

BRIDGES PUBLIC CHARTER SCHOOL
WASHINGTON, DC

COMPARATIVE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Trustees
Bridges Public Charter School
100 Gallatin Street, NE
Washington, DC 20011

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Bridges Public Charter School, (a nonprofit organization) which comprise the statements of financial position as of June 30, 2018 and 2017, 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

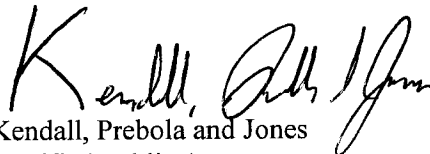
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bridges Public Charter School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are 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 29, 2018, on our consideration of the Bridges Public Charter 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 solely 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 the effectiveness of 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 Bridges Public Charter School's internal control over financial reporting and compliance.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 29, 2018

BRIDGES PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

<u>ASSETS</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 2,246,744	\$ 1,141,323
Accounts Receivable	328,744	124,082
Grants Receivable	123,720	248,960
Promises Receivable	12,021	10,948
Due From Affiliate	-	-
Prepaid Expenses	<u>460,715</u>	<u>416,152</u>
Total Current Assets	<u>\$ 3,171,944</u>	<u>\$ 1,941,465</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	<u>\$ 1,045,544</u>	<u>\$ 1,138,631</u>
Total Fixed Assets	<u>\$ 1,045,544</u>	<u>\$ 1,138,631</u>
<u>Other Assets:</u>		
Investment in LLC	\$ -	\$ 195,253
Deposits	<u>53,348</u>	<u>53,348</u>
Total Other Assets	<u>\$ 53,348</u>	<u>\$ 248,601</u>
TOTAL ASSETS	<u>\$ 4,270,836</u>	<u>\$ 3,328,697</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Expenses	\$ 252,340	\$ 158,441
Accrued Salaries and Expenses	635,560	608,102
Refundable Advances	-	56,263
Deferred Revenues	2,956	3,321
Security Deposit Payable	24,770	-
Capital Lease Obligation, Current Portion	<u>-</u>	<u>259</u>
Total Current Liabilities	<u>\$ 915,626</u>	<u>\$ 826,386</u>
<u>Long-Term Liabilities:</u>		
Capital Lease Payable	\$ -	\$ 259
Less: Current Portion	-	(259)
Deferred Rent	<u>331,355</u>	<u>268,221</u>
Total Long-Term Liabilities	<u>\$ 331,355</u>	<u>\$ 268,221</u>
Total Liabilities	<u>\$ 1,246,981</u>	<u>\$ 1,094,607</u>
<u>Net Assets:</u>		
Unrestricted	\$ 3,022,644	\$ 2,225,988
Temporarily Restricted	<u>1,211</u>	<u>8,102</u>
Total Net Assets	<u>\$ 3,023,855</u>	<u>\$ 2,234,090</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,270,836</u>	<u>\$ 3,328,697</u>

(See Accompanying Notes and Auditor's Report)

BRIDGES PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018			June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenues and Other Support:</u>						
Per Pupil Funding Allocation	\$ 9,691,801	\$ -	\$ 9,691,801	\$ 7,263,434	\$ -	\$ 7,263,434
Per Pupil Facility Allocation	1,273,898	-	1,273,898	1,024,672	-	1,024,672
Federal Entitlements and Grants	664,406	-	664,406	1,321,409	-	1,321,409
Donated Commodities	12,463	-	12,463	9,362	-	9,362
State Grants	60,081	-	60,081	181,567	-	181,567
Contributions	6,502	51,350	57,852	43,622	17,620	61,242
Donated Services	88,648	-	88,648	76,856	-	76,856
Student Activity Fees	60,288	-	60,288	50,201	-	50,201
Investment Income	6	-	6	6	-	6
Other Income	1,762	-	1,762	80	-	80
Loss on Disposal of Fixed Assts	-	-	-	(3,964)	-	(3,964)
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	58,241	(58,241)	-	10,168	(10,168)	-
Total Revenues and Other Support	<u>\$ 11,918,096</u>	<u>\$ (6,891)</u>	<u>\$ 11,911,205</u>	<u>\$ 9,977,413</u>	<u>\$ 7,452</u>	<u>\$ 9,984,865</u>
<u>Expenses:</u>						
Educational Services	\$ 10,536,746	\$ -	\$ 10,536,746	\$ 9,358,188	\$ -	\$ 9,358,188
General and Administrative	573,262	-	573,262	487,998	-	487,998
Fundraising	11,432	-	11,432	10,997	-	10,997
Total Expenses	<u>\$ 11,121,440</u>	<u>\$ -</u>	<u>\$ 11,121,440</u>	<u>\$ 9,857,183</u>	<u>\$ -</u>	<u>\$ 9,857,183</u>
Changes in Net Assets	\$ 796,656	\$ (6,891)	\$ 789,765	\$ 120,230	\$ 7,452	\$ 127,682
Net Assets at Beginning of Year	2,225,988	8,102	2,234,090	2,105,758	650	2,106,408
Net Assets at End of Year	<u>\$ 3,022,644</u>	<u>\$ 1,211</u>	<u>\$ 3,023,855</u>	<u>\$ 2,225,988</u>	<u>\$ 8,102</u>	<u>\$ 2,234,090</u>

(See Accompanying Notes and Auditor's Report)

