due on June 20, 2019. As the note payable has a below market interest rate of 1%, DC Prep has discounted the note by $178,568, using an effective interest rate of 4.5%. This amount has been recorded as in-kind donations in the accompanying statement of activities for the year ended June 30, 2014. DC Prep has amortized the discount and recorded the corresponding additional interest expense in the amounts of $29,854 and $15,151 for the years ended June 30, 2015 and 2014, resulting in an unamortized discount of $133,563 and $163,417 as of June 30, 2015 and 2014.

In January 2014, DC Prep closed on new construction financing for its Benning Campus cluster. The financing covered construction of a new addition for the Benning Middle School, buyout of prior improvements from the Charter School Incubator Initiative, and additional improvements to the existing Benning Elementary School building. The financing consisted of a senior construction loan and three subordinated loans totaling $26,219,912. The subordinated debts were provided in full to DC Prep, while the senior construction loan was disbursed on a draw-down basis.

The senior construction loan allowed for a maximum principal amount of $21,370,345 with a floating interest rate of 30-day London Interbank Offered Rate (LIBOR) plus 3.75%. The senior loan had a five-year term, an initial interest-only period, and principal payments commencing April 30, 2016. Two subordinated loans were provided by the District of Columbia through its Office of Public Charter School Financing in the amount of $2,000,000 and Building Hope in the amount of $1,500,000. Both subordinated loans had fixed interest rates at 4.5% and five-year terms with initial interest-only periods until November 2015. The third subordinated note with the Charter School Incubator Initiative in the amount of $1,349,567 had a 15-year term and uniform monthly principal payments commencing February 1, 2019. DC Prep received a $500,000 five-year credit enhancement from America's Charter in favor of the Benning senior construction lender as part of the construction financing package. The credit enhancement cost 1% of the remaining guaranteed obligations. As of June 30, 2014, the outstanding balance of the Benning Campus construction financing was $10,666,063. As of June 30, 2015, there was no outstanding balance of the Benning Campus construction financing as the loans were repaid and replaced with new financing.

In December 2014, DC Prep refinanced the Benning Campus construction financing in a NMTC transaction. The transaction resulted in ten new loans from four Community Development Entities (CDEs) for a total of $28,950,000. The loans, considered Qualified Low Income Community Investments (QLICIs), were made to the Benning Campus Cluster, which is considered a Qualified Active Low Income Community Business. The QLICIs loans have a seven-year compliance period during which no principal can be repaid; however, quarterly sinking fund payments of $58,245 are required commencing in June 2016 through September 2021. The loans have fixed interest rates of either 3.68% or 4.08%, with a blended rate of 4.04%. Six of the loans are considered "A loans," and four are considered "B loans." The "A loans" total $20,775,403 while the "B loans" total $8,174,597. At the end of the compliance period, the "A loans" must be refinanced as they are due in full while the "B loans" will begin payments that fully amortize the loans over their remaining 17-year term through November 2038, if they are not accelerated by the respective lenders.

4. Notes Payable (continued)

Each "B loan" may be accelerated within six months of the end of the NMTC compliance period by each respective lender. Each lender may provide notice of such accelerated repayment and will accept a discounted repayment amount of $1,000 for the full principal balance of each respective "B loan." Much of the value of the NMTC financing transaction is in the expected acceleration of the "B loans," by which the $8,174,597 principal balance would be retired for $4,000. There is no guarantee that the lenders will exercise such accelerated repayment option. The loans from the CDE's were as follows:

Lender	Loan	Rate	Category
Banc of America CDE I, LLC	$1,690,750	3.68%	A
LIIF Sub-CDE XXVIII, LLC	$3,116,314	4.08%	A
LIIF Sub-CDE XXVIII, LLC	$4,000,000	4.08%	A
City First Capital 36, LLC	$5,201,935	4.08%	A
City First Capital 36, LLC	$2,000,000	4.08%	A
Telesis CDE Nine, LLC	$4,766,404	4.08%	A
Banc of America CDE I, LLC	$809,250	3.68%	B
LIIF Sub-CDE XXVIII, LLC	$2,883,686	4.08%	B
City First Capital 36, LLC	$2,598,065	4.08%	B
Telesis CDE Nine, LLC	$1,883,596	4.08%	B
Total	$ 28,950,000		

The loans under the NMTC financing are secured by all Benning Campus Cluster revenue, accounts, furniture, fixtures, equipment, other assets, licenses, intangibles and leasehold deed of trust.

