

**CESAR CHAVEZ PUBLIC CHARTER
SCHOOLS FOR PUBLIC POLICY**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017 AND 2016

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Independent Auditor's Report

To the Board of Trustees of
Cesar Chavez Public Charter Schools for Public Policy
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Cesar Chavez Public Charter Schools for Public Policy (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 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 Cesar Chavez Public Charter Schools for Public Policy as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of Cesar Chavez Public Charter Schools for Public Policy'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 Cesar Chavez Public Charter Schools for Public Policy's internal control over financial reporting and compliance.

Jane Maruca & McQuade PA

Washington, DC
November 14, 2017

CESAR CHAVEZ PUBLIC CHARTER SCHOOLS FOR PUBLIC POLICY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,440,554	\$ 6,524,750
Restricted cash and cash equivalents, current portion	315,549	345,322
Accounts receivable	68,087	113,810
Grants receivable	598,072	796,053
Prepaid expenses	46,931	157,992
Total Current Assets	7,469,193	7,937,927
NON-CURRENT ASSETS		
Restricted cash and cash equivalents, net of current portion	3,193,614	3,161,214
Property and equipment, net	26,469,980	27,576,219
Security deposits	199,452	194,398
Total Non-Current Assets	29,863,046	30,931,831
TOTAL ASSETS	\$ 37,332,239	\$ 38,869,758
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,788,745	\$ 2,162,630
Deferred revenue	28,596	33,897
Deferred rent, current portion	1,523	13,224
Capital lease obligation	-	3,228
Current portion of long-term debt	630,000	590,000
Total Current Liabilities	2,448,864	2,802,979
NON-CURRENT LIABILITIES		
Deferred rent, net of current portion	442,316	417,391
Long-term debt, net	22,767,408	23,351,680
Total Non-Current Liabilities	23,209,724	23,769,071
TOTAL LIABILITIES	25,658,588	26,572,050
NET ASSETS		
Unrestricted	10,321,151	10,945,208
Board designated	1,350,000	1,350,000
Total Unrestricted	11,671,151	12,295,208
Temporarily restricted	2,500	2,500
Total Net Assets	11,673,651	12,297,708
TOTAL LIABILITIES AND NET ASSETS	\$ 37,332,239	\$ 38,869,758

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

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS FOR PUBLIC POLICY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 19,866,034	\$ -	\$ 19,866,034
Per pupil facility allowance	3,983,100	-	3,983,100
Contributions	31,349	38,079	69,428
Federal entitlements and grants	3,038,776	-	3,038,776
Other state and local grants	144,726	-	144,726
Student activity fees	78,888	-	78,888
Interest income	6,206	-	6,206
In-kind contributions	259,425	-	259,425
Other income	26,784	-	26,784
Net assets released from restrictions	38,079	(38,079)	-
Total Revenue and Support	<u>27,473,367</u>	<u>-</u>	<u>27,473,367</u>
EXPENSES			
Educational services	21,366,485	-	21,366,485
Management and general	6,472,059	-	6,472,059
Fundraising	258,880	-	258,880
Total Expenses	<u>28,097,424</u>	<u>-</u>	<u>28,097,424</u>
CHANGE IN NET ASSETS	(624,057)	-	(624,057)
NET ASSETS, beginning of year	<u>12,295,208</u>	<u>2,500</u>	<u>12,297,708</u>
NET ASSETS, end of year	<u>\$ 11,671,151</u>	<u>\$ 2,500</u>	<u>\$ 11,673,651</u>

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

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS FOR PUBLIC POLICY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 21,429,603	\$ -	\$ 21,429,603
Per pupil facility allowance	4,432,956	-	4,432,956
Contributions	187,239	2,500	189,739
Federal entitlements and grants	2,826,844	-	2,826,844
Other state and local grants	249,578	-	249,578
Interest income	34,845	-	34,845
Student activity fees	45,675	-	45,675
Other income	7,894	-	7,894
Net assets released from restrictions	112,687	(112,687)	-
Total Revenue and Support	29,327,321	(110,187)	29,217,134
EXPENSES			
Educational services	22,174,397	-	22,174,397
Management and general	6,602,047	-	6,602,047
Fundraising	264,082	-	264,082
Total Expenses	29,040,526	-	29,040,526
CHANGE IN NET ASSETS FROM OPERATIONS	286,795	(110,187)	176,608
OTHER CHANGES			
Loss on disposal of property and equipment	(28,424)	-	(28,424)
CHANGE IN NET ASSETS	258,371	(110,187)	148,184
NET ASSETS, beginning of year	12,036,837	112,687	12,149,524
NET ASSETS, end of year	\$ 12,295,208	\$ 2,500	\$ 12,297,708