BRIDGES PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 789,765	\$ 127,682
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	173,139	154,037
Loss on Disposal of Fixed Assets	-	3,964
Accounts Receivable - (Increase)/Decrease	(204,662)	84,717
Grants Receivable - (Increase)/Decrease	125,240	(134,791)
Promises Receivable - (Increase)/Decrease	(1,073)	(10,948)
Due from Affiliate - (Increase)/Decrease	-	15,000
Prepaid Expenses - (Increase)/Decrease	(44,563)	(335,848)
Deposits - (Increase)/Decrease	-	29,490
Accounts Payable and Accrued Expenses - Increase/(Decrease)	93,899	20,964
Accrued Salaries and Expenses - Increase/(Decrease)	27,458	104,321
Refundable Advance - Increase/(Decrease)	(56,263)	56,263
Deferred Revenue - Increase/(Decrease)	(365)	3,321
Security Deposits Payable - Increase/(Decrease)	24,770	-
Deferred Rent - Increase/(Decrease)	<u>63,134</u>	<u>225,105</u>
Net Cash Flows from Operating Activities	<u>\$ 990,479</u>	<u>\$ 343,277</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (80,052)	\$ (627,269)
Investment in LLC	<u>195,253</u>	<u>263,747</u>
Net Cash Flows from Investing Activities	<u>\$ 115,201</u>	<u>\$ (363,522)</u>
<u>Cash Flows from Financing Activities:</u>		
Payments of Capital Lease Obligations	<u>\$ (259)</u>	<u>\$ (3,006)</u>
Net Cash Flows from Financing Activities	<u>\$ (259)</u>	<u>\$ (3,006)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	\$ 1,105,421	\$ (23,251)
Cash and Cash Equivalents at Beginning of Year	<u>1,141,323</u>	<u>1,164,574</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,246,744</u>	<u>\$ 1,141,323</u>

Supplemental Disclosures:

- a) Interest in the amount of \$1 and \$114 was paid during the years ended June 30, 2018 and 2017, respectively.
- b) No income taxes were paid during the years ended June 30, 2018 and 2017.

(See Accompanying Notes and Auditor's Report)

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION:

Bridges Public Charter School (the “Charter School”) was established to provide preschool education and after-care to students with and without special needs in the District of Columbia. The Charter School was incorporated under the laws of the District of Columbia in August 2003. The Charter School was granted a 15-year charter to operate as a public charter school in the District of Columbia under the DC Public School Reform Act of 1995. The school program opened in August of 2005. In March 2012, the Charter School was granted approval by the DC Public Charter School Board to expand into an elementary school program, to serve grades Pre-K through fifth grade. For the 2017-2018 school year, the Charter School serviced students in grades Pre-K3 through fifth grade. For the 2016-2017 school year, the Charter School serviced students in grades Pre-K3 through fourth grade. During November 2015, the Charter School’s legal name was changed from Bridges Charter School to Bridges Public Charter School.

Basic Programs

Bridges Public Charter School is unique in the DC education landscape serving a higher percentage of students with special needs in one school building than all but one other charter school in DC (St. Coletta). Bridges provides a continuum of inclusive learning environments and high-level special education classrooms. The Charter School student population has been consistent since opening to students in 2005: 30%-35% students with special needs, 30+% English as Second Language Learners and 60%-65% students who qualify for free or reduced lunch (low-income). The Charter School’s activities are funded primarily by the District of Columbia’s per pupil allocation formula, supplemented with federal funds allocated to the State Education Agency to be distributed to schools for staff development, special education services, and other eligible expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Charter School are summarized below:

(a) Basis of Accounting and Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses, and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Contributions

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-605-25, *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor-imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

Contributions (Continued)

Contributions and promises to give with donor-imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value.

The Charter School reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Charter School reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Federal and Charter School Funding

The Charter School receives a student allocation from the District of Columbia as well as federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allowance. The Charter School recognized this funding in the year in which the school term is conducted. Funding received in advance of the school term is recorded as a refundable advance. Federal entitlements are recognized based on the allowable costs incurred.

(c) Corporate Taxes:

The Charter School is exempt from federal and state income taxes (other than on unrelated business income) under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. The Charter School has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions to the Charter School qualify as a charitable tax deduction by the contributor under Section 170(b)(i)(A)(ii). Under IRC Section 512(a)(7), certain transportation benefits are subject to unrelated business income tax. As of June 30, 2018, the Charter School recognized \$914 of income tax expense related to the filing of the 2018 990-T tax return. In addition, \$391 of income tax expense due to the District of Columbia has been recorded in the financial statements related to income tax on transportation benefits. The Charter School did not have any unrelated business income for the year ended June 30, 2017.

The Charter School is also exempt from District of Columbia sales, real estate and personal property taxes.

(d) Grants:

Grant revenues are received primarily from Federal agencies and the District of Columbia. These grants are subject to financial and compliance audits 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.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(d) Grants: (Continued)

Cash receipts in excess of costs incurred for grants are reflected as refundable advances until they are expended for the purpose of the grant, at which time they are recognized as unrestricted support. Costs incurred in excess of cash received are reflected as grants receivable.

(e) Net Assets:

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-205-05, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC No. 958-205-05, the Charter School is required to report information regarding its financial position and activities according to three classes of net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are defined as net assets that are not subject to donor-imposed restrictions and over which the Board of Trustees has discretionary control. This classification includes net assets subject to donor-imposed conditions, which have been met in the current year and net assets subject to donor-imposed restrictions that have been released from restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets are defined as net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Charter School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted net assets were available at year end for the following purpose:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Family Engagement Partnership	\$ -	\$ 5,221
Target Grant	-	2,000
Playground	881	881
TAAG Program	<u>330</u>	<u>-</u>
Total	<u>\$ 1,211</u>	<u>\$ 8,102</u>

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, the passage of time, or by the occurrence of events specified by donors for the following activities:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Playground	\$ -	\$ 4,250
Environmental Experience Project	-	2,400
Classroom Field Trips and Activities	703	1,611
Family Engagement Partnership	45,340	1,382
Road Scholarships	-	425
Building	-	100
Target Corporation	2,000	-
Student and Youth Travel Foundation	4,200	-
Mid-Atlantic Dairy Association	4,928	-
Scholarship America	700	-
TAAG Program	170	-
PBS Kids	<u>200</u>	<u>-</u>
Total	<u>\$ 58,241</u>	<u>\$ 10,168</u>

Permanently Restricted Net Assets

Permanently restricted net assets are defined as net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by the Charter School. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Charter School did not have any permanently restricted net assets as of June 30, 2018 or 2017.

