



Financial Statements and Supplemental Information

For the Years Ended June 30, 2016 and 2015



**and
Report Thereon**



**Reports Required in Accordance with
the Uniform Guidance**

For the Year Ended June 30, 2016



D.C. PREPARATORY ACADEMY

TABLE OF CONTENTS
For the Years Ended June 30, 2016 and 2015

	<i>Page</i>
Independent Auditor's Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses.....	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-22
Supplemental Information	
Schedule of Disbursements on Contracts Over \$25,000.....	23
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24-25
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	26-27
Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs	30



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy

Report on the Financial Statements

We have audited the accompanying financial statements of D.C. Preparatory Academy (DC Prep), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 D.C. Preparatory Academy as of June 30, 2016 and 2015, 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.

Continued

Other Matters

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of disbursements on contracts over \$25,000 on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016, on our consideration of DC Prep'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 DC Prep's internal control over financial reporting and compliance.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
October 27, 2016

D.C. PREPARATORY ACADEMY
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,097,867	\$ 11,151,840
Restricted cash – sinking funds	251,746	183,433
Grants and contributions receivable	480,700	353,000
Accounts receivable	1,305,161	1,629,237
Prepaid expenses	730,501	406,270
Total Current Assets	11,865,975	13,723,780
Restricted cash – reserve funds	1,078,168	1,193,220
Grants and contributions receivable, net	744,341	589,512
Deferred financing costs, net	1,029,334	1,171,722
Deposits	219,862	200,037
Note receivable	250,000	-
Fixed assets		
Land	2,902,620	1,685,820
Building and improvements	19,849,033	17,226,403
Leasehold improvements	26,824,528	26,715,320
Furniture, fixtures and equipment	2,586,891	2,266,753
Construction in progress	400,984	-
Total Fixed Assets	52,564,056	47,894,296
Less: Accumulated Depreciation and Amortization	(8,233,580)	(6,343,885)
Fixed Assets, Net	44,330,476	41,550,411
TOTAL ASSETS	\$ 59,518,156	\$ 58,428,682
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,003,267	\$ 700,858
Accrued payroll and benefits	1,431,385	1,332,921
Deferred revenue	33,745	33,745
Notes payable	1,902,982	450,000
Total Current Liabilities	4,371,379	2,517,524
Interest rate swaps liability	186,029	146,141
Notes payable	41,196,150	41,886,437
TOTAL LIABILITIES	45,753,558	44,550,102
NET ASSETS		
Unrestricted	12,451,372	11,578,732
Temporarily restricted	1,313,226	2,299,848
TOTAL NET ASSETS	13,764,598	13,878,580
TOTAL LIABILITIES AND NET ASSETS	\$ 59,518,156	\$ 58,428,682

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

D.C. PREPARATORY ACADEMY
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil allocation	\$ 26,041,624	\$ -	\$ 26,041,624	\$ 21,536,181	\$ -	\$ 21,536,181
Private grants and contributions	1,212,878	953,957	2,166,835	1,364,375	1,851,854	3,216,229
Federal grants	1,999,601	-	1,999,601	1,570,766	-	1,570,766
Federal entitlements	984,866	-	984,866	978,970	-	978,970
Local government grants and program revenue	453,877	-	453,877	241,997	-	241,997
Other revenue	295,850	-	295,850	241,634	-	241,634
In-kind donations	161,768	-	161,768	39,869	-	39,869
Interest income	16,099	-	16,099	4,125	-	4,125
Net assets released from restriction:						
Satisfaction of time restrictions	1,378,000	(1,378,000)	-	391,250	(391,250)	-
Satisfaction of program restrictions	562,579	(562,579)	-	329,280	(329,280)	-
TOTAL REVENUE AND SUPPORT	33,107,142	(986,622)	32,120,520	26,698,447	1,131,324	27,829,771
EXPENSES						
Program Services	26,397,700	-	26,397,700	22,134,718	-	22,134,718
Supporting Services:						
Management and general	5,499,525	-	5,499,525	4,539,159	-	4,539,159
Development and fundraising	297,389	-	297,389	266,709	-	266,709
Total Supporting Services	5,796,914	-	5,796,914	4,805,868	-	4,805,868
TOTAL EXPENSES	32,194,614	-	32,194,614	26,940,586	-	26,940,586
Change in net assets before unrealized loss on interest rate swaps	912,528	(986,622)	(74,094)	(242,139)	1,131,324	889,185
Unrealized loss on interest rate swaps	(39,888)	-	(39,888)	(82,739)	-	(82,739)
CHANGE IN NET ASSETS	872,640	(986,622)	(113,982)	(324,878)	1,131,324	806,446
NET ASSETS, BEGINNING OF YEAR	11,578,732	2,299,848	13,878,580	11,903,610	1,168,524	13,072,134
NET ASSETS, END OF YEAR	\$ 12,451,372	\$ 1,313,226	\$ 13,764,598	\$ 11,578,732	\$ 2,299,848	\$ 13,878,580

