PAUL PUBLIC CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015 AND 2014

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JM&M
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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

The Board of Trustees
Paul Public Charter School, Inc.
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Paul Public Charter School, Inc. (the "School"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 2015 financial statements referred to above present fairly, in all material respects, the financial position of Paul Public Charter School, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of June 30, 2014, were audited by McQuade Brennan, LLP, who merged with Jones, Maresca & McQuade, P.A. as of February 1, 2015, and whose report dated November 3, 2014, expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Jones Maresca & McQuade PA

Washington, DC
November 20, 2015

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

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 782,989	$ 362,304
Cash and cash equivalents restricted by debt agreements	2,318	3,481,587
Accounts receivable	1,626	12,954
Grants receivable	405,591	984,700
Prepaid expenses	144,253	13,891
Investments	570,712	1,490,011
Total Current Assets	1,907,489	6,345,447
PROPERTY AND EQUIPMENT, NET	18,769,837	5,683,118
OTHER ASSETS		
Investments restricted by debt agreements	2,200,000	2,200,000
Deferred financing costs, net	404,227	505,284
Deferred rental asset	774,283	387,142
Total Other Assets	3,378,510	3,092,426
TOTAL ASSETS	$ 24,055,836	$ 15,120,991
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 4,360,384	$ 1,084,372
Payroll and related liabilities	1,058,723	1,055,538
Deferred revenue	-	123,264
Capital lease payable, current portion	20,813	19,800
Long-term debt, current portion	429,306	37,326
Line of credit	-	1,021,000
Total Current Liabilities	5,869,226	3,341,300
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	14,463	35,276
Long-term debt, net of current portion	9,504,995	3,962,674
Total Long-Term Liabilities	9,519,458	3,997,950
TOTAL LIABILITIES	15,388,684	7,339,250
NET ASSETS		
Unrestricted	8,556,152	7,385,508
Temporarily restricted	111,000	396,233
Total Net Assets	8,667,152	7,781,741
TOTAL LIABILITIES AND NET ASSETS	$ 24,055,836	$ 15,120,991

See independent auditor's report and accompanying notes to the financial statements.

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

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil appropriations	$ 10,094,076	$ -	$ 10,094,076	$ 8,279,770	$ -	$ 8,279,770
Per pupil facility allowance	2,153,472	-	2,153,472	2,006,925	-	2,006,925
Federal entitlements and grants	1,011,962	-	1,011,962	1,488,892	-	1,488,892
Food services	58,666	-	58,666	52,578	-	52,578
Private gifts and grants	139,899	11,000	150,899	81,139	544,370	625,509
Net Investment (loss)/gain	(52,964)	-	(52,964)	256,570	-	256,570
Other income	5,319	-	5,319	25,577	-	25,577
Net assets released from restrictions	296,233	(296,233)	-	263,229	(263,229)	-
Total Revenue and Support	13,706,663	(285,233)	13,421,430	12,454,680	281,141	12,735,821
EXPENSES						
Educational Programs	10,073,448	-	10,073,448	8,215,037	-	8,215,037
General and administrative	2,013,690	-	2,013,690	2,730,674	-	2,730,674
Fundraising	448,881	-	448,881	173,514	-	173,514
Total Expenses	12,536,019	-	12,536,019	11,119,225	-	11,119,225
CHANGE IN NET ASSETS	1,170,644	(285,233)	885,411	1,335,455	281,141	1,616,596
NET ASSETS, beginning of year	7,385,508	396,233	7,781,741	6,050,053	115,092	6,165,145
NET ASSETS, end of year	$ 8,556,152	$ 111,000	$ 8,667,152	$ 7,385,508	$ 396,233	$ 7,781,741

See independent auditor's report and accompanying notes to the financial statements.