The NMTC financing agreement required DC Prep to establish and maintain individual fee and expense reserve accounts totaling $941,500 to pay certain annual service fees to the respective CDEs over the seven-year NMTC compliance period. The remaining balance associated with each reserve account is reported and included in restricted cash-reserve funds in the accompanying statement of financial position and will be paid over the compliance period as these fees become due and payable.

The construction financing for the Benning Campus cluster had various financial covenants that continued and were modified during the NMTC refinance, which includes maintaining certain debt service coverage ratios, minimum liquidity and minimum tangible net worth. In addition to the financial covenants, DC Prep's Benning Campus cluster must comply with certain NMTC program requirements during the seven-year compliance period. As of June 30, 2015 and 2014, DC Prep was in compliance with all of its financial covenants and NMTC program requirements.

4. Notes Payable (continued)

A summary of outstanding principal balances by source type as of June 30, 2015 and 2014 is as follows:

	2015	2014
New Market Tax Credit financing	$ 28,950,000	$ -
2007 Series Bonds	8,165,000	8,430,000
2005 Series Bonds	4,355,000	4,520,000
Bank of America	-	5,816,496
Office of Public Charter School Financing	-	2,000,000
Building Hope	-	1,500,000
Charter School Incubator Initiative	-	1,349,567
Charter School Growth Fund	1,000,000	1,000,000
Total Outstanding Principal Balances	42,470,000	24,616,063
Less: Discount on Imputed Interest	(133,563)	(163,417)
Total Notes Payable, Net of Discount	$ 42,336,437	$ 24,452,646

As of June 30, 2015, aggregate sinking fund and principal payments on the notes payables over the next five years and thereafter are due as follows:

For the Year Ending June 30,	Sinking Funds	Principal Payments
2016	$ 518,662	$ 450,000
2017	710,482	470,000
2018	733,815	490,000
2019	758,815	1,515,000
2020	783,815	540,000
Thereafter	10,097,894	39,005,000
Total Payments Due	$ 13,603,483	42,470,000
Less: Discount on Imputed Interest		(133,563)
Total Notes Payable, Net of Discount		$ 42,336,437

DC Prep purchased two interest rate swap agreements for the Series 2005 and 2007 Bonds to reduce its exposure to interest rate risk on its variable rate debt. Since inception of each bond series, DC Prep has hedged a portion of the outstanding principal of the bonds as required by the letter of credit agreements. On June 15, 2012, DC Prep purchased two new interest rate swap agreements for the Series 2005 and 2007 Bonds that expire May 31, 2019. The two interest rate swap agreements cover $3,265,000 and $6,125,000, respectively, of the $12,520,000 outstanding balance of the Bonds, representing approximately 75% of the combined bond issuance. DC Prep increased the proportion of its interest rate hedge, historically approximately 50%, to take advantage of the low interest rate environment and reduce its exposure to interest rate risk over the forward seven years. The swaps have a fixed

4. Notes Payable (continued)

interest rate of 1.28%. DC Prep bears the interest rate risk on the uncovered balances of the two variable rate bond issuances totaling $3,130,000 as of June 30, 2015. The fair value of the swaps as of June 30, 2015 and 2014, represent liability positions of ($146,141) and ($63,402), respectively.