(f) Donated Services and Materials:

Donated services and materials are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. The time contributed by the Board of Trustees is uncompensated and is not reflected as donated services. In-kind contributions are recorded in the statement of activities at estimated fair value and recognized as revenue and expense (or an asset) in the period they are received.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(f) Donated Services and Materials: (Continued)

The estimated value of donated services and materials has been recorded in the financial statements as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Legal Services	\$ 81,038	\$ 50,188
Playground Equipment	-	25,289
Learning Materials	5,560	1,379
Bicycle Equipment	<u>2,050</u>	<u>-</u>
Total	<u>\$ 88,648</u>	<u>\$ 76,856</u>

(g) Functional Expense Allocation Policies and Procedures:

Management has elected to prepare a schedule of functional expenses that is presented as supplemental information to the financial statements. The schedule of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs pertain to educating students. General and administrative costs pertain to supporting activities. Fundraising costs relate to fundraising activities such as special events, fundraisers and the soliciting of contributions.

Management has established functional expense allocation policies and procedures based on a reasonable analysis of cost drivers and reasonable allocation estimates based on financial results and industry standards.

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Direct student expenses (textbooks, materials, instructional supplies, assessment material, contract educational services, and field trips) are allocated entirely to program services.

Personnel expenses for salaries are allocated based on job descriptions and management estimates of time spent on particular activities. Personnel expenses for salaries are divided into employee categories (executive, teachers, student and family support, etc.) and then a percentage of time spent on program services, general and administrative activities, and fundraising activities is applied. All other personnel expenses (employee benefits, payroll taxes, staff development) are allocated based on the weighted average allocation of the direct salaries.

Other expenses that are not directly identifiable by program are allocated based on management estimates of use of resources. For other expenses where it would not be appropriate to designate 100 percent as a program service cost, general and administrative cost, or fundraising cost, the allocation formula for personnel expenses is utilized for cost allocation purposes.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(h) Use of Estimates:

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

(i) Recognition of Salary Expense:

Salary expense is recognized in the year the service is rendered, which coincides with the academic year. Salaries unpaid at June 30 are recognized as expense and accrued salaries.

(j) Fair Value of Certain Financial Instruments:

Some of the Charter School's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

(k) Reclassifications:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the change in the net assets or to total net assets from prior years.

3. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in the Charter School's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Charter School performed an evaluation of uncertain tax positions for the year ended June 30, 2018, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2018, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Charter School files tax returns. It is the Charter School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2018, the Charter School had no accruals for interest and/or penalties.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Checking Accounts	\$ 2,214,684	\$ 1,108,879
Savings Account	32,060	32,054
Petty Cash	-	55
Cash on Hand	<u>-</u>	<u>335</u>
Total	<u>\$ 2,246,744</u>	<u>\$ 1,141,323</u>

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less.

The Charter School maintains its operating funds primarily in three financial institutions. These accounts are covered under the Federal Deposit Insurance Corporation (FDIC) Program. Federal Deposit Insurance Corporation insurance coverage is \$250,000 per account category. Deposits held in non-interest-bearing transaction accounts are aggregated with interest-bearing deposits and the combined total is insured up to \$250,000.

As of June 30, 2018 and 2017, \$1,495,746 and \$414,232, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the year, the amount of funds at risk may have been greater than at year end. The Charter School was at risk for the funds held in excess of the insured amounts. The Charter School has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

5. INVESTMENT IN LLC - MAMIE D. LEE, LLC:

Mamie D. Lee, LLC (LLC), was formed on October 1, 2015, by Bridges Public Charter School and Briya Public Charter School for the purpose of leasing property from the District of Columbia and to renovate, remodel, operate, manage, maintain, improve, repair and rent space to the two Member charter schools. Each of the two Member charter schools have equal fifty percent (50%) voting rights in the LLC. Bridges Public Charter School's investment in Mamie D. Lee, LLC, is accounted for on the equity method. The equity method provides that each Member is allocated their proportionate share of the LLC's net profits and losses. For the year ended June 30, 2018, the LLC's net profits, losses and cash flows were allocated based on each Member's share of the investment account balance in the LLC. This investment account balance is calculated by adjusting for capital contributions, distributions, rent usage fees, operating costs and debt service. For the years ended June 30, 2018 and 2017, respectively, Bridges Public Charter School was allocated 15.60% and 7.6% of the LLC's net profits, losses and cash flows. Operating expense is allocated based on square footage occupied by each Member. Debt service was allocated to the Members based on the net debt ratio. Per the agreement between the Charter School and the LLC, Member contributions were required to be paid, all of which were made prior to the year ended June 30, 2016.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. INVESTMENT IN LLC - MAMIE D. LEE, LLC: (Continued)

As reflected below, Bridges Public Charter School balance of investment in Mamie D. Lee, LLC, is a negative amount at June 30, 2018, and as such there is no investment balance reported at June 30, 2018, in these financial statements. The balance of the Charter School's investment in Mamie D. Lee, LLC, at June 30, 2017, was \$195,253. The Charter School's proportion of net profits and losses of the LLC for the years ended June 30, 2018 and 2017 was (\$208,555) and (\$36,482), respectively. The following tables detail the Charter School's investment in affiliate:

Balance - June 30, 2017	\$ 195,253
Member Distributions	-
Share of Earnings/(Loss)	<u>(208,555)</u>
Balance - June 30, 2018	<u>\$ (13,302)</u>
Balance - June 30, 2016	\$ 459,000
Member Distributions	(227,265)
Share of Earnings/(Loss)	<u>(36,482)</u>
Balance - June 30, 2017	<u>\$ 195,253</u>

Assets, liabilities and members' equity of Mamie D. Lee, LLC, as of June 30, 2018 and 2017 were as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Assets	\$ 33,799,603	\$ 33,938,285
Total Assets	<u>\$ 33,799,603</u>	<u>\$ 33,938,285</u>
Liabilities	\$ 32,558,882	\$ 31,360,549
Members' Equity	<u>1,240,721</u>	<u>2,577,736</u>
Total Liabilities and Net Assets	<u>\$ 33,799,603</u>	<u>\$ 33,938,285</u>

The activities of Mamie D. Lee, LLC, as of June 30, 2018 and 2017 were as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revenues	\$ 2,478,548	\$ 2,589,906
Expenses	<u>(3,815,563)</u>	<u>(3,094,848)</u>
Total Change in Members' Equity	<u>\$ (1,337,015)</u>	<u>\$ (504,942)</u>