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

	Educational Programs	General and Administrative	Fundraising	Total
Personnel Expenses				
Salaries	$ 5,569,783	$ 1,049,894	$ 192,752	$ 6,812,429
Employee benefits	833,035	137,914	21,238	992,187
Payroll taxes	481,892	46,963	25,764	554,619
Professional development	203,688	32,632	4,013	240,333
Travel and meetings	17,105	4,153	5,987	27,245
Total Personnel Expenses	7,105,503	1,271,556	249,754	8,626,813
Direct Student Costs				
Supplies and materials	100,219	-	-	100,219
Transportation	70,885	1,406	45	72,336
Contracted instruction fees	392,120	-	-	392,120
Textbooks	9,725	-	-	9,725
Student assessments	81,304	-	-	81,304
Other student costs	114,803	-	77,565	192,368
Total Direct Student Costs	769,056	1,406	77,610	848,072
Occupancy Expenses				
Rent	94,867	18,759	4,257	117,883
Maintenance and repairs	100,414	19,846	4,504	124,764
Utilities	202,076	38,518	8,741	249,335
Contracted building services	265,045	52,411	11,894	329,350
Total Occupancy Expenses	662,402	129,534	29,396	821,332
Office Expenses				
Office supplies and materials	34,981	69,526	1,107	105,614
Telecommunications	63,638	12,584	2,856	79,078
Professional fees	55,455	309,789	-	365,244
Printing and copying	315	2,272	-	2,587
Postage and shipping	1,742	16,097	15	17,854
Marketing and recruitment	15,814	2,137	57,662	75,613
Computer and related	95,011	18,787	4,264	118,062
Memberships and subscriptions	2,621	19,582	2,495	24,698
Other office expense	-	533	-	533
Total Office Expenses	269,577	451,307	68,399	789,283
General Expenses				
Insurance	81,769	16,169	3,669	101,607
Interest	7,352	1,454	330	9,136
Administration fee	132,457	-	-	132,457
Depreciation and amortization	410,051	81,086	18,401	509,538
Fees and licenses	7,353	1,452	330	9,135
Food service/catering	524,356	31,343	992	556,691
Other general expense	5,390	22,757	-	28,147
Cost of goods sold	98,182	5,626	-	103,808
Total General Expenses	1,266,910	159,887	23,722	1,450,519
TOTAL EXPENSES	$ 10,073,448	$ 2,013,690	$ 448,881	$ 12,536,019

See independent auditor's report and accompanying notes to the financial statements.

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

	Educational Programs	General and Administrative	Fundraising	Total
Personnel Expenses				
Salaries	$ 4,647,067	$ 1,539,495	$ 120,750	$ 6,307,312
Employee benefits	707,437	236,476	18,382	962,295
Payroll taxes	406,860	134,786	10,572	552,218
Professional development	206,003	34,509	-	240,512
Travel and meetings	25,462	16,389	-	41,851
Total Personnel Expenses	5,992,829	1,961,655	149,704	8,104,188
Direct Student Costs				
Supplies and materials	44,325	-	-	44,325
Transportation	34,359	1,602	-	35,961
Contracted instruction fees	308,333	-	-	308,333
Textbooks	22,964	-	-	22,964
Student assessments	42,822	-	-	42,822
Other student costs	78,223	-	-	78,223
Total Direct Student Costs	531,026	1,602	-	532,628
Occupancy Expenses				
Rent	89,357	29,489	1,819	120,665
Maintenance and repairs	105,322	34,757	2,144	142,223
Utilities	189,453	62,521	3,857	255,831
Contracted building services	236,106	77,917	4,807	318,830
Total Occupancy Expenses	620,238	204,684	12,627	837,549
Office Expenses				
Office supplies and materials	27,735	79,345	-	107,080
Equipment rental	1,875	-	-	1,875
Telecommunications	52,174	17,218	1,062	70,454
Professional fees	18,100	174,810	-	192,910
Printing and copying	-	2,726	-	2,726
Postage and shipping	40	19,529	-	19,569
Marketing and recruitment	74,567	24,608	1,518	100,693
Computer and related	66,778	22,037	1,360	90,175
Memberships and subscriptions	5,054	18,744	-	23,798
Other office expense	-	762	-	762
Total Office Expenses	246,323	359,779	3,940	610,042
General Expenses				
Insurance	67,986	22,436	1,384	91,806
Interest	6,785	2,239	138	9,162
Administration fee	54,445	-	-	54,445
Depreciation and amortization	280,117	92,441	5,703	378,261
Fees and licenses	903	298	18	1,219
Food service/catering	341,143	41,049	-	382,192
Other general expense	5,400	32,302	-	37,702
Cost of goods sold	67,842	12,189	-	80,031
Total General Expenses	824,621	202,954	7,243	1,034,818
TOTAL EXPENSES	$ 8,215,037	$ 2,730,674	$ 173,514	$ 11,119,225

See independent auditor's report and accompanying notes to the financial statements.

