

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**

**REPORT ON FINANCIAL STATEMENTS  
(with supplementary information and reports  
required by OMB Circular A-133)**

**YEARS ENDED JUNE 30, 2015 AND 2014**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Friendship Public Charter School, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Friendship 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 and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 Friendship 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*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional supplementary information, as identified in the table of contents, and 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* are presented for purposes of additional analysis and is not required as 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 audits 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 19, 2015, on our consideration of Friendship 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 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 Friendship Public Charter School, Inc.'s internal controls over financial reporting and compliance.

*Manes Costeiran PC*

October 19, 2015

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2015 AND 2014**

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 29,938,171	\$ 22,357,921
Grants and accounts receivable	3,865,027	3,660,105
Prepaid expenses	80,607	419,342
<b>TOTAL CURRENT ASSETS</b>	<b>33,883,805</b>	<b>26,437,368</b>
<b>NONCURRENT ASSETS:</b>		
Restricted cash and investments	14,164,956	18,420,673
Property and equipment, net of accumulated depreciation	104,773,075	79,510,176
Loan issuance costs, net of amortization of \$1,887,925 and \$1,677,000 for 2015 and 2014	4,321,432	4,532,357
Deposits	149,968	247,492
<b>TOTAL NONCURRENT ASSETS</b>	<b>123,409,431</b>	<b>102,710,698</b>
<b>TOTAL ASSETS</b>	<b>\$ 157,293,236</b>	<b>\$ 129,148,066</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 2,812,582	\$ 5,039,021
Accrued salaries and related	4,594,135	3,957,635
Deferred revenue	217,292	2,056,962
Note payable	4,500,000	-
Current portion of long-term debt	2,875,000	2,205,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>14,999,009</b>	<b>13,258,618</b>
<b>LONG-TERM DEBT - less current portion</b>	<b>105,344,979</b>	<b>92,561,549</b>
<b>TOTAL LIABILITIES</b>	<b>120,343,988</b>	<b>105,820,167</b>
<b>NET ASSETS:</b>		
Undesignated - unrestricted	36,949,248	23,327,899
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 157,293,236</b>	<b>\$ 129,148,066</b>

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

	2015	2014
<b>REVENUE:</b>		
Pupil revenue:		
General and special education	\$ 53,273,002	\$ 46,644,373
Facilities	11,427,840	11,277,000
Federal grants	8,686,337	8,652,752
Other grants and contributions	3,412,164	1,758,801
Contribution received in assumption of CAPCS	8,408,545	-
Summer school	2,338,153	2,265,209
Managed schools	-	1,454,684
Interest	143,442	143,443
Other	33,562	17,889
	<b>87,723,045</b>	<b>72,214,151</b>
<b>EXPENSES:</b>		
Program services:		
Educational activities	60,352,892	57,752,125
Extended learning	1,873,683	1,966,887
Summer school	1,697,757	1,911,690
Managed schools	-	1,458,251
Management and general	10,090,854	8,791,833
Fundraising	86,510	160,457
	<b>74,101,696</b>	<b>72,041,243</b>
<b>CHANGE IN NET ASSETS</b>	<b>13,621,349</b>	<b>172,908</b>
<b>NET ASSETS:</b>		
Beginning of year	23,327,899	23,154,991
End of year	\$ 36,949,248	\$ 23,327,899

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

	2015	2014
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>		
Cash flows from operating activities:		
Change in net assets	\$ 13,621,349	\$ 172,908
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	4,280,268	3,855,074
Amortization of loan premium, discount and issuance costs - net	156,581	156,542
Noncash contribution from assumption of CAPCS	(5,539,884)	-
Grants and accounts receivable	(204,922)	161,290
Prepaid expenses and deposits	436,259	502,132
Accounts payable and accrued expenses	(1,589,939)	2,506,826
Deferred revenue (expense)	(1,839,670)	(120,313)
Total adjustments	(4,301,307)	7,061,551
Net cash provided by operating activities	9,320,042	7,234,459
Cash flows from investing activities:		
Purchase of property and equipment	(4,239,087)	(17,376,595)
Purchase of leased asset	(4,051,422)	-
Withdrawals (deposits) of restricted cash and investments - net	4,255,717	13,930,358
Net cash used by investing activities	(4,034,792)	(3,446,237)
Cash flows from financing activities:		
Proceeds on note payable	4,500,000	-
Payments on principal of notes payable	(2,205,000)	(1,445,000)
Net cash provided (used) by financing activities	2,295,000	(1,445,000)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,580,250	2,343,222
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	22,357,921	20,014,699
End of year	\$ 29,938,171	\$ 22,357,921
<b>SUPPLEMENTAL DISCLOSURE INFORMATION:</b>		
Cash interest paid	\$ 4,783,448	\$ 5,016,375
Noncash contribution of property and equipment (Note 12)	\$ 27,519,884	\$ -
Noncash assumption of debt (Note 12)	\$ 21,980,000	\$ -

