

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2015 AND 2014

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
DC Scholars Public Charter School, Inc.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of DC Scholars Public Charter School, Inc., (a nonprofit organization), 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 DC Scholars Public Charter School, Inc. 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.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by U.S. 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 schedule of expenditures of federal awards 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 November 23, 2015, on our consideration of DC Scholars Public Charter School, Inc.'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 result 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 Scholars Public Charter School, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 23, 2015

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,375,465	\$ 1,087,832
Federal Receivables	169,595	335,149
State Receivables	45,625	11,842
Prepaid Expenses	5,951	35,387
Due from Related Parties, Net	2,917	48,235
Total Current Assets	2,599,553	1,518,445
PROPERTY AND EQUIPMENT	1,124,492	362,419
Total Assets	\$ 3,724,045	\$ 1,880,864
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 118,165	\$ 120,407
Accrued Liabilities	267,491	302,403
Deferred Revenue	-	162,551
Total Current Liabilities	385,656	585,361
NET ASSETS		
Unrestricted	3,338,389	1,295,503
Total Liabilities and Net Assets	\$ 3,724,045	\$ 1,880,864

See accompanying Notes to Financial Statements

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
REVENUES AND OTHER SUPPORT		
Per-Pupil Stipends	\$ 5,523,397	\$ 3,676,362
Facility Allotment Stipend	1,195,008	897,000
Federal Sources	661,934	944,985
State Sources	613,858	39,705
Contributions - Individuals	92,057	33,501
Contributions - Corporate	6,000	5,000
Contributions - Foundations	65,000	95,000
Other Local Sources	102,747	2,053
Student Activities	<u>32,277</u>	<u>17,643</u>
Total Revenues and Other Support	8,292,278	5,711,249
EXPENSES		
Program Services	5,123,395	4,050,935
Management and General	1,119,260	919,948
Fundraising	<u>6,737</u>	<u>120</u>
Total Expenses	<u>6,249,392</u>	<u>4,971,003</u>
CHANGE IN NET ASSETS	2,042,886	740,246
Net Assets - Beginning of Year	<u>1,295,503</u>	<u>555,257</u>
NET ASSETS - END OF YEAR	<u><u>\$ 3,338,389</u></u>	<u><u>\$ 1,295,503</u></u>

See accompanying Notes to Financial Statements

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Services	Management and General	Fundraising	Total
PERSONNEL COSTS				
Salaries	\$ 2,705,676	\$ 184,382	\$ -	\$ 2,890,058
Employee Benefits	478,537	32,451	-	510,988
Payroll Taxes	226,482	15,955	-	242,437
Total Personnel Costs	<u>3,410,695</u>	<u>232,788</u>	-	<u>3,643,483</u>
DIRECT STUDENT COSTS				
Contracted Consultants	416,910	-	-	416,910
Curriculum	65,669	-	-	65,669
General Classroom Supplies	162,380	-	-	162,380
Food Services	261,768	-	-	261,768
Uniforms	10,494	-	-	10,494
Student Activities	34,006	-	-	34,006
Other Direct Student Costs	3,592	-	-	3,592
Professional Development	32,443	-	-	32,443
Student Transportation	164	-	-	164
Total Direct Student Costs	<u>987,426</u>	-	-	<u>987,426</u>
GENERAL EXPENSE				
Administrative Fees	-	762,126	-	762,126
Professional Services	8,603	32,398	-	41,001
IT Consultants	34,247	2,413	-	36,660
Insurance	22,414	1,579	-	23,993
Computer and Network	22,771	4,719	-	27,490
Telephone	-	2,063	-	2,063
Student Recruitment	10,971	-	-	10,971
Staff Travel	9,227	650	-	9,877
Team Building	11,471	808	-	12,279
Development	-	-	6,737	6,737
Total General Expense	<u>119,704</u>	<u>806,756</u>	<u>6,737</u>	<u>933,197</u>
Subtotal	\$ 4,517,825	\$ 1,039,544	\$ 6,737	\$ 5,564,106