PAUL 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	$ 885,411	$ 1,616,596
Adjustments to reconcile change in net assets provided by (used in) operating activities:		
Depreciation on property and equipment	408,481	378,261
Amortization on deferred financing costs	101,057	-
Net realized and unrealized loss (gain) on investments	161,873	(84,296)
(Increase) decrease in assets		
Cash and cash equivalents restricted by debt agreements	3,479,269	(3,481,587)
Accounts receivable	11,328	2,136
Grants receivable	579,109	(694,983)
Prepaid expenses	(130,362)	8,850
Deferred rental asset	(387,141)	(387,142)
Increase (decrease) in current liabilities		
Accounts payable and accrued expenses	3,276,012	535,504
Payroll and related liabilities	3,185	21,872
Deferred revenue	(123,264)	(16,332)
Net cash provided by operating activities	8,264,958	(2,101,121)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(13,495,200)	(1,965,605)
Purchase of investments	(2,900,899)	(169,700)
Proceeds from sale of investments	3,658,325	-
Net cash used in investing activities	(12,737,774)	(2,135,305)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	5,961,253	4,000,000
Principal payments on long term debt	(26,952)	-
Principal payments on capital lease	(19,800)	(18,836)
Deferred financing costs	-	(505,284)
Repayments on line of credit	(1,021,000)	-
Draws on line of credit	-	1,021,000
Net cash provided by financing activities	4,893,501	4,496,880
NET CHANGE IN CASH AND CASH EQUIVALENTS	420,685	260,454
CASH AND CASH EQUIVALENTS, beginning of year	362,304	101,850
CASH AND CASH EQUIVALENTS, end of year	$ 782,989	$ 362,304
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 9,136	$ 9,019

See independent auditor's report and accompanying notes to the financial statements.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE A – ORGANIZATION AND PURPOSE

Paul Public Charter School, Inc. (the "School") was incorporated as a non-stock and not-for-profit organization on July 1, 2000 under the laws of the District of Columbia. The School is an urban public charter school primarily serving minority students from the local neighborhood in sixth through twelfth grade. It is intended to be a twenty-first century learning center and a center in its community where all students experience a demanding academic program. The School is organized around the premise that society has changed dramatically during the past quarter-century and that public schools must change in order to meet new needs.

The School is designed to serve children and adults as integral members of the community; hence, the School is designed to be far more than a traditional service provider. The goal of the School is to provide intellectually challenging experiences required to develop independent, productive, and responsible individuals, who will learn to love learning, will be taught to think critically, and who will demonstrate that they understand the importance of taking active roles in community life. The School's primary sources of support are local appropriations for Charter Schools from the District of Columbia Government, federal entitlements and grants from private foundations.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School's financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Basis of Presentation

Financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic *Not-for-Profit Entities*. In accordance with the topic, the School is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations;

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the School and/or the passage of time;

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. The School had no permanently restricted net assets as of June 30, 2015 and 2014.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Cash and Cash Equivalents

The term cash and cash equivalents as used in the accompanying financial statements include currency on hand, demand deposits, and highly liquid investments purchased from financial institutions with a maturity of three months or less.

Cash and Cash Equivalents Restricted by Debt Agreements

Cash and cash equivalents restricted by debt agreements is comprised of cash and cash equivalents received by the School as loan proceeds in connection with the long term debt described in Note G.

Accounts and Grants Receivable

Accounts receivable related to program service fees are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Grants receivable consist of unsecured amounts due from public funding sources whose ability to pay are subject to appropriations. Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management believes that all accounts and grants receivable balances will be collected within one year or less; therefore, no allowance for doubtful accounts has been recorded.