See notes to financial statements.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Friendship Public Charter School, Inc. (the Charter) have been prepared on the accrual basis. The Charter's more significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

The Charter 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. The Charter has no permanently restricted activity or net assets. Temporarily restricted revenues for which the restrictions are met in the same period as the revenues are recognized are recorded as unrestricted revenues. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met. The Charter does not have any temporarily or permanently restricted net assets.

Uniform per Student Funding Formula - During the year ended June 30, 2015, the Council of the District of Columbia passed legislation to amend the funding formula with a new weight, at-risk for academic failure (at-risk). At-risk is intended to provide new funding for local education agencies service students at-risk for academic failure. The summer school weight was eliminated (no funds provided for 2015) and funds for summer school were added into the at-risk weight.

Cash and cash equivalents - The Charter considers unrestricted short-term highly liquid investments (including money market funds) with maturities of three months or less to be cash equivalents.

Unrestricted and restricted cash and investments consist of cash and cash equivalents (including money market funds) carried at cost, and fixed income mutual funds carried at fair market value. The guaranteed investment contract is stated at cost as a result of the restrictions placed upon it.

Accounts, grants and notes receivable are stated at amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Grants receivable consist primarily of grant reimbursements outstanding at year-end. Management estimates no allowance for uncollectible amounts is necessary for the years ended June 30, 2015 and 2014.

The loan issuance costs are amortized into interest expense over the life of the loans using the straight-line method.

Deferred revenue - Deferred revenue consists primarily of funds received prior to the close of the fiscal year for certain grants and the operation of summer school (June 30, 2014, only) for which the related expenses had not yet been incurred.



**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

Property and equipment is recorded at cost, or if donated, at approximate fair value at the date of donation. Depreciation is computed over the remaining estimated useful lives using the straight-line method. The Charter has a capitalization policy of \$1,000.

Loan discounts are netted with loan premiums and added to long-term debt. These amounts are amortized into interest expense annually in proportion to the related interest expense incurred.

Functional allocation of expenses - The costs of providing the various programs and other activities has been summarized on a functional basis in the notes to the financial statements. Accordingly, certain costs have been allocated among program services and management and general expenses based on management's estimates. Certain reclassification of prior year expense classifications were made to conform with the current year presentation.

**NOTE 2 - NATURE OF ORGANIZATION, RISKS, AND UNCERTAINTIES**

Organization - The Friendship Public Charter School, Inc. (the Charter) is a public charter school authorized under Section 2203 of the District of Columbia School Reform Act of 1995 by the District of Columbia Public Charter School Board (DCPCSB). The Charter operates 6 schools in Washington, DC, each covering different grade levels ranging from preschool through grade 12. DCPCSB has authorized the Charter through June 30, 2028.

The significant program services for the Charter are as follows:

Education services represent the cost of educating students during the regular school day and school year. Programmatic expenses include the cost of classroom instruction, school leadership, academic support and other school support services such as janitorial and food services.

Extended learning is a before and after school care program that reinforces standards and teaching practices of the Charter through project based learning and exploration.

Summer school programs are both credit recovery and academic enrichment programs offered to Charter students during the summer months.

Managed school services are provided by the Charter to one District of Columbia High School and four Baltimore City Public Schools. The managed school activities are funded separately and do not utilize the Charter's per pupil revenue. In accordance with the 15 year charter renewal, these services ended June 30, 2014.

The Charter has been granted tax-exempt status under the provisions of Section 501(c)(3) of the Internal Revenue Code and, as such, is not subject to federal income taxes other than those arising from unrelated business income.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - NATURE OF ORGANIZATION, RISKS, AND UNCERTAINTIES (Concluded)**

The Charter is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments that potentially subject the Charter to concentrations of credit risk consist principally of temporary cash investments and receivables. The Charter places its temporary cash investments with FDIC insured financial institutions. Although such investments and cash balances exceeded the federally insured limits at certain times during the year and at year-end they are, in the opinion of management, subject to minimal risk. Concentrations of credit risk with respect to grants receivable is limited due to the nature of the organizations that fund the Charter's grant activities.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The Charter evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through October 19, 2015, which is the date the financial statements were available to be issued.