See accompanying Notes to Financial Statements

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED JUNE 30, 2015

	Program Services	Management and General	Fundraising	Total
Balance Forwarded	\$ 4,517,825	\$ 1,039,544	\$ 6,737	\$ 5,564,106
OCCUPANCY EXPENSE				
Facility Lease	305,051	21,490	-	326,541
Facility Depreciation	173,347	12,212	-	185,559
Facility Repairs and Maintenance	20,164	1,421	-	21,585
Facility Cleaning	74,728	5,264	-	79,992
Facility Waste Removal	5,517	389	-	5,906
Total Occupancy Expense	578,807	40,776	-	619,583
OFFICE EXPENSE				
Office Supplies	-	32,495	-	32,495
Other General Expense	-	4,026	-	4,026
Postage	-	534	-	534
Printed Materials	26,763	1,885	-	28,648
Total Office Expense	26,763	38,940	-	65,703
Total Expenses	<u>\$ 5,123,395</u>	<u>\$ 1,119,260</u>	<u>\$ 6,737</u>	<u>\$ 6,249,392</u>

See accompanying Notes to Financial Statements

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program Services	Management and General	Fundraising	Total
PERSONNEL COSTS				
Salaries	\$ 1,924,993	\$ 227,412	\$ -	\$ 2,152,405
Payroll Taxes	160,776	19,112	-	179,888
Employee Benefits	327,975	37,252	-	365,227
Total Personnel Costs	<u>2,413,744</u>	<u>283,776</u>	-	<u>2,697,520</u>
DIRECT STUDENT COSTS				
Contracted Consultants	424,172	-	-	424,172
Curriculum	33,694	-	-	33,694
General Classroom Supplies	130,132	-	-	130,132
Food Services	196,404	-	-	196,404
Uniforms	15,421	-	-	15,421
Student Activities	18,844	-	-	18,844
Professional Development	16,545	-	-	16,545
Student Transportation	281	-	-	281
Total Direct Student Costs	<u>835,493</u>	-	-	<u>835,493</u>
GENERAL EXPENSE				
Administrative Fees	-	485,897	-	485,897
Professional Services	-	26,625	-	26,625
IT Consultants	41,372	4,918	-	46,290
Insurance	17,631	2,096	-	19,727
Computer and Network	4,443	5,644	-	10,087
Telephone	-	13,994	-	13,994
Student Recruitment	40,246	-	-	40,246
Staff Travel	3,514	418	-	3,932
Team Building	8,394	998	-	9,392
Development	-	-	120	120
Total General Expense	<u>115,600</u>	<u>540,590</u>	<u>120</u>	<u>656,310</u>
Subtotal	\$ 3,364,837	\$ 824,366	\$ 120	\$ 4,189,323

See accompanying Notes to Financial Statements

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED JUNE 30, 2014

	Program Services	Management and General	Fundraising	Total
Balance Forwarded	\$ 3,364,837	\$ 824,366	\$ 120	\$ 4,189,323
OCCUPANCY EXPENSE				
Facility Lease	336,536	40,006	-	376,542
Facility Depreciation	242,149	28,785	-	270,934
Facility Repairs and Maintenance	15,143	1,800	-	16,943
Facility Cleaning	60,272	7,165	-	67,437
Facility Waste Removal	4,972	591	-	5,563
Total Facility Expense	659,072	78,347	-	737,419
OFFICE EXPENSE				
Office Supplies	-	13,619	-	13,619
Other General Expense	-	239	-	239
Postage	-	164	-	164
Printed Materials	27,026	3,213	-	30,239
Total Office Expense	27,026	17,235	-	44,261
Total Expenses	\$ 4,050,935	\$ 919,948	\$ 120	\$ 4,971,003

See accompanying Notes to Financial Statements

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,042,886	\$ 740,246
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation Expense	185,559	270,934
(Increase) Decrease in:		
Federal Receivables	165,554	(141,651)
Grants Receivables	-	105,824
State Receivables	(33,783)	(11,842)
Prepaid Expense	29,436	(29,558)
Due from Related Parties	45,318	(48,235)
Increase (Decrease) in:		
Accounts Payable	(2,242)	79,268
Accrued Liabilities	(34,912)	75,013
Deferred Revenue	(162,551)	162,551
Net Cash Provided by Operating Activities	2,235,265	1,202,550
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Purchases of Property and Equipment	(947,632)	(441,857)
Net Cash Used by Investing Activities	(947,632)	(441,857)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,287,633	760,693
Cash and Cash Equivalents - Beginning of Year	1,087,832	327,139
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,375,465	\$ 1,087,832

See accompanying Notes to Financial Statements

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

DC Scholars Public Charter School, Inc. (the "School") is a non-profit organization that was organized on June 8, 2011. The School was established as a charter school to manage and operate a school located in the District of Columbia under provisions enacted by the District of Columbia Public Charter School Board ("PCSB").