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

CESAR CHAVEZ PUBLIC CHARTER SCHOOLS FOR PUBLIC POLICY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Educational Services	Management and General	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 10,864,260	\$ 3,670,358	\$ 146,814	\$ 14,681,432
Employee benefits	1,110,850	375,288	15,011	1,501,149
Payroll taxes	855,259	288,939	11,558	1,155,756
Professional development	75,454	25,491	1,020	101,965
Total Personnel, Salaries and Benefits	<u>12,905,823</u>	<u>4,360,076</u>	<u>174,403</u>	<u>17,440,302</u>
DIRECT STUDENT COSTS				
Educational supplies, textbooks, etc.	140,348	-	-	140,348
Student transportation	68,374	-	-	68,374
Student food service/catering	768,185	-	-	768,185
Contracted instruction fees	743,729	-	-	743,729
Student assessments	108,201	-	-	108,201
Other student costs	380,357	-	-	380,357
Total Direct Student Costs	<u>2,209,194</u>	<u>-</u>	<u>-</u>	<u>2,209,194</u>
OCCUPANCY EXPENSES				
Rent	474,494	160,302	6,412	641,208
Maintenance and repairs	179,031	60,484	2,419	241,934
Utilities	287,144	97,008	3,880	388,032
Contracted building services	492,020	166,223	6,649	664,892
Total Occupancy Expenses	<u>1,432,689</u>	<u>484,017</u>	<u>19,360</u>	<u>1,936,066</u>
OFFICE EXPENSES				
Office supplies and materials	97,510	32,942	1,318	131,770
Equipment rental	196,489	66,381	2,655	265,525
Telecommunications	349,165	117,962	4,718	471,845
Professional fees	998,118	337,202	13,488	1,348,808
Printing and publications	4,422	1,494	60	5,976
Postage and shipping	14,384	4,860	194	19,438
Total Office Expenses	<u>1,660,088</u>	<u>560,841</u>	<u>22,433</u>	<u>2,243,362</u>
GENERAL EXPENSES				
Insurance	177,847	60,084	2,403	240,334
Interest	1,391,642	470,149	18,806	1,880,597
Charter school board administrative fees	216,243	73,055	2,922	292,220
Bank fees	5,811	1,963	79	7,853
Dues and subscription	45,066	15,225	609	60,900
Promotion and advertisement	101,484	34,285	1,371	137,140
Travel and entertainment	5,020	1,696	68	6,784
Depreciation and amortization	1,185,490	400,503	16,020	1,602,013
Meetings, food and beverages	1,574	532	21	2,127
Miscellaneous	28,514	9,633	385	38,532
Total General Expenses	<u>3,158,691</u>	<u>1,067,125</u>	<u>42,684</u>	<u>4,268,500</u>
TOTAL EXPENSES	<u>\$ 21,366,485</u>	<u>\$ 6,472,059</u>	<u>\$ 258,880</u>	<u>\$ 28,097,424</u>