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:

Accounts and Grants Receivable

Accounts and grants receivable as of June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Accounts Receivable</u>		
Per Pupil Funding	\$ 253,139	\$ 27,146
Student Activity Fees	1,060	40,165
Reimbursable Expenses	74,545	88,903
Less: Allowance for Doubtful Accounts	<u>-</u>	<u>(32,132)</u>
Total	<u>\$ 328,744</u>	<u>\$ 124,082</u>
<u>Grants Receivable</u>		
Scholarship for Opportunity and Results Act (SOAR)	\$ 25,061	\$ 80,418
National School Lunch and Breakfast Programs	54,755	79,340
E-Rate Program	-	40,368
No Child Left Behind - Entitlement Funds	35,334	32,620
Flamboyant Foundation	3,234	-
DC PAY	-	8,248
School Garden Grant	-	2,881
Fresh Fruits and Vegetables Program	1,297	2,834
Healthy Schools Act	3,648	1,767
PE Teacher Grant	-	400
Special Education, IDEA 611, Grants to Local Education Agencies	<u>391</u>	<u>84</u>
Total	<u>\$ 123,720</u>	<u>\$ 248,960</u>

The Charter School's accounts and grants receivable consists of unsecured amounts due from funding sources whose ability to pay is subject to changes in general economic conditions. Because the Charter School does not require collateral, it is at credit risk for amounts owed to it throughout the year and at year end.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable 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 or grants receivable.

Trade receivables related to program service fees (activity fees, meals, etc.) are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Trade receivables are written off as uncollectable once management determines that available collection efforts have been exhausted.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE: (Continued)

Promises Receivable

Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Charter School. The Charter School uses the allowance method to determine uncollectible promises to give. Balances at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
General	\$ <u>12,021</u>	\$ <u>10,948</u>
Total	\$ <u>12,021</u>	\$ <u>10,948</u>

The above unconditional promises are due to be received within the next year.

7. FIXED ASSETS:

Furniture and equipment are recorded at cost, or in the case of contributed property at the fair market value at the date of contribution. If an expenditure in excess of \$1,000 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful lives of the assets. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2018 and 2017 was \$173,139 and \$154,037, respectively. Maintenance and repairs are charged to expenses as incurred. Major classifications of fixed assets and their estimated useful lives are as summarized below:

June 30, 2018

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and Equipment	3-7 Years	\$ 49,391	\$ 14,412	\$ 34,979
Computer Equipment	3 Years	127,043	51,825	75,218
Leasehold Improvements	7 Years	<u>1,398,762</u>	<u>463,415</u>	<u>935,347</u>
Total		<u>\$ 1,575,196</u>	<u>\$ 529,652</u>	<u>\$ 1,045,544</u>

June 30, 2017

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and Equipment	3-7 Years	\$ 43,531	\$ 17,769	\$ 25,762
Computer Equipment	3 Years	61,398	30,336	31,062
Leasehold Improvements	7 Years	<u>1,398,762</u>	<u>316,955</u>	<u>1,081,807</u>
Total		<u>\$ 1,503,691</u>	<u>\$ 365,060</u>	<u>\$ 1,138,631</u>

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. DEFERRED RENT:

Accounting principles generally accepted in the United States of America require that rent expense, pursuant to a non-cancelable lease that includes fixed scheduled rent increases, be recorded on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statements of financial position. The Charter School entered into two operating lease agreements, as more fully discussed in Note 12, for the rental of space at the Gallatin Street Building and Taylor Street Building in Washington, DC. As a result of these agreements, a net amount of \$331,355 representing future payments has been recorded as a liability to adjust the actual rent paid to conform to the straight-line basis. The balance of the unamortized deferred rent at June 30, 2018 and 2017 was \$331,355 and \$268,221, respectively. A summary of the net rent obligation and change in deferred rent related to these leases are as follows:

<u>Year Ending June 30,</u>	<u>Rent Obligation</u>	<u>Deferred Rent</u>	<u>Rent Payment</u>
2019	\$ 1,633,766	\$ 14,757	\$ 1,648,523
2020	1,633,766	27,318	1,661,084
2021	1,633,766	37,040	1,670,806
2022	1,352,633	12,317	1,364,950
2023	1,327,075	9,997	1,337,072
Thereafter	<u>30,522,730</u>	<u>229,926</u>	<u>30,752,656</u>
Total	<u>\$ 38,103,736</u>	<u>\$ 331,355</u>	<u>\$ 38,435,091</u>

9. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The Charter School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of the Charter School's fiscal management and academic acceptability. The contract, dated June 8, 2005, provides for a 15-year charter effective the date of first operation. If not renewed, the charter contract will expire on or about June 1, 2020. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that the Charter School is in compliance with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the charter every five years, with the next review scheduled for 2019/2020. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract. Consequently, management does not anticipate non-renewal or revocation of its charter.

As part of the agreement with the DCPCSB, the Charter School may be charged a public charter school fee, which is not to exceed one percent (.9% for the 17/18 school year) of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. For the years ended June 30, 2018 and 2017, the Charter School incurred \$106,297 and \$102,141, respectively, in administrative fees.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

9. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT: (Continued)

The charter contract provides that the Charter School may initially educate up to a predetermined number of students. However, this enrollment limit may be raised upon notification to and acceptance by the DCPCSB. The Charter School enrollment ceiling for the year ended June 30, 2018, was not permitted to be greater than 464 students. Audit enrollment for the 2017/2018 year was 399 students. Audit enrollment for the 2016/2017 year was 328 students.