In preparation of tax returns, tax positions are taken based on interpretation of federal, state and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain tax positions. Federal, state and local tax returns generally remain open for examination by the various taxing authorities for a period of three to four years.

Under the terms of the grant agreements, the final determination of allowable expenses is subject to interpretation and adjustments by grantor agencies.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CASH AND INVESTMENTS**

Restrictions have been placed on cash and investments primarily under the terms of loan and bond documents as follows:

	2015	2014
Unrestricted:		
Cash and cash equivalents	\$ 11,050,408	\$ 8,341,711
Unrestricted liquid asset fund - money market fund	17,820,681	13,480,986
Curriculum and furniture reserve - money market funds	1,067,082	535,224
	29,938,171	22,357,921
Restricted:		
Technology reserve - money market funds	1,276,662	1,208,254
Facilities reserve - money market funds	264,084	92,972
Debt service - money market funds	5,149,575	4,122,072
Unspent 2012 project proceeds - money market funds	4,287,092	9,832,562
Repayment of the District of Columbia:		
Public Charter School Credit Enhancement Committee note payable - guaranteed investment contract	3,000,000	3,000,000
Other	187,543	164,813
	14,164,956	18,420,673
	\$ 44,103,127	\$ 40,778,594

The unrestricted liquid asset fund (ULA) is not considered to be a restricted asset for financial reporting purposes. The ULA is subject to minimum funding requirements under the terms of the loan and bond documents. Currently the ULA must be at least 15% of the 2003 and 2006 project formula payments. This requirement increases to 20% by November 2013 and December 2016 for the 2003 and 2006 project formula payment, respectively. The requirement is 10% by June 2020 and 15% by June 2025 for the 2007 project formula payment. The 2003, 2006, and 2007 project formula payments are defined as the quarterly payments based on the number of students attending the Charter's facilities comprising the 2003, 2006, and 2007 projects operated by the Charter which are payable, allocable or awarded to the Charter by the District of Columbia. These funds may be used by the Charter for certain operating shortfalls, debt service payments and capital expenditures as defined by the loan documents. The Charter is funding the ULA based on projections to reach amounts required by the terms of the loan and bond documents.

In the event of default of the provisions of the debt agreements, the trustee has the ability to place a springing lien on the ULA effectively restricting the Charter's access to the funds. The primary event of default is failure to make a loan payment when due. Failure to achieve the required balances within the ULA is not an event of default, if the Charter engages an independent consultant acceptable to the debt insurer and the Charter implements the consultant's recommendation or undertakes other actions approved by the insurer.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CASH AND INVESTMENTS (Concluded)**

Technology and facility reserves are required under the loan agreement. The technology reserve is to be funded at \$200 (adjusted annually) per pupil and can be used for technology related purchases. The facilities reserve is to be funded at \$150 per pupil and can be used at the discretion of the Charter to pay for capital projects.

**NOTE 4 - FAIR VALUE MEASUREMENTS**

The Charter's investments are classified using a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements) when market prices are not readily available or reliable.

The three levels of the hierarchy are described below:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Charter's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

From time to time, changes in valuation techniques may result in reclassification of an investment's assigned level within the hierarchy.

The following is a market value summary by the level of the inputs used, as of June 30, 2015 and 2014, in evaluating the Charter's assets carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

Level 1 assets at fair value as of June 30:

	<u>2015</u>	<u>2014</u>
Fixed income mutual funds	<u>\$ 187,543</u>	<u>\$ 164,813</u>

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment at June 30 consists of the following:

	Years of useful life	2015	2014
Land		\$ 7,345,512	\$ 4,630,996
Buildings and leasehold improvements	20 - 40	116,952,247	72,294,066
Software and computer equipment	3 - 5	5,011,272	3,834,432
Furniture and office equipment	15 - 20	2,554,880	2,467,391
Curriculum	5	2,885,380	2,826,981
Construction in progress		404,000	19,556,259
		<u>135,153,291</u>	<u>105,610,125</u>
Less accumulated depreciation and amortization		<u>30,380,216</u>	<u>26,099,949</u>
		<u>\$ 104,773,075</u>	<u>\$ 79,510,176</u>
Depreciation expense		<u>\$ 4,280,268</u>	<u>\$ 3,855,074</u>

The Charter purchased the building and improvements, land, and certain furniture and equipment previously held under a capital lease for the Southeast Academy in February 2015. The purchase resulted in a reduction of the carrying value of these assets of \$2,215,804 and eliminated the related capital lease obligations of \$6,267,226 and other related assets and liabilities.