On May 31, 2012, the School entered into a charter school agreement with the PCSB for a 15 year term beginning July 1, 2012. As part of this agreement, the School, in its first year, provided instructional and support services for students ranging from preschool through grade three. In the subsequent four academic years, the School shall add a grade each year through grade seven, resulting in the maximum enrollment at the School in the fifth year of five hundred and two pupils. Before the sixth year, the School will undergo a review by the PCSB and, assuming requirements are met, the School would then be granted the addition of eighth grade, at which point the maximum enrollment at the School under this charter will be five hundred and fifty-six pupils for years six through fifteen of this agreement.

Basis of Accounting

The School's financial statements are prepared on the accrual basis of accounting. The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Financial Statement Presentation

Net assets are classified for accounting and financial reporting into three classes of net assets based on the existence or absence of donor imposed restrictions. A description of net asset categories follows:

Unrestricted Net Assets are those that are available for support of operations and whose use is not externally restricted, although their use may be limited by other factors such as board designation.

Temporarily Restricted Net Assets include gifts for which donor imposed restrictions have not been met. When a donor restriction expires, that is, when a 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. There were no temporarily restricted net assets as of June 30, 2015 and 2014.

Permanently Restricted Net Assets include gifts for which donor imposed restrictions neither expire with the passage of time nor that can be fulfilled or otherwise removed by actions of the School. There were no permanently restricted net assets as of June 30, 2015 and 2014.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, the School considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. The School maintains its primary depository account with a commercial bank. During the year, the School may have cash balances on deposit in excess of the federally insured limit.

Federal Receivables

Federal receivables primarily consist of amounts due from the Office of Public Charter School Financing and Support for federal grant programs. Federal receivables are stated at the amount management expects to collect from outstanding balances. As of June 30, 2015 and June 30, 2014, no allowance for doubtful accounts was deemed warranted based on historical experience.

Property and Equipment

It is the School's policy to capitalize equipment over \$2,500. However, consideration is also given to lesser amounts based on the nature of the purchase. Equipment is recorded at cost. Leasehold improvements are recorded at cost and amortized over the life of the lease. Depreciation is recorded using the straight-line method over the estimated lives of the respective assets:

Leasehold Improvements	1 Year
Furniture, Fixtures and Equipment	7 Years
Computers	3 Years

Governmental Funding

Revenue from the state and local governments resulting from the School's charter status is based on the number of students enrolled. The revenue is recorded when services are performed in accordance with the charter agreement. Federal and state funds are recognized by the School when expenditures are incurred and billable.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funding (Continued)

Revenue from other government grants to which the School is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by the School.

Federal and state funds received prior to the services provided or the related expenditures being incurred are deferred and recorded as refundable advances.

Contributions, Grants and Revenue Recognition

Contributions and grants that are unconditional are recognized when the donor makes a promise to give funds to the School. Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions and grants that are to be received in future years are required to be reported as temporarily restricted support when the unconditional promise to give is received by the School. Upon expiration of a time restriction or payment satisfaction by the donor, the amounts are reclassified to unrestricted net assets.

Contributions and grants are expected to be collected within one year and have been recorded at their net realizable value.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. Accordingly, no provision for federal or state income taxes has been made for the School in the accompanying financial statements.

The School's information tax returns are subject to review and examination by federal and state authorities. The School is not aware of any activities that would jeopardize its tax-exempt status.

Financial Statement Reclassifications

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

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through November 23, 2015, the date the financial statements were available to be issued.