10. PER-PUPIL FUNDING ALLOCATION:

The Charter School receives local funding from the District of Columbia in the form of per-pupil educational allotments and facility allowances. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2018, the per-student rate ranged from \$10,257 to \$13,744 for the educational allotment and \$3,193 for the facility allowance. For the year ended June 30, 2017, the per-student rate ranged from \$9,682 to \$12,974 for the education allotment and \$3,124 for the facility allowance. Additional allotments were made for Special Education services and English as a Second Language. Per-pupil funding for the years ended June 30, 2018 and 2017 was as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Pre-K - Grade 3	\$ 4,610,932	\$ 3,641,594
Special Education	3,844,422	2,836,157
English as a Second Language	738,812	550,325
At-Risk Students	343,680	235,358
Teachers Collective Bargaining	153,955	-
Facilities Allowance	<u>1,273,898</u>	<u>1,024,672</u>
Total	<u>\$ 10,965,699</u>	<u>\$ 8,288,106</u>

11. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2018 and 2017, the Charter School participated in multiple federal award programs. Federal revenues recognized during the years ended June 30, 2018 and 2017 were as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Scholarship for Opportunity and Results Act (SOAR)	\$ 215,286	\$ 943,132
National School Lunch and Breakfast Programs	186,585	152,828
No Child Left Behind - Entitlement Funds	181,539	144,178
Individuals with Disabilities Education Act (IDEA)	79,699	69,661
Donated Commodities	12,463	9,362
Fresh Fruit and Vegetable Program	1,297	8,610
Charter School Program Dissemination, Title Vb	<u>-</u>	<u>3,000</u>
Total	<u>\$ 676,869</u>	<u>\$ 1,330,771</u>

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

11. FEDERAL ENTITLEMENTS AND GRANTS: (Continued)

Federal formula grants are allocations of money to states or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project. The Charter School receives federal formula grants under the provisions of the No Child Left Behind Act (NCLB) of 2001, P.L 107-110. NCLB funds are not intended to replace state or local educational funding. Rather, NCLB funds provide additional support to states, LEAs, and schools for specific purposes. Grants are provided by the U.S. Department of Education and passed through the District of Columbia Office of the State Superintendent of Education.

The National School Lunch Program and School Breakfast Program are part of the child nutrition cluster of programs operated by the U.S. Department of Agriculture. The objectives of the child nutrition cluster programs are to: (1) assist states in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

12. COMMITMENTS:

Building Lease - 100 Gallatin Street, NE

On November 25, 2015, the Charter School entered into a thirty (30) year use agreement with Mamie D. Lee, LLC (a related party), to occupy a portion of a new school building located at 100 Gallatin Street, NE, Washington, DC. The lease commenced on July 1, 2016, and is scheduled to expire June 30, 2046. This lease has an option to renew for an additional fourteen (14) year period. The Charter School has provided Mamie D. Lee, LLC, a first priority lien on the Charter School's revenues. The annual usage fee represents an amount equal to the number of students projected by the Charter School multiplied by the per pupil facilities allowance received from the DC Government. This lease is accounted for as an operating lease. Rent expense related to this lease for the years ended June 30, 2018 and 2017 was \$1,354,910 and \$1,327,075, respectively. Future required minimum rental lease payments along with the change in deferred rent over the remaining life of the lease are as follows:

<u>Year Ending June 30,</u>	<u>Rent Obligation</u>	<u>Deferred Rent</u>	<u>Rent Payment</u>
2019	\$ 1,327,075	\$ 6,873	\$ 1,333,948
2020	1,327,075	9,997	1,337,072
2021	1,327,075	9,997	1,337,072
2022	1,327,075	9,997	1,337,072
2023	1,327,075	9,997	1,337,072
Thereafter	<u>30,522,730</u>	<u>229,926</u>	<u>30,752,656</u>
Totals	<u>\$ 37,158,105</u>	<u>\$ 276,787</u>	<u>\$ 37,434,892</u>

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. COMMITMENTS: (Continued)

Building Lease - 1250 Taylor Street, NW

On June 24, 2005, the Charter School entered into a lease agreement with Daniel and Shirley Sokolowski, for its previous school location at 1250 Taylor Street, NW, Washington, DC. The lease commenced on August 1, 2005. Under the terms of the lease, the Charter School is required to make monthly payments of \$14,745, which is increased annually by 3.5% on the anniversary of the commencement date. As a requirement of this lease, a total rental security deposit of \$29,490 is to be made. In April 2015, this lease was extended through July 31, 2016. There was no rent expense related to this lease for the year ended June 30, 2018. Rent expense for the year ended June 30, 2017, was \$22,132.

Building Lease - 1230-1246 Taylor Street, NW

On June 27, 2014, the Charter School entered into a seven (7) year lease agreement with JRK Family Investments, LLC, to accommodate the growth of the Charter School. The lease commenced on August 1, 2014. Under the terms of the lease, the Charter School is required to make monthly payments of \$23,348, which are increased annually by 3% on the anniversary of the commencement date and end July 31, 2021. As a requirement of this lease, a total rental security deposit of \$23,348 is to be made. Total rent expense for each of the years ended June 30, 2018 and 2017 was \$306,691.

Future required minimum rental lease payments along with the change in deferred rent over the remaining life of the lease are as follows:

<u>Year Ending June 30,</u>	<u>Rent Obligation</u>	<u>Deferred Rent</u>	<u>Rent Payment</u>
2019	\$ 306,691	\$ 7,884	\$ 314,575
2020	306,691	17,321	324,012
2021	306,691	27,042	333,733
2022	<u>25,558</u>	<u>2,321</u>	<u>27,879</u>
Total	<u>\$ 945,631</u>	<u>\$ 54,568</u>	<u>\$ 1,000,199</u>

Building Sub-Lease - 1230-1246 Taylor Street, NW

On June 8, 2016, the Charter School entered into a five (5) year sub-lease agreement with Breakthrough Montessori Public Charter School for its location at 1230-1246 Taylor Street, NW, Washington, DC. The lease commenced August 1, 2016, and is scheduled to expire July 31, 2021. Breakthrough Montessori Public Charter School is required to pay its proportional share of operating charges and real estate taxes. Under the terms of the sub-lease, the tenant is required to make monthly payments of \$24,770 which is increased annually by 3% on the anniversary of the commencement date. The Charter School received a security deposit related to this lease in the amount of \$24,770. During the year ended June 30, 2018 and 2017, the Charter School received payments of \$305,413 and \$272,469, respectively, for rent.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. COMMITMENTS: (Continued)

Building Sub-Lease - 1230-1246 Taylor Street, NW (Continued)