Investments

As of June 30, 2015, investments consist of investment funds carried at fair value. As of June 30, 2014, investments consist of money market funds, reported at cost which approximates fair value, and mutual funds based on quoted market prices. Investment gains or losses (including interest and dividends) are included in the statement of activities as increases or decreases in net assets.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments Restricted by Debt Agreements

In accordance with the terms of the Building Hope Loan and OPCSFS Loan agreements (see Note G), amounts of $1,200,000 and $1,000,000, respectively, were required to be held in collateral escrow accounts for which the lenders have the right to draw from in the event of non payment. If the collateral escrow account reduces below these established amounts, the School is required to fund the accounts to maintain the required balances. These investments restricted by debt agreements are comprised of equity and fixed income investment funds (see Note D).

Property and Equipment

Property and equipment are stated at cost, or at fair market value if donated. Expenditures for maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense when incurred. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, which range from 2 to 39 years. Leasehold improvements are amortized over the lessor of their useful life or the lease term.

Deferred Financing Costs

Financing costs incurred to secure financing are capitalized and are amortized over the life of the debt, which estimates the interest method.

Deferred Revenue

Deferred revenue results from per pupil appropriation income received in the current fiscal year and deferred until the next fiscal year in which the service is performed.

Private Gifts and Grants

Private gifts and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the 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. Grant revenues are received primarily from the District of Columbia Government. The grants are subject to audit by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Goods and Services

Donated goods and services are recorded at fair value at the date of donation. During the year ended June 30, 2015, the School received $22,565 in donated goods from a charity nonprofit that included items to support the School's growing athletic program. Additionally, the School received $55,000 in donated services from a nonprofit foundation that provided volunteer services to support the School's Key Messages and Brand Strategy project. During the year ended June 30, 2014, the School received $4,241 in donated goods. Donated revenue is included on the statement of activities as private gifts and grants with the related donated expenses included in total program expenses.

Functional Allocation of Expenses

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

NOTE C – INCOME TAXES

The School qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the School is classified as an entity that is not a private foundation under Section 509(a)(1).

The School adopted the accounting of uncertainty in income taxes as required by the Income Taxes topic of the FASB ASC. This topic requires the School to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being recognized upon ultimate settlement which could result in the School recording a tax liability that would reduce its net assets.

The School has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years (2012-2014), or expected to be taken in its 2015 tax return. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price.

The guidance on fair value measurement accounting requires that the School make assumptions market participants would use in pricing an asset or liability based on the best information available. The School considers factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity.

Fair value, where available, is based on observable quoted market prices. Where observable prices or inputs are not available, several valuation models and techniques are applied. These models and techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The process involves varying levels of management judgment, the degree of which is dependent on the price transparency of the instruments or market and the instruments' complexity. Fair values of these investment funds are based on net asset value and provided by the fund investment managers.

To increase consistency and enhance disclosure of the fair value of financial instruments, the fair value measurement accounting guidance established a fair value of inputs to the valuation in technique, into a three-level fair value hierarchy. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest. The three levels are defined as follows:

> *Level 1* – Observable inputs such as quoted prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
>
> *Level 2* – Inputs other than quoted prices in active markets that are either directly or indirectly observable. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect certain assumptions by management about the assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

The School's investments as of June 30, 2015 include investment funds which are not traded on a national exchange or over-the-counter markets, and therefore quoted market prices are not readily available. These investments are valued at net asset value per share that has been calculated in accordance with, and provided by, the investment company, which reports the underlying investments at fair value. Underlying investments contain, but are not limited to, marketable common stocks, other marketable equity-type investments, and marketable securities of intermediate and longer-term maturities.

The net assets value per share are calculated each business day and are accounted for on a trade date, fully accrued basis. Unit values for deposits and withdrawal are based on the net asset values per share determined as of the close of the last business day of the month. These investment funds were deemed to use level 2 inputs based on the redemption terms of the funds. The investment funds may be redeemed on or within three months of the measurement date at the reported net asset value per share.