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

CESAR CHAVEZ PUBLIC CHARTER SCHOOLS FOR PUBLIC POLICY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Educational Services	Management and General	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 11,209,111	\$ 3,786,862	\$ 151,474	\$ 15,147,447
Employee benefits	1,040,469	351,510	14,060	1,406,039
Payroll taxes	912,988	308,441	12,338	1,233,767
Professional development	77,187	26,077	1,043	104,307
Total Personnel, Salaries and Benefits	<u>13,239,755</u>	<u>4,472,890</u>	<u>178,915</u>	<u>17,891,560</u>
DIRECT STUDENT COSTS				
Educational supplies, textbooks, etc.	216,685	-	-	216,685
Student transportation	124,922	-	-	124,922
Student food service/catering	913,497	-	-	913,497
Contracted instruction fees	1,052,020	-	-	1,052,020
Student assessments	46,279	-	-	46,279
Other student costs	278,921	-	-	278,921
Total Direct Student Costs	<u>2,632,324</u>	<u>-</u>	<u>-</u>	<u>2,632,324</u>
OCCUPANCY EXPENSES				
Rent	419,015	141,559	5,662	566,236
Maintenance and repairs	354,456	119,748	4,790	478,994
Utilities	340,831	115,145	4,606	460,582
Contracted building services	431,225	145,684	5,827	582,736
Total Occupancy Expenses	<u>1,545,527</u>	<u>522,136</u>	<u>20,885</u>	<u>2,088,548</u>
OFFICE EXPENSES				
Office supplies and materials	164,805	55,677	2,227	222,709
Equipment rental	72,705	24,562	983	98,250
Telecommunications	223,501	75,508	3,020	302,029
Professional fees	928,972	313,841	12,554	1,255,367
Printing and publications	33,605	11,353	454	45,412
Postage and shipping	11,525	3,893	156	15,574
Total Office Expenses	<u>1,435,113</u>	<u>484,834</u>	<u>19,394</u>	<u>1,939,341</u>
GENERAL EXPENSES				
Insurance	195,498	66,047	2,642	264,187
Interest	1,419,522	479,568	19,183	1,918,273
Charter school board administrative fees	203,286	68,678	2,747	274,711
Bank fees	12,377	4,181	167	16,725
Administration fee	1,989	672	27	2,688
Dues and subscription	34,113	11,524	461	46,098
Promotion and advertisement	91,220	30,817	1,233	123,270
Travel and entertainment	43,309	14,631	585	58,525
Depreciation and amortization	1,185,991	400,673	16,027	1,602,691
Meetings, food and beverages	79,599	26,891	1,076	107,566
Bad debts	39,816	13,451	538	53,805
Miscellaneous	14,958	5,054	202	20,214
Total General Expenses	<u>3,321,678</u>	<u>1,122,187</u>	<u>44,888</u>	<u>4,488,753</u>
TOTAL EXPENSES	<u>\$ 22,174,397</u>	<u>\$ 6,602,047</u>	<u>\$ 264,082</u>	<u>\$ 29,040,526</u>

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

CESAR CHAVEZ PUBLIC CHARTER SCHOOLS FOR PUBLIC POLICY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (624,057)	\$ 148,184
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,602,013	1,602,691
Loss on disposal of property and equipment	-	28,424
Amortization of debt issuance costs	33,211	33,212
Amortization of bond discount	12,517	12,517
Bad debt expense	-	53,805
Decrease in allowance for doubtful accounts	-	(118,682)
(Increase) decrease in assets:		
Accounts receivable	45,723	523,500
Grants receivable	197,981	(76,837)
Prepaid expenses	111,061	(20,375)
Security deposits	(5,054)	2,759
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(373,885)	620,917
Deferred revenue	(5,301)	33,897
Deferred rent	13,224	24,764
Net cash Provided by Operating Activities	1,007,433	2,868,776
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(495,774)	(612,633)
Increase in restricted cash and cash equivalents	(2,627)	(171,658)
Net Cash Used for Investing Activities	(498,401)	(784,291)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease payments	(3,228)	(38,564)
Principal payments on debt	(590,000)	(550,000)
Net Cash Used for Financing Activities	(593,228)	(588,564)
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(84,196)	1,495,921
 CASH AND CASH EQUIVALENTS, beginning of year	6,524,750	5,028,829
 CASH AND CASH EQUIVALENTS, end of year	\$ 6,440,554	\$ 6,524,750
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,847,385	\$ 1,891,019

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

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE A – ORGANIZATION AND PURPOSE

Cesar Chavez Public Charter Schools for Public Policy (the “School”) was incorporated in February 1998 as a not-for-profit school located in Washington, DC to provide public education, foster educational innovation and reform, inspire young people to become involved in public policy, and develop and improve the quality of schools and curricula. The School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The contract was originally dated September 2, 1998, and has since been renewed on August 29, 2013 for an additional 15 years. The contract will remain in effect unless terminated sooner in accordance with the contract. During the school year 2016-2017, the School received funding to service 1,275 students residing in the District of Columbia in grades six through twelve.

The School’s mission is to prepare students to succeed in competitive colleges and to empower them to use public policy to create a more just, free, and equal world.