Future required minimum rental lease receipts over the remaining life of the sub-lease are as follows:

<u>Year Ending June 30,</u>	<u>Rent Receipts</u>
2019	\$ 314,575
2020	324,012
2021	333,734
2022	<u>27,878</u>
Total	<u>\$ 1,000,199</u>

The following schedule shows the composition of rental expense for the years ended June 30, 2018 and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Minimum Rentals	\$ 1,661,454	\$ 1,655,898
Month to Month Rentals and Storage	-	10,765
Less: Sublease	<u>(305,413)</u>	<u>(272,469)</u>
Net Rental Expense	<u>\$ 1,356,041</u>	<u>\$ 1,394,194</u>

Operating Lease - Photocopiers

The Charter School maintains three operating leases for copier equipment. Lease terms are for 36 months, with monthly lease amounts of \$392 for two leases and \$260 for one lease. Equipment rental expense totaled \$9,525 and \$3,640 for the years ending June 30, 2018 and 2017, respectively. Future minimum payments due under these leases are as follows:

<u>Year Ended June 30,</u>	
2019	\$ 9,396
2020	4,698
2021	<u>392</u>
Total	<u>\$ 14,486</u>

Operating Lease - Phone Handsets

The Charter School entered into an operating lease for the rental of phone handsets with Jive Communications on August 12, 2016. The term of the lease is for 36 months, with required monthly lease payments of \$87. Equipment rental expense totaled \$1,044 and \$870 for the years ending June 30, 2018 and 2017, respectively.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. COMMITMENTS: (Continued)

Operating Lease - Phone Handsets (Continued)

Future minimum payments due under this lease is as follows:

<u>Year Ended June 30,</u>	
2019	\$ 1,044
2020	<u>174</u>
Total	<u>\$ 1,218</u>

13. GUARANTEE OF INDEBTEDNESS:

Bridges Public Charter School is a guarantor on a loan obtained by Mamie D. Lee, LLC, for which Bridges Public Charter School is a member, as more fully explained in Note 5. Mamie D. Lee, LLC, obtained a loan in the amount of \$1,340,000 for the school facility. Bridges Public Charter School is a guarantor of fifty percent (50%) of this principal balance. Briya Public Charter School, the other member of Mamie D. Lee, LLC, is a guarantor for the other fifty percent (50%) of the principal balance. The guarantee on this loan includes interest, fees, late charges and any costs associated with the loan or collection of the loan.

In addition to the guarantee on the loan, there are financial covenants related to this loan that need to be met as follows:

- a) Each guarantor needs to maintain a lease service coverage ratio of not less than 1.2 to 1.0.
- b) The guarantors along with Mamie D. Lee, LLC, need to maintain, on a combined basis, minimum unrestricted net assets of at least \$12,000,000.
- c) The guarantors need to maintain, on a combined basis, unencumbered liquid assets of not less than \$4,000,000.
- d) Each guarantor needs to maintain one or more deposit accounts with City First Bank of DC with a minimum balance of \$500,000.

These covenants are tested annually at the end of each fiscal year ended on June 30.

14. CONCENTRATIONS:

Revenues

The Charter School receives public funds from the District of Columbia based on the number of students they enroll according to the Uniform Per Student Funding Formula developed by the Mayor and City Council. This per pupil allocation is supplemented with extra funds for students with special needs. During the years ended June 30, 2018 and 2017, ninety-two percent (92%) and eighty-four percent (84%), respectively, of total support was received from the District of Columbia in the form of per pupil funding. In addition to the revenue received through the Uniform Per Student Funding, the Charter School receives state and federal grants awarded under the auspices of the U.S. Department of Education (No Child Left Behind and special education), as well as the U.S. Department of Agriculture (Child Nutrition). The Charter School is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DCPCSB).

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

14. CONCENTRATIONS: (Continued)

Revenues (Continued)

The Charter School is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the Charter School must compete for students against the DC Public School system as well as other DC Public Charter Schools.

15. CONTINGENCIES:

Pending Litigation

The Bridges Public Charter School is a party to a lawsuit for which damages are being sought. The defense of this matter has been turned over to the Charter School's insurance company. The insurance carrier is working toward a resolution and intends on defending the lawsuit. No liability for an adverse outcome has been recorded in the financial statements because in the opinion of management, any award or settlement will be covered by available insurance.

Charter School Operations

The Charter School was granted its charter by the District of Columbia Public Charter School Board, authorized under the District of Columbia School Reform Act of 1995, Public Law 104-134, as amended. The Charter School has no reason to believe that this relationship will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e., the failure to continue this charter authorization or withholding funds) could adversely affect the Charter School's ability to finance ongoing operations.

The Charter School depends on per pupil allocations, grants, and contributions for a significant portion of its revenues. The ability of the sources of revenues to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to the Charter School. While the Charter School's Board of Directors and management believes the Charter School has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

Laws and regulations governing charter schools are complex and subject to interpretation. There are also certain requirements of the New Market Tax Credit program that the Charter School must adhere to. The Charter School believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The viability of public charter schools and funding for these schools is dependent on the consensus of current and future administrations of the District of Columbia. Any future change in dynamics could adversely affect the operations of public charter schools.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

16. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 29, 2018, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

17. RELATED PARTY TRANSACTIONS:

Mamie D. Lee, LLC

Bridges Public Charter School and Briya Public Charter School formed Mamie D. Lee, LLC (the LLC), which was established to lease a school building from the District of Columbia. These two schools, who are both 501(c)(3) organizations, are the only members of the LLC. This school building was renovated by the LLC in order to be subleased to Bridges and Briya Public Charter Schools for a period of thirty years commencing on July 1, 2016, and expiring on June 30, 2046. The Charter School recognized \$1,354,910 and \$1,327,075 of rent expense related to the lease with Mamie D. Lee, LLC, that reflects a \$61,885 and \$214,931 adjustment to conform to the straight-line method for the years ending June 30, 2018 and 2017, respectively.