During 2015, the Charter recorded buildings and land for \$26.5 million and \$1.0 million, respectively, as a result of the assumption of the CAPCS Armstrong property (note 12). The District of Columbia has a reversionary interest in the property which gives it the right to reacquire the property in the event the property is not used for public education purposes by a public charter school as defined by the D.C. Official Code. The District of Columbia would have the right to reacquire the property for the price it originally paid, plus any approved loan amounts secured by the property. As of June 30, 2015, the District of Columbia would have the right to reacquire the property for \$22.9 million if the restrictions on use were not maintained.

**NOTE 6 - NOTE PAYABLE**

On June 30, 2015, the Charter borrowed from a bank \$4,500,000, carrying interest at the 30 day LIBOR rate plus 1.75% payable in full on October 28, 2015. The note was issued to finance the purchase of the building and improvements, land, and certain furniture and equipment previously held under a capital lease for the Southeast Academy.

The Charter is subject to certain financial covenants under the terms of the note payable for which the Charter is in compliance. The Charter is required to maintain with the lender, a balance for the note less the origination fee at all times. At June 30, 2015 this balance is \$4,492,603.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT**

Long-term debt consists of the following at June 30:

	2015	2014
2003 note payable - District of Columbia payable quarterly in annual totals ranging from \$1,195,000 to \$2,850,000 through 2033, plus interest at 5.0% to 5.75%. Secured by the per pupil revenue received from the District of Columbia and mortgages on the related properties.	\$ 34,520,000	\$ 35,650,000
2006 note payable - District of Columbia payable quarterly in annual totals ranging from \$385,000 to \$970,000 through 2035, plus interest at 4% to 5%. Secured by the same assets as the 2003 note payable plus the Southeast Academy building, improvements and certain personal property.	12,675,000	13,045,000
Note payable - District of Columbia Public Charter School Credit Enhancement Fund Committee, with interest only payments until maturity in 2033. Interest is to be paid quarterly at a minimum of 4% or greater if the related investments (guaranteed investment contract in Note 3) provide a higher return.	3,000,000	3,000,000
2007 note payable - District of Columbia payable quarterly in annual totals ranging from \$575,000 to \$1,585,000 through 2037, plus interest at 4.751% to 5.126%. Secured by revenues from the Armstrong and Nicholson campuses plus real estate of the Armstrong campus, and the 2007 debt service reserve funds.	21,980,000	-
2012 note payable - District of Columbia payable quarterly in annual totals ranging from \$720,000 to \$2,260,000 through 2042, plus interest at 4.72% to 5.00%. Secured by revenues from all six campuses, on parity with the 2003 and 2006 note payables plus real estate of the Tech Prep campus, and the debt service reserve funds.	35,075,000	35,780,000

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Continued)**

Total notes payable before premiums and discounts	\$ 107,250,000	\$ 87,475,000
Less: unamortized bond discount on 2003 note payable	(223,953)	(245,577)
Plus: unamortized bond premium on 2006 note payable	274,924	298,001
Plus: unamortized bond premium on 2012 note payable	919,008	971,899
	<u>108,219,979</u>	<u>88,499,323</u>
 Capital lease obligation due for the Southeast Academy with interest imputed at 7.25%. Payments of principal and interest are due monthly and increase annually based on the change in a local Consumer Price Index. The leased property was purchased in February 2015.	 -	 <u>6,267,226</u>
Total long-term debt	108,219,979	94,766,549
Less current portion	<u>2,875,000</u>	<u>2,205,000</u>
	<u>\$ 105,344,979</u>	<u>\$ 92,561,549</u>

**2003 and 2006 notes payable:**

Payments made on the 2003 note payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, as amended, for the benefit of the bond holders for the full payment of the \$44,880,000 District of Columbia Revenue Bonds (Friendship Public Charter School, Inc. Issue - Series 2003) issued in November 2003. The 2003 bonds were issued to refinance existing debt related to the prior purchase of three school buildings and leasehold improvement at a fourth leased school building as well as renovate and provide for technology upgrades for these facilities.