The following schedule presents the notional principal amounts of DC Prep's interest rate swaps as of June 30, 2015 and 2014:

	Remaining Notional Amount at June 30, 2015	Expiration Date	Estimated Fair Value
Series 2005 Bonds	$ 3,265,000	5/31/2019	$ (51,361)
Series 2007 Bonds	6,125,000	5/31/2019	(94,780)
	$ 9,390,000		$ (146,141)

	Remaining Notional Amount at June 30, 2014	Expiration Date	Estimated Fair Value
Series 2005 Bonds	$ 3,390,000	5/31/2019	$ (22,634)
Series 2007 Bonds	6,325,000	5/31/2019	(40,768)
	$ 9,715,000		$ (63,402)

The classifications in the financial statements of the derivative financial instruments are summarized below as of June 30, 2015 and 2014:

	Fair Value	
	2015	2014
Statements of financial position location:		
Interest Rate Swaps Liability	$ 146,141	$ 63,402

	Amount of Loss Recognized in the Statements of Activities	
	2015	2014
Location of loss recognized in the statements of activities:		
Unrealized Loss on Interest Rate Swaps	$ (82,739)	$ (61,248)

4. Notes Payable (continued)

Interest of $130,374 and $135,151 was incurred on the Edgewood Campus cluster revenue bonds and associated swaps for the years ended June 30, 2015 and 2014, respectively. Interest of $1,021,161 and $93,667 was incurred on the Benning Campus construction, NMTC financing and general operating debt for the years ended June 30, 2015 and 2014. For the years ended June 30, 2015 and 2014, $75,586 and $50,096 of interest was capitalized in accordance with generally accepted accounting principles.

	2015	2014
Interest (nonimputed)	$ 1,121,682	$ 213,667
Imputed interest	29,854	15,151
Capitalized interest	(75,586)	(50,096)
Interest Expense in Statements of Functional Expenses	$ 1,075,950	$ 178,722

5. Line of Credit

On October 12, 2010, DC Prep entered into a line of credit agreement with M&T Bank for $1,750,000 to support working capital requirements. The agreement bears interest at a variable rate of the one-month LIBOR plus 3.5%, floating daily. The borrowing amount is limited to a ceiling of 75% of accounts receivable due within 90 days. DC Prep has not drawn down on the line of credit since inception. No amount was outstanding as of June 30, 2015 and 2014.

6. Fair Value Measurements

Accounting standards define fair value, establish a framework for measuring fair value in accordance with GAAP and expand disclosures about fair value measurements. Accounting standards emphasize that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, accounting standards established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, or unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy under fair value measurement standards are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Continued

6. Fair Value Measurements (continued)

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

The following table summarizes DC Prep's assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	Fair Value	Significant Other Observable Inputs (Level 2)
Interest Rate Swaps Liability	$ (146,141)	$ (146,141)

The following table summarizes DC Prep's assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

	Fair Value	Significant Other Observable Inputs (Level 2)
Interest Rate Swaps Liability	$ (63,402)	$ (63,402)

As discussed in Note 4, DC Prep has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its variable rate debt. The estimated fair value of an interest rate swap is generally determined using an externally developed model using forward-looking assumptions of interest rates and the resulting effect on the underlying cash flows of the interest rate swap. Valuations provided do not include adjustments for nonperformance risk on behalf of either party. As of June 30, 2015 and 2014, DC Prep has assessed the significance of the impact of the credit valuation adjustment on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of DC Prep's derivatives. As a result, DC Prep has determined that the entirety of its derivative valuations is classified in Level 2 of the fair value hierarchy.

7. Temporarily Restricted Net Assets

As of June 30, 2015 and 2014, temporarily restricted net assets are available for the following purposes or future periods:

	2015	2014
Time restriction for future years	$ 1,917,512	$ 707,935
School expansion	271,454	262,057
Leadership development	100,000	75,000
School programs	5,974	-
The Broad Center resident	3,563	96,563
Alumni support	1,345	25,772
Library personnel, books and materials	-	1,197
Total Purpose-Restricted	382,336	460,589
Total Temporarily Restricted Net Assets	$ 2,299,848	$ 1,168,524

8. Risks and Commitments

Concentration of Risk

DC Prep maintains its cash and cash equivalents with certain commercial financial institutions. As of June 30, 2015 and 2014, the majority of DC Prep's cash was in a sweep investment account associated with its primary operating account which is invested in U.S. Treasury money market funds. As of June 30, 2015 and 2014, the cash balance exceeding the $250,000 per depositor per institution FDIC-insured limit was $1,545,958 and $67,430, respectively.