The following table presents the School's fair value hierarchy for investments measured on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Equity				
Multi-Strategy Equity Funds	$ -	$ 1,138,263	$ -	$ 1,138,263
Fixed Income				
Multi-Stategy Bond Funds	-	1,582,519	-	1,582,519
Intermediate Term Funds	-	49,930	-	49,930
Total Fixed Income	-	1,632,449	-	1,632,449
Total Investments	$ -	$ 2,770,712	$ -	$ 2,770,712

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following table presents the School's fair value hierarchy for investments measured on a recurring basis as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 1,361,621	$ -	$ -	$ 1,361,621
Mutual funds				
Fixed Income	2,328,390	-	-	2,328,390
Total Investments	$ 3,690,011	$ -	$ -	$ 3,690,011

Net investment gain (loss) for the years ended June 30, 2015 and 2014, consisted of the following:

	2015	2014
Interest and dividends	$ 108,909	$ 172,274
Realized gains	69,470	16,969
Unrealized gains (losses)	(231,343)	67,327
Total Net Investment Gain (Loss)	$ (52,964)	$ 256,570

During 2015, there were transfers of approximately $2,900,000 between fair value hierarchies.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment are consisted of the following:

	2015	2014
Furniture and fixtures	$ 612,634	$ 419,030
Equipment	1,971,820	1,771,054
Leasehold improvements	4,253,681	4,158,767
Computer software	237,633	237,633
Modular classroom building	287,650	287,650
Construction in progress	14,840,038	1,834,121
	22,203,456	8,708,255
Less accumulated depreciation	(3,433,619)	(3,025,137)
Property and Equipment, net	$ 18,769,837	$ 5,683,118

NOTE E – PROPERTY AND EQUIPMENT (continued)

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 totaled $408,481 and $378,260, respectively. The cost of capital leased equipment totaled $97,609. Depreciation expense attributed to capital leased assets as of June 30, 2015 and 2014 totaled $12,237 and $12,237, respectively. Accumulated depreciation for capital leased assets for the years ended June 30, 2015 and 2014 was $40,790 and $28,553, respectively.

NOTE F – DEFRRED FINANCING COSTS

The following is a summary of deferred financing costs as of June 30:

	2015	2014
Loan fees	$ 505,284	$ 505,284
Less allowance for amortization	(101,057)	-
Deferred financing costs, net	$ 404,227	$ 505,284

NOTE G – LONG-TERM DEBT

Line of Credit

On August 1, 2007, the School entered into a line of credit agreement with an investment bank with an interest rate of 30 day LIBOR index plus 2%. The line of credit was secured by the investment accounts maintained by the School at that investment bank. The maximum amount the School can borrow is set at 65% of the unrestricted funds held in the investment accounts. There was no scheduled repayment of the principal amount as long as funds outstanding do not exceed the 65% ceiling; however, the line of credit is a demand loan, meaning the investment bank may require full or partial payment of the outstanding balance at any time. The outstanding balance on the line of credit as June 30, 2015 and 2014 was $0 and $1,021,000, respectively.

Other Financing

On June 12, 2014, the School secured three associated loans to finance renovations and developments of the School's facility and payment of facility rent. These three loans comprised of $16,100,000 with Bank of America (BOA Loan), $2,000,000 with the District of Columbia's Office of Public Charter School Financing and Support (OPCSFS Loan), and $2,000,000 with Building Hope, a District of Columbia nonprofit corporation (Building Hope Loan). The BOA Loan is senior to the OPCSFS and Building Hope Loan per the terms of the agreements. Draws must be in simultaneous and even amounts between the OPCSFS Loan and Building Hope Loan.

NOTE G – LONG-TERM DEBT (continued)

Other Financing (continued)

The terms of the BOA Loan require the OPCSFS Loan and Building Hope Loan to be drawn completely prior to drawing from the BOA Loan funds. Draws from the BOA Loan can be made not more frequently than monthly. Interest accrues daily at an annual rate of LIBOR daily floating rate plus 375 basis points (3.90% as of June 30, 2015 and 2014). Interest only payments are due quarterly through April 1, 2015. Principal plus interest payments are due quarterly in arrears beginning April 1, 2015 and paid over a 25 year amortization schedule. The BOA Loan is subject to additional principal payments based on a factor of a portion of annual grant and contribution income. The BOA Loan matures on June 12, 2019. The outstanding principal on the BOA Loan as of June 30, 2015 and 2014 was $5,961,253 and $0, respectively.

The OPCSFS Loan is for a term of five years with interest of 4.5% per annum. Interest only payments are due quarterly through January 31, 2015. Thereafter, principal and interest payments are due quarterly based upon a 15 year amortization schedule, beginning September 2015. The balance outstanding on the loan as of June 30, 2015 and 2014 was $2,000,000.