Payments made on the 2006 notes payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, as amended, for the benefit of the bond holders for the full payment of the \$15,000,000 District of Columbia Revenue Bonds (Friendship Public Charter School, Inc. Issue - Series 2006) issued in December 2006. The 2006 bonds were issued to finance a portion of the costs of the expansion, construction, renovation, furnishing and equipping of Southeast Academy.

Payments of the bonds are guaranteed by a bond insurance policy, the loan payable between the Charter and the District of Columbia, the related per pupil revenue of all six campuses, mortgages on the related properties and certain debt service reserve funds. As of June 30, 2015, \$47,195,000 of the 2003 and 2006 bonds remained outstanding.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Concluded)**

**2007 note payable:**

Payments made on the 2007 note payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, for the benefit of the bond holders for the full payment of the \$25,000,000 District of Columbia Revenue Bonds (Community Academy Public Charter School, Inc. Issue) issued in May 2007. The 2007 bonds were issued to finance the acquisition and renovation of the historic Armstrong, Nicholson, and certain other school buildings. As of June 30, 2015, \$21,980,000 of the 2007 bonds remained outstanding.

**2012 note payable:**

Payments made on the 2012 note payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, for the benefit of the bond holders for the full payment of the \$35,780,000 District of Columbia Revenue Bonds (Friendship Public Charter School, Inc. Issue - Series 2012A) issued in October 2012. The 2012 bonds were issued primarily to finance construction, renovation, and acquisition of furniture, fixtures, and equipment, the repayment of existing debt and reimbursement of pre-construction expenditures for the Tech Prep School. As of June 30, 2015, \$35,075,000 of the 2012 bonds remained outstanding.

The Charter is subject to certain financial covenants under the terms of the 2003, 2006, 2007 and 2012 notes payable to the District of Columbia for which the Charter is in compliance.

Maturities of notes payable are as follows:

Year ending June 30,	
2016	\$ 2,875,000
2017	3,005,000
2018	3,145,000
2019	3,305,000
2020	3,450,000
2021 - 2025	19,880,000
2026 - 2030	25,380,000
2031 - 2035	29,380,000
2036 - 2040	12,415,000
2041 - 2042	4,415,000
	\$ 107,250,000



**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following at June 30:

	2015	2014
Accounts payable - trade	\$ 1,969,827	\$ 4,164,887
Accrued interest payable	763,599	787,737
Due to student groups	79,156	86,397
	\$ 2,812,582	\$ 5,039,021

**NOTE 9 - OPERATING LEASES**

The Charter leases Friendship Collegiate Academy (Collegiate) and Friendship Online Academy school facilities from the District of Columbia Public Schools (a governmental entity) and administrative offices from BDC Q Street (a limited liability corporation) under operating leases expiring through 2021.

Future minimum operating lease payments required over the remaining lease terms are as follows:

Year ending June 30,	BDC Q Street, LLC	District of Columbia Public Schools	Total
2016	\$ 779,026	\$ 91,752	\$ 870,778
2017	594,884	91,752	686,636
2018	-	91,752	91,752
2019	-	91,752	91,752
2020	-	91,752	91,752
2021	-	82,588	82,588

Rent expense for the years ended June 30, 2015 and 2014, was \$1,000,874 and \$959,008, respectively.

The initial lease for Collegiate allowed for rent credits for leasehold improvements made to the property by the Charter which totaled to approximately \$13.5 million. This effectively reduces the annual rent to minimum required payments totaling \$63,000. Approximately \$8.9 million of rent credits remain available for use at June 30, 2015. See note 13 for amendment to the Collegiate lease subsequent to June 30, 2015.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - RETIREMENT PLAN**

Substantially all employees may participate in a 403(b) plan established by the Charter in July 2007. Under the plan, employee contributions are matched at the discretion of the Charter. For the years ended June 30, 2015 and 2014, the Charter matched employee contributions by 50% up to 4% of the employee's compensation. The Charter contributed approximately \$189,000 and \$221,000 to the plan in 2015 and 2014, respectively.

**NOTE 11 - RELATED PARTIES**

Based on recommendations made by the DCPCSB in conjunction with the 15 year charter renewal, Friendship Public Charter School, Inc. has created the Friendship Education (Foundation) to manage the non-DC charter school activities (managed schools). Currently, two Charter trustees hold board positions of the Foundation which results in a non-controlling interest. Effective July 1, 2014, the managed schools activities are conducted by the Foundation.