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 Financial Standards Accounting 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. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are 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 may be maintained permanently by the School. There were no permanently restricted net assets as of June 30, 2017 and 2016.

Board Designated

The Board of Trustees has designated a portion of the unrestricted funds for improvements to the School and general operations. As of June 30, 2017 and 2016, board designated funds totaled \$1,350,000.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

For purposes of the statements of cash flows, the School considers all highly liquid debt instruments purchased with an original maturity of less than three months and money market funds to be cash equivalents.

Cash and Cash Equivalents Restricted by Debt Agreements

Cash and cash equivalents restricted by debt agreements are comprised of cash and cash equivalents held by a trustee or the authority for debt service.

Grants and Accounts Receivable

The School's grants receivable consist of unsecured amounts due from public funding sources whose ability to pay are subject to appropriations. Other accounts receivable are related to non-grant sources of revenue. Grants and accounts receivable are carried at the original billed amount. Management determines if an allowance for doubtful accounts is necessary based upon review of outstanding receivables, historical collection experience and existing economic conditions. Accounts deemed uncollectible are charged off based on this review. For the years ended June 30, 2017 and 2016, the School considered all outstanding receivables collectible; therefore, no allowance for doubtful accounts was deemed necessary.

Property and Equipment

Purchases of property and equipment over \$1,000 are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the underlying assets, which range from 3 to 40 years. Leasehold improvements are amortized over the lesser of their useful life or the lease term. Repairs and maintenance are expensed when incurred

Debt Issuance Costs

Cost incurred in the issuance of debt have been capitalized and are reported on the statement of financial position as a direct deduction from the related debt liability. Debt issuance costs are amortized as interest expense using the straight-line method over the remaining period of the debt, which approximates the effective interest method.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred Revenue

Deferred revenue results from government grants and other revenue received in advance of services to be provided.

Deferred Rent

The School records rent expense including rent abatement on a straight line basis over the term of the lease. Deferred rent is recorded for the difference in the rent expense recognized on a straight-line basis and the rent payments.

Per Pupil Appropriations

The School receives a student allocation on a per-pupil basis from the District of Columbia to cover the cost of academic expenses. Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriation revenue includes \$5,488,846 and \$5,771,978 for enhancements such as limited English proficiency, special education and at-risk students for the years ended June 30, 2017 and 2016, respectively.

Federal Entitlements

Federal entitlement revenue is grants 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.

Contributions

Contributions 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 statements of activities as net assets released from restrictions. Restricted revenue received that is expended in the year of receipt is treated as unrestricted for financial statements purposes.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

In-Kind Contributions

Donated facilities, goods and services are recorded at fair value at the date of donation. Donated services are recognized in the financial statements at their fair value if the services require specialized skills and the services would typically need to be purchased if not donated. During the years ended June 30, 2017 and 2016, the School received \$299,231 and \$317,721, respectively, of donated services for program services from the District of Columbia Promise Neighborhood Initiative, Inc. The School also received non-federal in-kind contributions for consulting services and the after school all-stars program, totaling \$259,425 for the year ended June 30, 2017.

Student Activity Fees

Student activity fees are funds received from students for school related activities such as fieldtrips, events, etc. Student activity fees are recognized at the time the event is held.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Functional Expenses

The costs of providing the School's various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs, fundraising and supporting services benefited.

Reclassifications

For comparative purposes, certain amounts for the year ended June 30, 2016, have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)**

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 has adopted the accounting of uncertainty in income taxes as required by the Income Taxes topic of the FASB ASC. The 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 benefits to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized 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 (2014-2016), or expected to be taken in its 2017 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 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

	<u>2017</u>	<u>2016</u>
Land - Parkside	\$ 2,170,205	\$ 2,170,205
Building and improvements	15,579,005	15,579,005
Leasehold improvements	15,766,097	15,732,509
Computer and office equipment	2,666,821	2,359,169
Furniture and equipment	1,487,409	1,507,746
Textbooks	1,306,859	1,246,828
Vehicles	43,945	43,945
	<u>39,020,341</u>	<u>38,639,407</u>
Less accumulated depreciation and amortization	<u>(12,550,361)</u>	<u>(11,063,188)</u>
Property and Equipment, Net	<u>\$ 26,469,980</u>	<u>\$ 27,576,219</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016, totaled \$1,602,013 and \$1,602,691 respectively.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)**