The Building Hope Loan is for a term of five years with interest of 6% per annum. Interest only payments are due quarterly through January 31, 2015. Thereafter, principal and interest payments are due quarterly based upon a 15 year amortization schedule. The balance outstanding on the loan as of June 30, 2015 and 2014 was $1,973,048 and $2,000,000.

Per the terms of the BOA Loan, America's Charter School Finance Corporation (an affiliate of Building Hope) and OPCSFS issued credit enhancements of $500,000 each to the School to secure the loans.

The BOA Loan is collateralized by all real and personal property of the School. The collateral for the Building Hope Loan and OPCSFS Loan is a second lien on all facility improvements, per pupil payments, facility allowances, and all other revenue attributable to the facility.

The aforementioned loan agreements contain certain restricted, financial, and nonfinancial covenants. In the opinion of management, the School has complied with the required covenants.

NOTE G – LONG-TERM DEBT (continued)

Future minimum payments on long-term debt are as follows for years ending June 30:

2016	$ 429,306
2017	439,277
2018	449,792
2019	3,624,641
2020	242,492
Thereafter	4,748,793
Total	$ 9,934,301

NOTE H – CAPITAL LEASE PAYABLE

The School entered into a capital lease for copying equipment on February 1, 2012, secured by the equipment. The obligation under the capital lease has been recorded at the present value of future minimum lease payments, discounted at an interest rate of 5%.

Future minimum payments under capital leases are as follows for the years ended June 30:

2016	$ 22,104
2017	14,736
Total	36,840
Less: Amount representing interest	(1,564)
Present value of future payments	$ 35,276

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2015 and 2014 were restricted for the following purpose:

	2015	2014
New Schools Venture Fund	$ 100,000	$ 385,386
International study	-	10,620
Flamboyan	10,000	-
Other	1,000	227
Total	$ 111,000	$ 396,233

NOTE J – RETIREMENT PLAN

The School maintains a salary reduction plan under Section 403(b) of the Internal Revenue Code ("the Plan"). Employees that work 20 hours or more per week are eligible to participate in the Plan. The School contributes a discretionary percentage of compensation, which is determined by the Board of Trustees. The School is currently making employer matching contributions of 100% up to 3% of annual employee compensation and an additional employer discretionary contribution of 3% of annual employee compensation regardless of the amount the employee deferred. Employees are immediately vested 100% in their respective contributions and become 100% vested in employer contribution after two years of service. For the years ended June 30, 2015 and 2014 employer contributions totaled $335,401 and $316,998, respectively.

NOTE K – LEASE COMMITMENTS

The School entered into a lease agreement with the District of Columbia Public Schools for facility space located at 5901 9th Street NW, Washington, DC on August 11, 2003. The term of the lease is from September 1, 2003 to August 31, 2018 with options to renew for three consecutive periods of five additional years each. On July 1, 2013 the lease agreement was amended. The revised term of the lease is from July 1, 2013 to June 30, 2038, with option to extend for one additional period of twenty five years. The monthly lease payments are $41,923 for the first five years and $2,137 for years eleven through twenty-five. No lease payments are due for years six through ten.

Future minimum lease payments are as follows for the years ended June 30:

2016	$	503,070
2017		503,070
2018		503,070
2019		-
2020		-
Thereafter		382,860
Total	$	1,892,070

Rent expense related to the lease for each of the years ended June 30, 2015 and 2014 was $115,928. The difference between rent paid and straight-line rent expense is reflected as deferred rent in the accompanying statements of financial position.

NOTE L – COMMITMENTS

Major capital expenses through June 30, 2015 and 2014 were incurred on the renovation and development of the School's facility. The School's major construction commitments through June 30, 2015 are approximately $3,741,430 to complete the renovation and development.

NOTE M – CONCENTRATIONS

The School is supported primarily through local appropriations, federal grants, and contracts. For the fiscal years ended June 30, 2015 and 2014, approximately 91% and 81% respectively, of total revenue was provided through grants awarded by one local agency.