During 2014 the Charter incurred expenses of approximately \$88,000 on behalf of Friendship Education Foundation to cover startup expenses for the newly formed entity. This amount is recorded as a receivable at June 30, 2014 and was reimbursed by the Foundation in the 2015 fiscal year.

**NOTE 12 - ASSUMPTION OF ASSETS, DEBT AND OPERATIONS OF CAPCS**

Effective June 30, 2015, the Charter assumed the assets and related debt of two charter school campuses currently operated by Dorothy I. Height Community Academy Public Charter School, Inc. (CAPCS). The Charter was authorized by the DCPCSB to become the replacement operator at the former campuses starting in the academic year 2015-2016.

The fair value of assets and liabilities assumed, and contribution received from CAPCS was determined as follows:

Fair value of property assumed	\$ 27,519,884
Unrestricted cash received	2,250,000
Restricted (for debt service) cash and investments received	1,004,815
DC CAPCS 2007 debt assumed	(21,980,000)
Interest accrued on debt	(183,861)
Expenses incurred with CAPCS assumption	(202,293)
Contribution received in assumption of CAPCS	<u>\$ 8,408,545</u>

Management has measured the fair value of the property assumed utilizing the income approach.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 - SUBSEQUENT EVENTS**

The Charter is in the process of obtaining approximately \$80 million of financing for the purpose of refinancing the 2003, 2006 and 2007 notes payable and to finance certain planned capital projects. As part of the refinancing, it is anticipated the notes will be fully repaid in December 2015. At June 30, 2015, the unamortized loan issuance costs net of related debt premiums and discounts amount to approximately \$2.9 million. Upon refinancing, these amounts will be fully written off with the expense reported as an extraordinary item in fiscal year 2016.

The Collegiate operating lease in note 9 was amended subsequent to June 30, 2015 extending the lease through 2040. A rent credit was provided in the amount of \$2.7 million as part of the of the CACPS assumption. Rent credits of \$2.7 million were separately negotiated as part of the amended lease to help offset the portion of the note payable assumed related to certain property and equipment not assumed in the CACPS transaction (note 12). The amended lease calls for a rent adjustment in May 2020 to fair market value followed by 2% annual increases thereafter.

The initial lease allowed for a rent credit for leasehold improvements made to the property by the charter. Approximately \$8.9 million of rent credits remain available for use at June 30, 2015. Using a 2% increase in rent, the \$2.7 million of rent credits would be utilize in the years 2034 through 2038. The present value of those credits assuming a 5.5% discount rate is approximately \$850,000 which will be recorded as an asset in the fiscal year 2016. The timing of use of the credits and therefore the present value is highly dependent on the rent adjustment to fair market value in 2020.

**SUPPLEMENTARY INFORMATION**

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2015**  
**WITH COMPARATIVE TOTALS FOR 2014**

	Program services			Support services		Total expenses	
	Educational activities	Extended learning	Summer school	Management and general	Fundraising	2015	2014
<b>EXPENSES:</b>							
Personnel, salaries, and benefits							
Salaries	\$ 32,751,193	\$ 1,165,118	\$ 1,123,903	\$ 3,830,537	\$ -	\$ 38,870,751	\$ 38,229,618
Employee benefits	5,577,636	179,114	17,922	626,362	-	6,401,034	6,217,231
Other staff-related expenses	638,315	28,618	-	195,544	-	862,477	1,126,511
Total personnel, salaries and benefits	<u>38,967,144</u>	<u>1,372,850</u>	<u>1,141,825</u>	<u>4,652,443</u>	<u>-</u>	<u>46,134,262</u>	<u>45,573,360</u>
Direct student costs							
Supplies and materials	2,049,823	47,637	11,546	89,231	-	2,198,237	1,347,453
Professional development	641,866	33,229	-	137,694	-	812,789	1,014,676
Contracted student services	132,798	30,005	48,614	-	-	211,417	565,536
Textbooks	68,519	-	11,000	-	-	79,519	316,530
Student assessments	57,738	-	-	-	-	57,738	77,109
Student food service program	1,951,322	481	-	-	-	1,951,803	1,937,924
Other student costs	561,086	24,199	154,939	-	-	740,224	630,042
Total direct student costs	<u>5,463,152</u>	<u>135,551</u>	<u>226,099</u>	<u>226,925</u>	<u>-</u>	<u>6,051,727</u>	<u>5,889,270</u>