NOTE E – LONG-TERM DEBT

On March 1, 2011, the School entered into a financing agreement with Wells Fargo Bank, National Association (“Wells Fargo”), as trustee of newly issued District of Columbia Revenue Bonds, Cesar Chavez Public Charter Schools for Public Policy Issue, Series 2011 Bonds (“Series 2011 Bonds”). The proceeds from the Series 2011 Bonds of \$27,210,000, were used to refinance the entire outstanding balance of the School’s previous loans and to purchase the facility that the School was previously leasing from its landlord. The proceeds were also used for renovations of the purchased building as well as the buildings at the two leased campus locations. The loan is recorded net of a discount of \$321,341. Amortization expense of the discount for the years ended June 30, 2017 and 2016, totaled \$12,517 and \$12,517, respectively, which has been charged to interest expense in the statements of activities. The discount, net of accumulated amortization, on the Series 2011 Bonds totaled \$296,238 and \$308,755, as of June 30, 2017 and 2016, respectively. The Series 2011 Bonds include four series of bonds with a weighted average fixed interest rate of 7.4%, with required semi-annual interest payments, which commenced on July 1, 2011. Principal payments are due annually each November until maturity. The Series 2011 Bonds shall mature and be payable subject to the prior redemption or the terms and conditions set forth in the indenture agreement.

The Series 2011 Bonds mature on November 15, 2040, and are collateralized by the first priority deed of trust lien on the School’s property and equipment, per pupil revenues, and restricted cash and cash equivalents. As of June 30, 2017 and 2016, the outstanding principal balance on the Series 2011 Bonds totaled \$24,190,000 and \$24,780,000, respectively.

The above described debt agreements contain certain restrictive, financial, and nonfinancial covenants. In the opinion of management, the School has complied with the required covenants for 2017 and 2016. Interest expense for the years ended June 30, 2017 and 2016, totaled \$1,880,597 and \$1,918,273, respectively.

The fair value of the Series 2011 Bonds is estimated by computing the discounted value of estimated cash flows. The discount rate was based upon the current loan origination rate for similar loans. The estimated fair value of the Series 2011 Bonds at June 30, 2017 and 2016, was approximately \$24,410,000 and \$25,065,000, respectively. Present value techniques used in estimating the fair value of bonds payable are significantly affected by the assumptions used. In that regard, the derived fair value estimate cannot be substantiated by comparison to independent markets, and in many cases, could not be realized in immediate cash settlement of the instruments.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)**

NOTE E – LONG-TERM DEBT – continued

Aggregate annual maturities of the debt are as follows for the years ending June 30:

2018	\$ 630,000
2019	670,000
2020	715,000
2021	765,000
2022	815,000
2023 and thereafter	<u>20,595,000</u>
Total	<u>\$ 24,190,000</u>

In prior years, the School reported debt issuance costs as a deferred charge in the statement of financial position and amortization of such costs in the statement of activities as depreciation and amortization. To comply with new GAAP presentation requirements, in 2017 the School began reporting such costs as a direct deduction from the carrying amount of the related debt and reclassified prior year amounts, resulting in the reduction of total June 30, 2016, assets by \$529,565. The change did not affect net assets.

Similarly, the School now reports amortization of debt issuance costs as interest expense, and reclassified 2016 amounts accordingly. As a result, reported interest expense in 2016 was increased by \$33,212, with no effect on the change in net assets. The amortization of debt issuance costs as interest expense for the year ended June 30, 2017, totaled \$33,211.