There were no contributions or distributions during the year ended June 30, 2018. During the year ended June 30, 2017, the Charter School received member distributions of \$227,265. As explained in Note 5, there is no investment balance in Mamie D. Lee, LLC, reported as of June 30, 2018. The balance of the Charter School's investment in Mamie D. Lee, LLC, at June 30, 2017, was \$195,253. The Charter School's proportion of net losses of the LLC for the years ended June 30, 2018 and 2017 was \$208,555 and \$36,482, respectively.

During the year ended June 30, 2016, the LLC entered into two separate loan agreements, which were paid off during the year ended June 30, 2017. During the year ended June 30, 2017, the LLC entered into an additional five separate loan agreements. Four of these loans are through the New Market Tax Credit program, which encourages investment in real estate projects in low-income communities by allowing investors to receive tax credits in exchange for making qualified investments in Community Development Entities (CDEs). The CDEs then provide loans to benefit the low-income communities to qualified entities. Mamie D. Lee, LLC, obtained these New Market Tax Credit loans on March 22, 2017. There are certain guarantees related to this debt by the Charter School. As of June 30, 2018 and 2017, the outstanding debt balance of the LLC is \$31,682,574 and \$30,562,024, respectively.

As of June 30, 2018, the Charter School owed \$2,071 to the LLC. As of June 30, 2017, the Charter School owed the LLC \$39,360.

Contributions

Various board members of the Charter School and organizations for which they are affiliated made contributions to the Charter School. Such contributions of \$3,500 and \$18,815 were made during the years ended June 30, 2018 and 2017, respectively.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

18. FUNDRAISING:

During the years ended June 30, 2018 and 2017, expenses incurred for the purpose of fundraising were \$11,432 and \$10,997, respectively.

19. ADVERTISING:

Advertising costs are expensed when incurred. Advertising activities were conducted for the purpose of promoting open enrollment to the Charter School and to provide outreach to the community. Direct advertising costs in the amount of \$35,872 and \$42,138 were incurred during the years ended June 30, 2018 and 2017, respectively.

20. RETIREMENT PLAN:

Teachers Retirement Plan

As authorized by the Title 38 of the Code of the District of Columbia, teachers of the DC Public School System may participate in a defined benefit plan named the "Teacher's Retirement Plan." The District of Columbia Retirement Board (DCRB) is responsible for paying benefits attributable to teacher service.

An employee may elect to remain in the Teacher's Retirement Plan if that individual leaves employment with the District of Columbia Public School system and becomes an employee of a DC Public Charter School provided the election is made within 60 days of departure. To remain in the plan, the teacher must make the required employee retirement contributions and the Charter School must make the match contributions that the District Government would have made to the plan. Employee contributions of 7% of annual salary are required to be made on a pre-tax basis to the plan.

401(k) Retirement Plan

The Charter School provides pension benefits for its employees through a defined contribution 401(k) retirement plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the Plan allow for the employees to contribute up to the statutory limits set by the Internal Revenue Code. The Charter School contributes, on a matching basis, an amount up to 4% of an employee's base annual salary. Employees participating in the retirement plan must be employed by the Charter School for two years before having a vested interest in the contributions made to their retirement plan by the Charter School.

The combined amount of employer contributions for the years ended June 30, 2018 and 2017 was \$86,971 and \$67,940, respectively.

BRIDGES PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS:

The cost of fringe benefits incurred for the years ended June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Social Security and Medicare	\$ 459,622	\$ 402,959
Health, Dental and Vision Insurance	322,394	290,866
Retirement	86,971	67,940
Unemployment	34,329	35,538
Workers Compensation Insurance	31,665	25,456
Life and Disability	<u>21,951</u>	<u>18,676</u>
Total	<u>\$ 956,932</u>	<u>\$ 841,435</u>

22. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Rent	\$ 1,356,041	\$ 1,383,429
Depreciation - Leasehold Improvements	146,461	137,281
Loss from LLC - Occupancy Costs	195,253	36,482
Rent - Other	-	10,765
Maintenance, Repairs and Contracted Building Services	15,670	37,199
Utilities	-	5,636
Facility Consulting	63,125	2,975
Janitorial Supplies	<u>1,327</u>	<u>2,482</u>
Total	<u>\$ 1,777,877</u>	<u>\$ 1,616,249</u>

Bridges Public Charter School is a member of Mamie D. Lee, LLC. Mamie D. Lee, LLC's sole activity is leasing and managing a building leased to the Charter School. As such, the earnings or losses on the investment in the LLC are reflected as occupancy costs in these financial statements.

23. CONSOLIDATION:

Management has applied the principles of FASB ASC 958-810, Reporting of Related Entities by Not-for-Profit Organizations, in assessing the need to consolidate the financial statements of the Charter School with those of Mamie D. Lee, LLC. Under FASB ASC 958-810, consolidation should occur if both an economic interest between the organizations and control by a majority of common board members exist. Based on the criteria stipulated in the pronouncement, management has determined that financial statement consolidation is not appropriate for the fiscal years ending June 30, 2018 and 2017. Therefore, the accompanying financial statements reflect only the activity and net assets of the Charter School.