NOTE 2 GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAMS

The School participates in federal grant reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2015 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 3 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost, less accumulated depreciation, at June 30, 2015 and 2014:

	2015	2014
Leasehold Improvements	\$ 1,170,485	\$ 374,508
Computer and Network Equipment	377,904	232,130
Furniture and Fixtures	265,791	259,909
Total	1,814,180	866,547
Less: Accumulated Depreciation	689,688	504,128
Total Property and Equipment	\$ 1,124,492	\$ 362,419

Depreciation expense was \$185,559 and \$270,934 for the years ended June 30, 2015 and 2014, respectively.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4 RELATED PARTY TRANSACTIONS

Scholar Academies

The School and Scholar Academies (a non-profit organization) are considered related parties as a result of common management and management services provided to the School. The School has an academic and business service agreement with Scholar Academies. The term of this agreement is from July 1, 2012 to June 30, 2017. A management service fee is calculated based on 10% of the School's per pupil charter payment (as highlighted in the academic and business service agreement) authorized to be paid under its contract with the District of Columbia, including any increases therein, from and after the effective date of any such increase by the authorizer, State or by the Federal government, directly or indirectly. During the years ended June 30, 2015 and 2014, the School had incurred \$668,748 and \$457,336 in management service fees, respectively.

Young Scholars Charter School

The School and Young Scholars Charter School are considered related parties as a result of the common management of the schools.

Young Scholars Frederick Douglass Charter School

The School and Young Scholars Frederick Douglass Charter School are considered related parties as a result of common management of the schools.

Young Scholars Kenderton Charter School

The School and Young Scholars Kenderton Charter School are considered related parties as a result of common management of the schools.

Paul Robeson Charter School for the Humanities

The School and Paul Robeson Charter School for the Humanities are considered related parties as a result of common management of the schools.

From time to time DC Scholars Public Charter School and its related parties incur expenses on behalf of each other. Consequently, amounts due (to) from related parties at June 30 consist of the following:

	2015	2014
Scholar Academies	\$ (6,285)	\$ 48,235
Young Scholars Charter School	9,202	-
Total	\$ 2,917	\$ (35,235)

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 5 CHARTER SCHOOL AGREEMENT

On July 1, 2012, the School had entered into a Charter School Agreement with the District of Columbia Public Charter School Board (“Board”) expiring June 30, 2028. As part of this agreement, the Board may charge a public charter school fee, which is not to exceed one-half of one percent of the total revenues within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. The Board performs a reconciliation of the fee in the summer following each fiscal year based on the School’s Form 990 for that year and adjusts the fee invoice in the following fiscal year to reflect any difference between budgeted and actual revenues. For the years ended June 30, 2015 and 2014, the Organization incurred \$93,378 and \$28,560 in administrative fees, respectively.

NOTE 6 LICENSING AGREEMENT

On May 31, 2012, the School had entered into a License to Occupy agreement with the District of Columbia to provide a Public Charter School on the ground floor of the Shadd School. The terms of this agreement were for a one-year term commencing on July 1, 2013 and expiring on June 30, 2014, with a license fee payment of \$27,163 per month. The School was also required to pay an additional \$4,216 in a Licensee contribution to the costs of maintaining, repairing and operating the Shadd School. On July 1, 2014, this agreement was amended, at its original terms, but included both a rent credit of \$50,000 to assist in payment of relocation costs as the property is under construction. This amendment also extended the agreement for an additional one-year term expiring June 30, 2015. For the years ended June 30, 2015 and 2014, the School had incurred \$326,542 and \$376,542 in licensing fees, respectively.

NOTE 7 OPERATING LEASE

The School has entered into two lease agreements for the use of office equipment. The School is required to make forty-eight payments in the amount of \$365 and \$775, respectively. These leases expire on August 1, 2017 and September 30, 2017, respectively. For the years ended June 30, 2015 and 2014, the total rent expense incurred under these lease agreements was \$13,680 and \$12,484, respectively, which have been included as part of professional service expense.

The future minimum payments on these leases as of June 30, 2015 are as follows:

Years Ending	Amount
2016	\$ 13,680
2017	7,480
2018	365
Total	\$ 21,525

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 8 RETIREMENT PLAN

The School established a defined contribution plan under Section 403(b) of the Internal Revenue Code. For an employee with less than three years of service, the School will match up to 2% of the qualified employee's compensation. For employees with more than three years of service the School will match up to 4% of the qualified employee's compensation. Qualifying employees may contribute an amount as determined by the Internal Revenue Code of their compensation to the plan. Retirement expense for the years ended June 30, 2015 and 2014 was \$54,128 and \$25,794, respectively.