Debt issuance costs and accumulated amortization are as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Debt issuance costs	\$ 726,945	\$ 726,945
Less accumulated amortization	<u>(230,591)</u>	<u>(197,380)</u>
Debt Issuance Costs, Net	<u>\$ 496,354</u>	<u>\$ 529,565</u>

NOTE F – LEASE COMMITMENTS

On December 1, 2010, the School entered into a lease agreement with ESP Warehouse, LLC, which expires on November 1, 2020. The School has the right to extend and renew the terms of the lease for up to three terms of five consecutive years each, plus a fourth renewal term of four years and 11 months. The lease provides for scheduled annual rent increases of two percent. In addition, the School is responsible for payment of a proportionate share of real estate assessments, as well as a proportionate share of the landlord's insurance costs for extended risk insurance and public liability insurance.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)**

NOTE F – LEASE COMMITMENTS - continued

Effective September 1, 2008, the School entered into a thirty-year ground lease for a permanent additional operating location with the District of Columbia. The lease expires on September 30, 2038. The School has the right to extend and renew the terms of the lease for up to two terms of 15 consecutive years, each at the fair market rental value. During the first 12 months of each lease extension period, the School may apply a rent credit equal to the cost of base building alterations approved by the landlord. The lease provides for scheduled annual rent increases of two percent. However, every fifth year following the commencement date of the lease, the base rent shall be increased by a percentage not less than two percent. In addition, the School is responsible for developing, renovating, maintaining and operating the facility. Qualified improvements must be approved by the District of Columbia in advance of the work being performed.

Effective June 1, 2016, the School entered into a sub-lease agreement with another District of Columbia Public Charter School for office space located at 525 School Street, SW, Washington, DC. Lease payments are due monthly at a rate of \$2,610 through June 30, 2017, and payments thereafter include certain escalation clauses. The initial sub-lease term is scheduled to expire June 30, 2021, however, the sub-lease agreement includes three successive options to renew the sub-lease for additional periods of two years each, provided that written notice is given at least six months prior to the expiration of the initial sub-lease term.

Facility rent expense for the years ended June 30, 2017 and 2016, totaled \$641,208 and \$566,236, respectively. The future minimum payments under these operating leases are as follows:

2018	\$ 616,372
2019	641,135
2020	653,243
2021	392,311
2022	164,630
2023 and thereafter	2,721,630
Total	<u><u>\$ 5,189,321</u></u>

NOTE G – CAPITAL LEASE

On May 2, 2013, the School entered into a lease agreement for two copiers which meet the accounting treatment criteria as capital leases. The School's present value of the future minimum lease payments is greater than 90% of the fair value of the copiers. The interest rate implicit in the lease is .81% per annum. The monthly payments totaled \$1,310 and both leases expired in July 2016. As of June 30, 2016, the capitalized cost of the equipment leases totaled \$46,576. Accumulated amortization on the equipment totaled \$46,576 as of June 30, 2016. Amortization expense on the equipment totaled \$12,938 for the year ended June 30, 2016.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)**

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

For the years ended June 30, 2017 and 2016, temporarily restricted net assets totaling \$2,500 were designated for the garden program.

NOTE I – RETIREMENT PLAN

The School offers a 403(b) qualified retirement plan (the “Plan”) through One America to all full-time employees who meet the eligibility requirements. The Plan allows eligible employees to make deferral contributions beginning in the first year of employment. The School will contribute 5% of a participant’s annual salary beginning in the second year of employment. The School’s matching contribution increases to 7% at the beginning of year four, and at 8% at the beginning of year seven, which is the maximum employer contribution. For the years ended June 30, 2017 and 2016, retirement plan expense totaled \$162,665 and \$197,296, respectively.

NOTE J – CONCENTRATIONS OF RISK

The School is dependent on funding the District of Columbia, as authorized by the District of Columbia Public Charter Board. During the years ended June 30, 2017 and 2016, approximately 87% and 89% of total support was received from the District of Columbia, respectively.

The School is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the School must compete for students against the DC Public School system and other DC Public Charter Schools. Per pupil appropriations received from the District of Columbia is based upon actual student enrollment determined by an annual enrollment audit. As a result, actual revenue may vary materially from budgeted revenue if under-enrollment were to occur.

The School maintains its cash in several financial institutions. The cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The School’s cash routinely exceeds the FDIC limit. Management does not believe the School is exposed to any significant credit risk on its cash and cash equivalents.

NOTE K – SUBSEQUENT EVENTS

In preparing these financial statements, the School’s management has evaluated events and transactions for potential recognition or disclosure through November 14, 2017, the date the financial statements were available to be issued. There were no events or transactions discovered during the evaluation that required recognition or further disclosure.