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2015**  
**WITH COMPARATIVE TOTALS FOR 2014**

	Program services			Support services		Total expenses	
	Educational activities	Extended learning	Summer school	Management and general	Fundraising	2015	2014
Occupancy							
Rent	\$ 371,362	\$ -	\$ -	\$ 629,512	\$ -	\$ 1,000,874	\$ 959,008
Maintenance and repairs	2,144,271	-	-	-	-	2,144,271	1,678,203
Utilities and garbage removal	1,489,604	-	-	313,652	-	1,803,256	1,404,949
Contracted building services	1,450,083	-	-	214,818	-	1,664,901	1,692,984
Equipment rental and maintenance	372,818	-	-	11,922	-	384,740	291,011
Total occupancy expense	5,828,138	-	-	1,169,904	-	6,998,042	6,026,155
Office							
Office supplies and materials	467,276	1,530	34,994	131,162	-	634,962	584,946
Telecommunications	125,115	-	-	412	-	125,527	77,172
Legal, accounting and payroll services	460,747	6,000	-	1,215,601	-	1,682,348	1,789,831
Postage	4,485	-	-	53,860	-	58,345	82,882
Printing and copying	20,808	11,121	4,890	398,380	7,459	442,658	451,085
Other office expenses	463,270	29,679	27,841	221,371	67,956	810,117	882,606
Total office expense	1,541,701	48,330	67,725	2,020,786	75,415	3,753,957	3,868,522

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2015**  
**WITH COMPARATIVE TOTALS FOR 2014**

	Program services			Support services		Total expenses	
	Educational activities	Extended learning	Summer school	Management and general	Fundraising	2015	2014
General							
Insurance	\$ 429,282	\$ 15,974	\$ 13,286	\$ 24,134	\$ -	\$ 482,676	\$ 474,617
Authorizer fees	-	-	-	753,426	-	753,426	354,205
Transportation	33,325	1,812	-	64,348	-	99,485	237,262
Other general expense	50,539	-	-	726,909	11,095	788,543	764,568
Interest	4,232,830	157,510	131,004	237,966	-	4,759,310	4,998,210
Total general expense	4,745,976	175,296	144,290	1,806,783	11,095	6,883,440	6,828,862
Depreciation	3,806,781	141,656	117,818	214,013	-	4,280,268	3,855,074
<b>TOTAL EXPENSES</b>	<b>\$ 60,352,892</b>	<b>\$ 1,873,683</b>	<b>\$ 1,697,757</b>	<b>\$ 10,090,854</b>	<b>\$ 86,510</b>	<b>\$ 74,101,696</b>	<b>\$ 72,041,243</b>

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>			
Passed through the State Agency for Special Nutrition and Commodity Programs:			
Child Nutrition Cluster:			
Non-cash Assistance (commodities):			
National School Lunch - Entitlement	10.555		\$ 270,151
Cash Assistance:			
National School Lunch Programs - Section 11	10.555	41NSL1-14	491,552
National School Lunch Programs - Section 11	10.555	51NSL1-15	1,081,384
			<u>1,572,936</u>
National School Breakfast Programs - Section 11	10.553	41NSL1-14	135,862
National School Breakfast Programs - Section 11	10.553	51NSL1-15	557,048
			<u>692,910</u>
Total cash assistance			<u>2,265,846</u>
Total Child Nutrition Cluster			<u>2,535,997</u>
Fresh Fruit & Vegetable Program	10.582	51FFV1-15	152,295
Child and Adult Care - Cash for Commodity	10.558	41CAC1-14	4,225
Child and Adult Care - Cash for Commodity	10.558	51CAC1-15	12,049
Child and Adult Care - Food Program	10.558	41CAF1-14	50,875
Child and Adult Care - Food Program	10.558	51CAF1-15	145,075
			<u>212,224</u>
Total U.S. Department of Agriculture			<u>2,900,516</u>
<b><u>U.S. Department of Education</u></b>			
Passed through District of Columbia Public Schools:			
Title I - Regular	84.010	22010A-12	7,061
Title I - Regular	84.010	32010A-13	102,846
Title I - Regular	84.010	42010A-14	162,205
Title I - Regular	84.010	52010A-15	2,023,413
			<u>2,295,525</u>
Title II, (A)	84.367	22367A-12	1,765
Title II, (A)	84.367	32367A-13	25,711
Title II, (A)	84.367	42367A-14	40,551
Title II, (A)	84.367	52367A-15	505,853
			<u>573,880</u>

The accompanying notes are an integral part of this schedule.