BRIDGES PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>				<u>June 30, 2017</u>			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Personnel, Salaries and Benefits:</u>								
Executive Salaries	\$ 449,396	\$ 355,565	\$ 87,018	\$ 6,813	\$ 408,956	\$ 322,706	\$ 80,677	\$ 5,573
Teachers' Salaries	4,455,115	4,455,115	-	-	3,761,180	3,761,180	-	-
Teachers' Aides/Assistants' Salaries	456,026	456,026	-	-	444,023	444,023	-	-
Other Educational Professional Salaries	602,722	602,722	-	-	619,478	619,478	-	-
Clerical Salaries	22,041	-	22,041	-	69,183	-	69,183	-
Business Operation Salaries	203,528	-	203,528	-	145,001	-	145,001	-
Employee Benefits	462,981	439,087	23,384	510	402,938	380,717	21,809	412
Payroll Taxes	493,951	468,459	24,948	544	438,497	414,315	23,733	449
Professional Development	40,689	38,632	2,057	-	86,620	81,927	4,693	-
Other Staff-Related Costs	<u>54,289</u>	<u>51,544</u>	<u>2,745</u>	<u>-</u>	<u>30,691</u>	<u>29,028</u>	<u>1,663</u>	<u>-</u>
Total Personnel, Salaries and Benefits	<u>\$ 7,240,738</u>	<u>\$ 6,867,150</u>	<u>\$ 365,721</u>	<u>\$ 7,867</u>	<u>\$ 6,406,567</u>	<u>\$ 6,053,374</u>	<u>\$ 346,759</u>	<u>\$ 6,434</u>
<u>Direct Student Costs:</u>								
Food Service	\$ 409,919	\$ 389,192	\$ 20,727	\$ -	\$ 316,003	\$ 298,882	\$ 17,121	\$ -
Instructional Supplies and Equipment	110,144	110,144	-	-	83,706	83,706	-	-
Contracted Instructional/Student Services	617,411	617,411	-	-	578,904	578,904	-	-
Student Assessment	35,617	35,617	-	-	36,284	36,284	-	-
Textbooks	29,533	29,533	-	-	24,283	24,283	-	-
Other Student Costs	<u>83,423</u>	<u>83,423</u>	<u>-</u>	<u>-</u>	<u>74,033</u>	<u>74,033</u>	<u>-</u>	<u>-</u>
Total Direct Student Costs	<u>\$ 1,286,047</u>	<u>\$ 1,265,320</u>	<u>\$ 20,727</u>	<u>\$ -</u>	<u>\$ 1,113,213</u>	<u>\$ 1,096,092</u>	<u>\$ 17,121</u>	<u>\$ -</u>
<u>Occupancy Costs:</u>								
Rent	\$ 1,356,041	\$ 1,286,057	\$ 68,491	\$ 1,493	\$ 1,394,194	\$ 1,317,308	\$ 75,460	\$ 1,426
Loss/(Income) from LLC - Occupancy Costs	195,253	185,380	9,873	-	36,482	34,470	1,975	37
Maintenance, Repairs and Contracted Building Services	15,670	14,861	792	17	37,199	35,149	2,012	38
Janitorial Supplies	1,327	1,259	67	1	2,482	2,345	134	3
Utilities	-	-	-	-	5,636	5,325	305	6
Depreciation - Leasehold Improvements	146,461	139,055	7,406	-	137,281	129,711	7,430	140
Facility Consulting	<u>63,125</u>	<u>-</u>	<u>63,125</u>	<u>-</u>	<u>2,975</u>	<u>2,811</u>	<u>161</u>	<u>3</u>
Total Occupancy Costs	<u>\$ 1,777,877</u>	<u>\$ 1,626,612</u>	<u>\$ 149,754</u>	<u>\$ 1,511</u>	<u>\$ 1,616,249</u>	<u>\$ 1,527,119</u>	<u>\$ 87,477</u>	<u>\$ 1,653</u>

(See Accompanying Notes and Auditor's Report)

BRIDGES PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>				<u>June 30, 2017</u>			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Office Expenses:</u>								
Office Supplies and Materials	\$ 19,343	\$ 18,365	\$ 978	\$ -	\$ 28,257	\$ 26,726	\$ 1,531	\$ -
Equipment Rental and Maintenance	45,909	43,588	2,321	-	53,074	50,198	2,876	-
Telecommunications	28,806	27,350	1,456	-	75,008	70,944	4,064	-
Postage and Shipping	850	807	43	-	1,299	1,229	70	-
Computer and Related	64,107	60,866	3,241	-	39,049	36,933	2,116	-
Printing and Publications	<u>404</u>	<u>384</u>	<u>20</u>	<u>-</u>	<u>2,714</u>	<u>2,567</u>	<u>147</u>	<u>-</u>
Total Office Expenses	<u>\$ 159,419</u>	<u>\$ 151,360</u>	<u>\$ 8,059</u>	<u>\$ -</u>	<u>\$ 199,401</u>	<u>\$ 188,597</u>	<u>\$ 10,804</u>	<u>\$ -</u>
<u>General Expenses:</u>								
Insurance	\$ 18,337	\$ 17,410	\$ 927	\$ -	\$ 17,722	\$ 16,762	\$ 960	\$ -
Professional Fees	461,813	442,597	19,216	-	360,468	341,693	17,775	1,000
Interest	1	-	1	-	114	-	114	-
Authorizer Fee	106,297	100,923	5,374	-	102,141	96,607	5,534	-
Bad Debt Expense	32,665	31,013	1,652	-	12,573	12,573	-	-
Depreciation	26,678	25,328	1,350	-	16,756	15,848	908	-
Other General Expenses	<u>11,568</u>	<u>9,033</u>	<u>481</u>	<u>2,054</u>	<u>11,979</u>	<u>9,523</u>	<u>546</u>	<u>1,910</u>
Total General Expenses	<u>\$ 657,359</u>	<u>\$ 626,304</u>	<u>\$ 29,001</u>	<u>\$ 2,054</u>	<u>\$ 521,753</u>	<u>\$ 493,006</u>	<u>\$ 25,837</u>	<u>\$ 2,910</u>
Total Functional Expenses	<u>\$ 11,121,440</u>	<u>\$ 10,536,746</u>	<u>\$ 573,262</u>	<u>\$ 11,432</u>	<u>\$ 9,857,183</u>	<u>\$ 9,358,188</u>	<u>\$ 487,998</u>	<u>\$ 10,997</u>

(See Accompanying Notes and Auditor's Report)

Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Trustees
Bridges Public Charter School
100 Gallatin Street, NE
Washington, DC 20011

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

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 Bridges Public Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2018.

Internal Control Over Financial Reporting

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

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

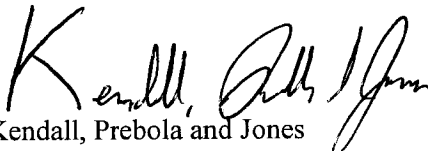
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bridges Public Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Charter School'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 Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 29, 2018

BRIDGES PUBLIC CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings in the prior year.

BRIDGES PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of the Bridges Public Charter School were prepared in accordance with generally accepted accounting principles.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. No instances of noncompliance material to the financial statements of the Bridges Public Charter School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

II. Findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*

There were no findings in the current year.