**REPORTS AND SCHEDULES
REQUIRED BY THE UNIFORM GUIDANCE**



**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***

To the Board of Trustees of
Cesar Chavez Public Charter Schools for Public Policy
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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cesar Chavez Public Charter Schools for Public Policy (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 14, 2017.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the 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 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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jane Maruca & McQuade PA

Washington, DC
November 14, 2017



**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance
Required by the Uniform Guidance**

To the Board of Trustees of
Cesar Chavez Public Charter Schools for Public Policy
Washington, DC

Report on Compliance for Each Major Federal Program

We have audited Cesar Chavez Public Charter Schools for Public Policy's (the "School") compliance with the types of compliance requirements described in the *OMB 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, 2017. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

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, 2017.

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 of compliance, 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jane Warner & McQuade PA

Washington, DC
November 14, 2017

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS FOR PUBLIC POLICY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

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 (OSSE)			
Title I Grants to Local Educational Agencies	84.010	SG010A	\$ 879,572
Supporting Effective Instruction State Grant	84.367	SG367A	208,028
English Language Acquisition State Grants	84.365	SG365A	28,996
Charter Schools	84.282	15282A	19,991
Special Education Grants to States	84.027	62027A	304,633
Education for Homeless Children and Youth	84.196	62196A	9,090
DC School Choice Incentive Program	84.370		294,081
Pass Through from District of Columbia Promise Neighborhood Initiative, Inc.			
Fund for the Improvement of Education	84.215		244,033
Total U.S. Department of Education			<u>1,988,424</u>
U.S. Department of Agriculture			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Fresh Fruit and Vegetable Program	10.582		62,791
Equipment Assistance Program	10.xxx		5,000
			<u>67,791</u>
Child Nutrition Cluster			
National School Breakfast Program	10.553		447,733
National School Lunch Program	10.555		100,671
			<u>548,404</u>
Total U.S. Department of Agriculture			<u>616,195</u>
U.S. Department of Health and Human Services			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Temporary Assistance for Needy Families	93.558		112,640
Medical Assistance Program	93.778		22,430
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School Based Surveillance	93.079	55079A	237
Total U.S. Department of Health and Human Services			<u>135,307</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,739,926</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

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 ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). 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 in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein, certain types of expenses are not allowable or are limited as to reimbursement. The School elected not to use the 10 percent de minimis indirect cost rate. Pass through programs, agencies, and entity identifying numbers are presented where available.

NOTE C – RECONCILIATION TO THE FINANCIAL STATEMENTS

Expenditures per the Schedule exclude \$298,850 of federal awards provided under the Federal Communications Commission E-Rate program, which is reported as a federal entitlement and grant revenue in the statement of activities. Funding under this program is considered to be federal funds, however, does not qualify as direct financial support, and therefore, is exempt from Uniform Guidance requirements. In addition, the Schedule includes \$299,231 of non-cash assistance classified as federal entitlements and grants in the financial statements.

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | |
|---|------------|
| (a) Type of auditor's report issued | Unmodified |
| (b) Internal control over financial reporting:
Material weakness identified? | No |
| Significant deficiencies identified that are not
considered to be material weakness? | None noted |
| (c) Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|------------|
| (a) Type of auditor's report issued on compliance for
major programs: | Unmodified |
| (b) Internal control over major programs:
Material weakness identified? | No |
| Significant deficiencies identified that are not
considered to be material weakness? | None noted |
| (c) Any audit findings disclosed that are required to be
reported in accordance with 2 CFR Section 200.516(a)? | No |

Major Programs:

- | | |
|---|----------------|
| (d) Name of Federal Programs and CFDA Number: | |
| Title I Grants to Local Educational Agencies | 84.010 |
| Child Nutrition Cluster | 10.553, 10.555 |
| (e) Dollar threshold used to distinguish between
type A and type B programs: | \$750,000 |
| (f) Auditee qualified as low-risk auditee? | Yes |

**CESAR CHAVEZ PUBLIC CHARTER SCHOOLS
FOR PUBLIC POLICY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017
(continued)**

SECTION II – FINANCIAL STATEMENT FINDINGS

None

**SECTION III – FINDINGS AND QUESTIONED COSTS RELATED
TO FEDERAL AWARDS**

None

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
AND QUESTIONED COSTS**

Finding No. 2016-001 Preparation of Schedule of Expenditures of Federal Awards

Status: Corrected. All federal awards received by the School are properly
being reported in the Schedule.