NOTE 9 SUBSEQUENT EVENTS

On August 31, 2015, the School entered into a limited liability company (LLC) agreement with the Charter School Incubator Initiative, a District of Columbia not-for-profit corporation, resulting in the formation of 5601 East Capitol, LLC. The School will be considered a member of the LLC and have a 99% interest in it, based on an initial capital contribution of approximately \$1.8 million. The other 1% interest will be held by the Charter School Incubator Initiative, the managing member, based on an initial capital contribution targeted at approximately \$18,000. Management of the School plans to consolidate the activities of the LLC with the School.

On September 3, 2015, the newly formed 5601 East Capitol, LLC committed \$17.5 million to the renovation of 5601 East Capitol Street, Lot 820 ("the SHADD property").

Prior to the year ended June 30, 2015, the School expended approximately \$760,000 on building renovations associated with the SHADD property. These costs have been classified as leasehold improvements on the School's statement of position as of June 30, 2015, and were subsequently reclassified as part of the School's \$1.8 million investment in 5601 East Capitol, LLC when the LLC agreement was signed on September 3, 2015.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award	Accrued or (Deferred) Revenue at 7/1/14	Total Received for the Year	Federal Disbursements/ Expenditures	Accrued or (Deferred) Revenue at 6/30/15
U.S. Department of Education									
Pass-Through Office of the State									
Superintendent of Education									
Title I - Improving Basic Programs	I	84.010	42010A	07/01/13 - 09/30/14	\$ -	\$ 17,941	\$ 28,919	\$ 10,978	\$ -
Title I - Improving Basic Programs	I	84.010	52010A	07/01/14 - 09/30/15	98,249	-	77,710	104,062	26,352
Title II - Improving Teacher Quality	I	84.367	42367A	07/01/13 - 09/30/14	-	3,835	6,182	2,347	-
Title II - Improving Teacher Quality	I	84.367	52367A	07/01/14 - 09/30/15	24,153	-	409	15,488	15,079
Title V, Part B - Charter School Program	I	84.282	N/A	04/25/11 - 04/24/14	-	180,790	180,939	149	-
Twenty-First Century Community Learning Centers	I	84.287	42287C-14-0506	10/01/13 - 09/30/14	-	100,499	120,190	19,691	-
Twenty-First Century Community Learning Centers	I	84.287	52287C-16-0506	10/01/14 - 09/30/15	225,000	-	167,479	220,907	53,428
Individuals with Disabilities Education Act Part B	I	84.027	32027A	07/01/12 - 09/30/14	-	-	4,955	4,955	-
Individuals with Disabilities Education Act Part B	I	84.027	32027A	07/01/13 - 09/30/15	23,621	-	23,621	23,621	-
Total U.S. Department of Education					371,023	303,065	610,404	402,198	94,859
U.S. Department of Agriculture									
Pass-Through Office of the State									
National School Lunch Program	I	10.555	N/A	08/27/13 - 06/20/14	-	32,083	31,643	(440)	-
National School Lunch Program	I	10.555	N/A	07/01/14 - 06/30/15	180,792	-	185,441	260,177	74,736
Total U.S. Department of Agriculture					180,792	32,083	217,084	259,737	74,736
Total Financial Assistance					\$ 551,815	\$ 335,148	\$ 827,488	\$ 661,935	\$ 169,595

D - Direct Funding
I - Indirect Funding
S - State Share

See accompanying Notes to Schedule of Expenditures of Federal Awards.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE A GENERAL INFORMATION

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of DC Scholars Public Charter School, Inc. (the School). Financial awards received directly from federal agencies, as well as financial assistance passed through other governmental agencies or non-profit organizations, are included in the schedule.

NOTE B BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE C RELATIONSHIP TO FINANCIAL STATEMENTS

The Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of the School. It is not intended to, and does not, present either the balance sheet or revenue, expenditures, and changes in net assets. The financial activity for the aforementioned awards is reported in the School's statement of activities.