Office of Management and Budget Circular A-133

DC Prep has instructed its independent auditors to audit its federal programs for the year ended June 30, 2015, in compliance with Circular A-133, issued by the U.S. Office of Management and Budget (OMB). Until such audit is finalized, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the federal agency's review of the independent auditor's reports for 2015 will not have a material effect on the financial position of DC Prep.

Major Contributor

DC Prep receives a substantial portion of its revenue from the District of Columbia. If a significant reduction in this revenue should occur, it could have a material effect on DC Prep's programs. During the years ended June 30, 2015 and 2014, DC Prep earned per pupil funding revenue of $21,536,181 and $18,087,373, respectively, from the District of Columbia, which is approximately 77% and 80%, respectively, and of DC Prep's total revenue and support each year. This revenue is reflected as per pupil allocation and facility allowance revenue in the accompanying statements of activities.

Continued

8. Risks and Commitments (continued)

Related Party

DC Prep receives funding from NewSchools Venture Fund. One of NewSchools Venture Fund's partners is currently a governing board member of DC Prep. For the year ended June 30, 2015, DC Prep recognized $300,000 in contribution revenue from NewSchools Venture Fund, which is included in grants and contributions in the accompanying statements of activities. For the year ended June 30, 2014, there was no contribution revenue from NewSchools Venture Fund.

Use Agreement

DC Prep occupied its Benning Road Elementary Campus through January 2014 under a Use Agreement with the Charter School Incubator Initiative, a nonprofit corporation, which was leasing the building from the District of Columbia. The Use Agreement, dated December 30, 2011, was to expire on June 30, 2016. The Use Agreement contained two options for consecutive extensions of five years each and one additional extension option of three years. If DC Prep exercised all extension options, the Use Agreement would have terminated on June 30, 2029. DC Prep was required to have a minimum of 400 students enrolled in the premises by three years from the start date of the agreement and maintain at least that enrollment each year going forward to be able to exercise the options to extend the agreement.

The Use Agreement was full service, including rent, utilities, maintenance, cleaning services and the like. The usage fee was 90% of the per pupil facilities allowance received by DC Prep from the District of Columbia for the students enrolled at the Benning Road site. Future annual payments were to be based on the same usage fee formula and there were no required minimum payments or cancellation penalties.

The Use Agreement provided an option for purchase of the Charter School Incubator Initiative's leasehold interest in the premises for a purchase price equal to the entire outstanding principal and any unpaid accrued interest and any other amounts due and owing on all financing against the premises existing at the time of purchase plus the sum of $1,349,567, which represents equity contributed by the Charter School Incubator Initiative toward cost of improvements. DC Prep exercised its option to purchase the Charter School Incubator Initiative's leasehold interest in the January 2014 Benning Campus cluster financing transaction. As part of this transaction, DC Prep, the District of Columbia and the Charter School Incubator Initiative entered into a lease termination agreement, which ultimately allowed DC Prep to lease the Benning site directly from the District of Columbia. For the year ended June 30, 2015, there was no usage fee incurred. For the year ended June 30, 2014, the usage fee was $763,200, which is reported as rent expense in the accompanying statements of functional expenses.

Ground Lease Agreement

On January 31, 2014, DC Prep entered into a lease agreement with the District of Columbia as part of the Benning Campus cluster financing transaction. The lease term is 25 years, with one 25-year renewal term at the option of DC Prep. The annual base rent is $850,800,

8. Risks and Commitments (continued)

Ground Lease Agreement (continued)

increasing 2% annually at each anniversary. Rent is subject to a rent credit of one year of abatement for every $1,000,000 spent on hard and soft construction costs or leasehold acquisition costs. Since DC Prep's construction and leasehold acquisition costs exceeded $25 million, DC Prep is entitled to abatement of all rent that would otherwise be due under the lease for the Benning Campus. Accordingly, no rent expense is included in the financial statements for the years ended June 30, 2015 and 2014, related to this lease. There are also no anticipated future minimum payments as a result of the above rent credit and abatement provisions.