Balances in certain cash accounts occasionally exceed $250,000, the maximum amount insured by the Federal Deposit Insurance Corporation. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

NOTE N – AVERAGE COST PER STUDENT

For the years ended June 30, 2015 and 2014 the average cost per student was $17,883 and $17,172, respectively. This is calculated by dividing total noncapital expenditures, by the school's full-time student enrollment.

NOTE O – SUBSEQUENT EVENTS

In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through November 20, 2015, which is the date these financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required recognition or further disclosure.

JM&M
Jones, Maresca & McQuade, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Paul Public Charter School, Inc.
Washington, DC

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paul Public Charter School, Inc. (the School), which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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.

Jones Marwa & McQuade PA

Washington, DC
November 20, 2015

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Board of Trustees
Paul Public Charter School, Inc.
Washington, DC

Report on Compliance for Each Major Federal Program

We have audited Paul Public Charter School, Inc. (the School)'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 the School's major federal programs for the year ended June 30, 2015. The School'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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 the School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

Jair Marcus & McQuade PA
Washington, DC
November 20, 2015

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U. S. Department of Education			
Pass-through from District of Columbia Office of the State Superintendent of Education			
Title I Grants to Local Educational Agencies	84.010	52010A	$ 413,859
Title II Improving Teacher Quality State Grants	84.367	52367A	126,751
DC School Choice Incentive Program	84.370	52370C	262,843
Total U.S. Department of Education			803,453
U.S. Department of Agriculture - Food and Nutrition Services			
Pass-through from District of Columbia Office of the State Superintendent of Education			
Child Nutrition Cluster			
National School Breakfast Program	10.553		38,081
National School Lunch Program	10.555		170,428
Total U.S. Department of Agriculture			208,509
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,011,962

See independent auditor's report and accompanying notes to the Schedule of Expenditures of Federal Awards.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES
JUNE 30, 2015 AND 2014

NOTE A – BASIS OF PRESENATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the School under programs of the federal government for the year ending June 30, 2015. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

PAUL PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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 weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs	Unmodified
Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

Major Programs

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Education Agencies
84.367	Title II Improving Teacher Quality State Grants

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings None reported

Section III – Findings and Questioned Costs Related to Federal Awards None reported

Section IV – Summary Schedule of Prior Year Audit Findings

Finding No. 2014-001

Condition: The audited financial statements and data collection form for fiscal year ended June 30 2013 were not filed with the federal audit clearinghouse within the stipulated deadline.

Recommendation: We recommended that management adopt policies and procedures to ensure that the financial statements are electronically filed with the federal audit clearinghouse within the appropriate deadline.

Management's Response: The School retained a new outsourced accounting firm for fiscal year 2015. That firm entered the filing deadline as a recurring requirement in its systems.

Status: Corrected

Finding No. 2014-002

Federal Program Affected: 84.370 DC School Choice Incentive Program

Condition: The semi-annual financial reports and narratives were not submitted to the pass-through grantor in a timely manner. The semi-annual report due January 25, 2014 was signed by a School official on October 6, 2014. The semi-annual report due June 25, 2014 was signed by a School official on October 7, 2014.

Recommendation: We recommended that management implement a grant award reporting requirement tracking file to compile reporting requirements and deadlines by grant and assign a School official knowledgeable of grant reporting to oversee the tracking file and that its associated deadlines are met. Maintaining a reporting tracking list can provide controls over reporting requirements so reporting deadlines are met.

Management's Response: The School expanded the capacity in its grants team to include academic leaders and an external grants associate.

Section IV – Summary Schedule of Prior Year Audit Findings (continued)

That team, in conjunction with the School's Business Manager, will work to ensure that reports are submitted in a timely manner going forward.

Status: Corrected

Finding No. 2014-003

Federal Program Affected: 84.010 Title I Grants to Local Educational Agencies

Condition: Adequate documentation, such as receipts and records, were not able to be located and provided for 2 out of the 40 expenditures selected.

Recommendation: Additional filing procedures be adopted and implemented by management to ensure necessary federal award expenditure documentation is filed and is readily accessible upon request by authorized entities for the stipulated minimum time period.

Management's Response: The School migrated most of its payments to an online accounts payable system during fiscal year 2015. This system provides digitized records and reduces the risk that backup material will be lost due to disruptions such as office moves or changes in personnel.

Status: Corrected