INDEPENDENT AUDITORS' 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

Board of Directors
DC Scholars Public Charter School, Inc.
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 DC Scholars Public Charter School, Inc., 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 November 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DC Scholars Public Charter School, Inc.'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 Scholars Public Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of DC Scholars Public Charter School, Inc.'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 Scholars Public Charter School, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 result 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.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 23, 2015



CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
DC Scholars Public Charter School, Inc.
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited DC Scholars Public Charter School, Inc.'s 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 Scholars Public Charter School, Inc.'s major federal programs for the year ended June 30, 2015. DC Scholars Public Charter School, Inc.'s major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of DC Scholars Public Charter School, Inc.'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 Scholars Public Charter School, Inc.'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 Scholars Public Charter School, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, DC Scholars Public Charter School, Inc. 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.



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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items FA 2015-0001. Our opinion on each major federal program is not modified with respect to these matters.

DC Scholars Public Charter School, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. DC Scholars Public Charter School, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of DC Scholars Public Charter School, Inc. 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 Scholars Public Charter School, Inc.'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 Scholars Public Charter School, Inc.'s internal control over compliance.

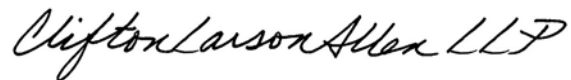
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FA 2015-0001 to be a significant deficiency.

Board of Directors
DC Scholars Public Charter School, Inc.

DC Scholars Public Charter School Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. DC Scholars Public Charter School, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 23, 2015

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
3. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

1. Internal control over major federal programs:
 - Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes _____ none reported
2. Type of auditor’s report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes _____ no

Identification of Major Federal Programs

CFDA Number(s)

10.533 and 10.555

Name of Federal Program or Cluster

U.S. Department of Agriculture, Pass-Through Office of the State Superintendent of Education, National School Lunch Program

DC SHOLARS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

Section I – Summary of Auditors’ Results (Continued)

Dollar threshold used to distinguish between
Type A or Type B programs was: \$ 300,000

Auditee qualified as low-risk auditee pursuant to
OMB Circular A-133? X yes no

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

FA 2015-0001

U.S. Department of Education
National School Lunch Program
CFDA Number: 10.553 and 10.555
Pass Through Agency: Office of State Superintendent of Education
Pass-Through Numbers: N/A
Award Period: July 1, 2014 through June 30, 2015
Type of Finding:

- Significant Deficiency over Compliance

Criteria:

OMB Circular A-133 requires compliance with the provisions of cash management. The School is responsible for having internal controls designed to ensure compliance with those provisions.

Condition/Context:

One compliance requirement of the School's National School Lunch program contract is that the school is required to count meals through a Point of Service method as a total number of reimbursable meals. There were discrepancies noted in the number of days reported on the Reimbursement Claim Forms as compared to the daily point of service logs. As part of our testing, we had selected two months of Reimbursement Claim Forms submitted to OSSE and also obtained all of the point of service logs for the two months for both breakfast and lunch. There were 58 fewer reimbursable meals reported on the September point of service daily logs than what was reported on the reimbursement claim form. This discrepancy represented less than 1% of the total meals provided. There were 91 fewer reimbursable meals reported on the March point of service daily logs than what was reported on the reimbursement claim form. This discrepancy represented approximately 1% of the total meals provided.

DC SHOLARS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

FA 2015-0001 (Continued)

Cause:

The controls over cash management are not adequate to ensure compliance over major federal award programs.

Effect:

Noncompliance to the cash management requirements as described in both the grant award agreement and OMB Circular A-122 could ultimately lead to the potential submission of more meals than actually being provided to students and result in the remission of funding back to the awarding agency.

Recommendation:

We recommend management implement internal controls surrounding the point of service daily logs to ensure the number of meals reported on the reimbursement claim forms is accurate and properly reflects the meals that were consumed.

Corrective Action Plan:

Management has implemented an electronic point-of-service system for counting meals served. A new kitchen manager has been hired who is responsible for ensuring that daily meal counts are complete and reporting back to the Chief of Staff weekly. The Chief of Staff audits the daily counts monthly prior to submission of the reimbursement claims forms to ensure that the number of meals claimed match the number of meals consumed.

Section IV – Prior Year Findings

No corrective action plan is required because there were no findings required to be reported under the Federal Single Audit Act.