Operating Lease

DC Prep subleased space under a noncancelable sublease agreement that commenced on July 1, 2015 and will terminate on June 30, 2016. The agreement provides DC Prep with an option for a one-year extension with no rent increase, and additional annual extensions at then-negotiated terms. The base rent is $33,333 per month.

DC Prep executed an amendment to the sublease dated October 27, 2015, but effective for all purposes on August 20, 2015. The amendment changes the term of the sublease to two years with an expiration on August 19, 2017, and provides one two-year extension option. The base rent due for the initial period as modified by the amendment will be $548,000, with $500,000 prepaid upon execution and the remaining $48,000 paid in equal monthly installments over the two-year term. Rent due under the two-year extension option, if executed, will be $250,000 per year. Also under the agreement, DC Prep is required pay all of the operating expenses of the premises during the lease term.

Related to the amendment to the sublease agreement, DC Prep entered into an unsecured promissory note and loan agreement providing $250,000 in proceeds to the landlord of the premises. The note will accrue interest of six percent interest per year and matures no later than August 19, 2019, or August 19, 2017, if DC Prep does not execute its two-year extension option. The proceeds of the note will cover costs directly related to work on the site covered by the sublease.

9. Pension Plan

DC Prep sponsors a 403(b) plan that covers all employees. Employees are eligible to join the plan upon their date of hire. DC Prep matches employee contributions up to 5% of the employees' salary after employees have completed one year of service. Pension expense was $354,802 and $291,086 for the years ended June 30, 2015 and 2014, respectively, and is included in employee benefits in the accompanying statements of functional expenses.

Continued

10. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, DC Prep is exempt from the payment of taxes on income other than net unrelated business income. For the years ended June 30, 2015 and 2014, no provision for income taxes was made as DC Prep had no net unrelated business income.

DC Prep adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. These provisions 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 and derecognition of tax positions taken or expected to be taken in a tax return. DC Prep performed an evaluation of uncertain tax positions for the year ended June 30, 2015 and 2014, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2015, the statute of limitations for tax years 2011 through 2013 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which DC Prep files tax returns. It is DC Prep's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

11. Reclassifications

Certain 2014 amounts have been reclassified to conform to the 2015 financial statement presentation.

12. Subsequent Events

DC Prep's management has evaluated subsequent events through October 30, 2015, the date the financial statements were available to be issued. Except for the amendment of the letter of credit agreement releasing Building Hope from its guaranty obligation as discussed above in Note 4, Notes Payable, and the amendment to the sublease, which updated among other provisions, the lease terms, rent payments, and a related loan issued by DC Prep to landlord, discussed above in Note 8, Risks and Commitments, Operating Lease, there were no other subsequent events that require recognition or disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

D.C. PREPARATORY ACADEMY

SCHEDULE OF DISBURSEMENTS ON CONTRACTS OVER $25,000
For the Year Ended June 30, 2015

Vendor	Type of Service	Amount
MCN Build	Construction services	$ 6,323,632
Revolution Foods	Food services	$ 719,980
ServiceMaster JGW	Janitorial services	$ 283,742
EdOps	Accounting and facilities finance support services	$ 241,210
End-to-End Solutions for Special Education	Special education services	$ 197,860
PMM Companies	Janitorial and facilities management services	$ 172,969
CDI Computer Dealers, Inc.	IT products and services	$ 161,158
Stanley Convergent Security Solutions	Security system services	$ 119,313
Genesys Impact, LLC	Low voltage cabling services	$ 93,245
Clear Connection, Inc.	Telecommunications hardware and equipment	$ 71,952
Traditional Expressions, LLC	Instructional support services	$ 69,240
Shinberg Levinas	Architectural and engineering services	$ 68,125
Achievement Network	Student assessment support and services	$ 68,000
Melodie Barron	Instructional support services	$ 64,593
Raffa, P.C.	Financial audit and tax services	$ 63,740
The Ultimate Software Group, Inc.	HRIS and payroll services	$ 60,974
Limbach Company, LLC	Mechanical systems equipment and support	$ 56,341
Shanahan Law Firm LLC, The	Legal services (retainer)	$ 51,000
Brailsford & Dunavey	Development and project management services	$ 45,640
Biz IT Group	IT management services	$ 41,467
Comm Solutions	IT management services	$ 40,684
Office Movers, Inc.	Commercial moving services	$ 40,171
UChicago Impact	Student assessment and instructional data support and services	$ 33,620
Young Weeden, LLC	Special education services	$ 31,724
B & R Associates, LP	Leased parking	$ 30,320
Law Office of Lauren E. Baum	Legal services (retainer)	$ 29,667
The New Teacher Project	Talent recruitment and development services	$ 27,500