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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>U.S. Department of Education (Continued)</b>			
Passed through District of Columbia Public Schools (Concluded):			
Educating Homeless Children and Youth	84.196	SG196A-13	\$ 7,034
Career and Technical Education	84.048	42048A-14	220,076
Career and Technical Education	84.048	52048A-15	87,485
			<u>307,561</u>
IDEA, Part B - Special Ed	84.027	32027A-13	5,760
IDEA, Part B - Special Ed	84.027	42027A-14	172,558
IDEA, Part B - Special Ed	84.027	52027A-15	416,890
			<u>595,208</u>
21st Century Community Learning Centers	84.287	32287C-14-0506	11,695
21st Century Community Learning Centers	84.287	42287C-16-0506	90,098
21st Century Community Learning Centers	84.287	52287C-16-0506	41,605
			<u>143,398</u>
SOAR Academic Achievement - BP (PL 111-8)	84.370		39,241
SOAR Academic Achievement - COL (PL 111-8)	84.370		33,424
SOAR Academic Achievement - CH (PL 111-8)	84.370		25,225
SOAR Academic Achievement - SE (PL 111-8)	84.370		45,533
SOAR Academic Achievement - WD (PL 111-8)	84.370		67,895
SOAR Academic Achievement - TP (PL 111-8)	84.370		47,103
SOAR Academic Achievement - 13 (PL 111-8)	84.370		534,617
SOAR Facilities - COL (PL 112-10k 125 Stat. 201)	84.370		413,643
SOAR Facilities - CH (PL 112-10k 125 Stat. 201)	84.370		277,211
			<u>1,483,892</u>
ARRA - Race to the Top - Incentive Grants	84.395	ST395A-11	194,774
ARRA - Race to the Top - Instructional Improvement Systems	84.395	ST395A-11	91,931
			<u>286,705</u>
Total passed through District of Columbia Public Schools			<u>5,693,203</u>
Passed through Integrated Design and Electronics Academy Public Charter School:			
ARRA - Race to the Top - Instructional Improvement Systems	84.395		92,618
Total passed through Integrated Design and Electronics Academy Public Charter School			<u>92,618</u>
Total U.S. Department of Education			<u>5,785,821</u>
<b>TOTAL FEDERAL AWARDS</b>			<u><u>\$ 8,686,337</u></u>

The accompanying notes are an integral part of this schedule.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

1. Basis of Presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Friendship Public Charter School under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Friendship Public Charter School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Friendship Public Charter School.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organization*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. Title I, CFDA #84.010, Title II(A), CFDA #84.367, and ARRA - State Fiscal Stabilization - Race to the Top Incentive Grants, CFDA #84.395 were audited as major programs. This represents 37% of federal expenditures.
4. The threshold for distinguishing Type A and Type B programs was \$300,000.

**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 Trustees  
Friendship Public Charter School, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Friendship 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 October 19, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Friendship 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 Friendship Public Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Friendship 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 Friendship 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maney Costeiran PC*

October 19, 2015

**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 Trustees  
Friendship Public Charter School, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Friendship 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 Friendship Public Charter School, Inc.'s major federal programs for the year ended June 30, 2015. Friendship Public Charter School, Inc.'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 Friendship 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 Friendship 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 Friendship Public Charter School, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Friendship 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.

### **Report on Internal Control Over Compliance**

Management of Friendship 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 Friendship 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 Friendship 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. 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.

*Manes Costeiran PC*

October 19, 2015

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

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness identified? \_\_\_\_\_ Yes       X       No

➤ Significant deficiency(ies) identified? \_\_\_\_\_ Yes       X       No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes       X       No

**Federal Awards**

Internal control over major programs:

➤ Material weakness identified? \_\_\_\_\_ Yes       X       No

➤ Significant deficiency(ies) identified? \_\_\_\_\_ Yes       X       No

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes       X       No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I
84.367	Title II(A)
84.395	ARRA - State Fiscal Stabilization - Race to the Top Incentive Grants

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

Auditee qualified as low-risk auditee?       X       Yes                      No

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2015**

There were no findings reported for the year ended June 30, 2014.