Raffa

Certified Public Accountants

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*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy

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 D.C. Preparatory Academy (DC Prep), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DC Prep'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 DC Prep's internal control. Accordingly, we do not express an opinion on the effectiveness of DC Prep'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 DC Prep'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

Continued

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 or 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 the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
October 30, 2015

Raffa

Certified Public Accountants

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy

Report on Compliance for Each Major Federal Program

We have audited D.C. Preparatory Academy (DC Prep) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of DC Prep's major federal programs for the year ended June 30, 2015. DC Prep's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of DC Prep'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 DC Prep'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 DC Prep's compliance.

Opinion on Each Major Federal Program

In our opinion, DC Prep complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Continued

Report on Internal Control Over Compliance

Management of DC Prep 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 DC Prep's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the 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 OMB Circular A-133, 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 DC Prep'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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
October 30, 2015

D.C. PREPARATORY ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Pass-through from the District of Columbia Office of the State Superintendent of Education (OSSE):			
Title I – Grants to Local Educational Agencies (LEAs)	84.010A	42010A/52010A	$ 577,226
Preparing, Training, and Recruiting High-Quality Teachers and Principals	84.367A	42367A/52367A	170,048
Special Education Cluster (IDEA):			
Special Education – 611 Grant to LEAs	84.027A	42027A/52027A	228,623
Special Education – 619 Preschool Grant to LEAs	84.173A	52173A	3,074
Subtotal			231,697
State Fiscal Stabilization Fund (SFSF) Race to the Top Incentive Grants (ARRA)	84.395A	ST395A	15,536
Scholarships for Opportunity and Results (SOAR) Act	84.370/84.370C	U370C130001	180,467
Bridging the Education Divide in Washington	84.282M	N/A	674,940
Total U.S. Department of Education			1,849,914
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Temporary Assistance for Needy Families (TANF)	93.558	N/A	88,914
Childcare Subsidy Program	93.575	N/A	33,644
Medicaid	93.768	N/A	12,600
Total U.S. Department of Health and Human Services			135,158

See accompanying notes to this schedule.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE – FOOD AND NUTRITION SERVICE			
Pass-through from the OSSE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	N/A	$ 305,805
School Breakfast Program	10.553	N/A	143,056
National School Snack Program	10.555	N/A	59,242
Total U.S. Department of Agriculture			508,103
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 2,493,175**

See accompanying notes to this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred. Expenses are incurred using the cost accounting principles contained in U.S. Office of Management and Budget (OMB) Circulars and Uniform Guidance. Under those cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

2. Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements

The expenditures per the schedule of expenditures of federal awards are reported in the statements of activities in the audited financial statements as follows:

Total per Schedule of Expenditures of Federal awards	$ 2,493,175
E-rate program revenue	56,561
Total Federal Grants and Entitlements Reported in the Statement of Activities	$ 2,549,736
Federal grants	$ 1,570,766
Federal entitlements	978,970
Total Federal Grants and Entitlements Reported in the Statement of Activities	$ 2,549,736

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	X	Unmodified		Qualified
		Adverse		Disclaimer
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major program(s):				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditor's report issued on compliance for major program(s):	X	Unmodified		Qualified
		Adverse		Disclaimer
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?		Yes	X	No

Identification of Major Program(s):

CFDA / Grant Number(s)	Title
84.282M / N/A	Bridging the Education Divide in Washington, DC

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as a low-risk auditee?	X	Yes		No

Continued

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None required to be reported.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.