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

D.C. PREPARATORY ACADEMY

**STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015**

	2016				2015			
	Programs	Management and General	Development and Fundraising	Total	Programs	Management and General	Development and Fundraising	Total
Personnel, Salaries and Benefits:								
Salaries	\$ 15,037,511	\$ 3,164,999	\$ 136,840	\$ 18,339,350	\$ 12,566,234	\$ 2,835,797	\$ 130,396	\$ 15,532,427
Employee benefits	1,549,984	308,353	12,888	1,871,225	1,221,357	250,753	11,065	1,483,175
Payroll taxes	1,163,431	232,118	9,653	1,405,202	1,002,506	211,340	9,389	1,223,235
Other staff-related expense	168,002	133,977	8,454	310,433	147,962	104,399	6,696	259,057
Professional development	101,226	50,568	2,995	154,789	103,893	32,311	1,737	137,941
Total Personnel, Salaries and Benefits	18,020,154	3,890,015	170,830	22,080,999	15,041,952	3,434,600	159,283	18,635,835
Direct Student Costs:								
Student food service program	872,613	-	-	872,613	716,230	-	-	716,230
Contracted instruction fees	463,841	-	-	463,841	303,640	-	-	303,640
Supplies, materials and snacks	278,741	-	-	278,741	213,672	-	-	213,672
Student assessments	190,517	-	-	190,517	143,159	-	-	143,159
Fieldwork and other transportation	128,478	-	-	128,478	119,561	-	-	119,561
Other student costs	113,096	-	-	113,096	140,739	-	-	140,739
Textbooks	96,032	-	-	96,032	74,069	-	-	74,069
Total Direct Student Costs	2,143,318	-	-	2,143,318	1,711,070	-	-	1,711,070
Occupancy Expenses:								
Depreciation and amortization – facilities	1,695,067	11,317	3,772	1,710,156	1,970,061	11,317	3,772	1,985,150
Interest	1,304,867	5,261	1,144	1,311,272	1,064,063	10,482	1,405	1,075,950
Contracted building services	741,132	6,891	2,297	750,320	478,357	6,257	2,086	486,700
Utilities and garbage removal	435,471	3,895	1,298	440,664	418,660	4,277	1,426	424,363
Rent	381,509	39,736	13,245	434,490	199	18,339	6,113	24,651
Facilities finance fees	369,158	5,895	1,965	377,018	288,072	4,885	1,628	294,585
Maintenance and repairs	137,826	1,367	456	139,649	226,063	3,296	1,099	230,458
Janitorial supplies	2,942	110	37	3,089	50,287	476	159	50,922
Facilities consulting services	108,845	1,401	467	110,713	-	6,075	2,025	8,100
Total Occupancy Expenses	5,176,817	75,873	24,681	5,277,371	4,495,762	65,404	19,713	4,580,879

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

Continued

D.C. PREPARATORY ACADEMY

**STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015**

(continued)

	2016				2015			
	Programs	Management and General	Development and Fundraising	Total	Programs	Management and General	Development and Fundraising	Total
Office Expenses:								
Office supplies	\$ 139,350	\$ 29,861	\$ 29,861	\$ 199,072	\$ 140,833	\$ 30,179	\$ 30,179	\$ 201,191
Computer support expenses	188,225	39,693	1,719	229,637	152,860	34,346	1,589	188,795
Telecommunications	104,444	22,381	22,381	149,206	86,625	18,562	18,562	123,749
Equipment rent and maintenance	85,956	18,419	18,419	122,794	89,827	19,249	19,249	128,325
Printing and copying	31,349	6,718	6,718	44,785	13,378	2,867	2,867	19,112
Postage	10,936	2,343	2,343	15,622	10,056	2,155	2,155	14,366
Total Office Expenses	560,260	119,415	81,441	761,116	493,579	107,358	74,601	675,538
General Expenses:								
Accounting, auditing and payroll	-	337,260	-	337,260	-	301,575	-	301,575
Authorizer fees	-	296,830	-	296,830	-	245,727	-	245,727
Other general expenses	104,722	206,866	1,344	312,932	76,200	102,230	250	178,680
Depreciation and amortization – operating assets	184,375	140,787	-	325,162	160,403	126,865	-	287,268
Legal fees	18,500	115,917	-	134,417	29,667	58,305	-	87,972
Insurance	180,959	38,161	1,652	220,772	122,072	27,428	1,269	150,769
Dues, fees, licenses, and fines	8,595	68,161	579	77,335	3,763	69,667	-	73,430
Other professional and fundraising fees	-	210,240	16,862	227,102	250	-	11,593	11,843
Total General Expenses	497,151	1,414,222	20,437	1,931,810	392,355	931,797	13,112	1,337,264
TOTAL EXPENSES	\$ 26,397,700	\$ 5,499,525	\$ 297,389	\$ 32,194,614	\$ 22,134,718	\$ 4,539,159	\$ 266,709	\$ 26,940,586

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

D.C. PREPARATORY ACADEMY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015
Increase (Decrease) in Cash and Cash Equivalents

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (113,982)	\$ 806,446
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,890,730	1,660,244
Amortization of deferred financing costs	144,588	612,174
Gain on sale of fixed assets	(1,034)	-
Imputed interest on notes payable	12,695	29,854
Change in value of interest rate swaps	39,888	82,739
Change in allowance for loss on pledges	-	(650,000)
Changes in assets and liabilities:		
Grants and contributions receivable	(282,529)	539,921
Accounts receivable	324,076	(72,813)
Note receivable	(250,000)	-
Prepaid expenses	(324,231)	(60,294)
Deposits	(19,825)	21,046
Accounts payable and accrued expenses	172,270	344,007
Accrued payroll and benefits	98,464	157,603
Deferred summer revenue and other	-	(318,650)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,691,110	3,152,277
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets, including construction costs	(4,539,622)	(17,356,722)
NET CASH USED IN INVESTING ACTIVITIES	(4,539,622)	(17,356,722)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	1,200,000	40,981,133
Principal payments on notes payable	(450,000)	(21,727,196)
Payments to sinking and reserve funds	(68,313)	(966,036)
Proceeds from reserve funds	115,052	-
Payments for loan financing costs	(2,200)	(861,615)
NET CASH PROVIDED BY FINANCING ACTIVITIES	794,539	17,426,286
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,053,973)	3,221,841
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,151,840	7,929,999
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,097,867	\$ 11,151,840
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	\$ 1,266,785	\$ 1,040,424
NONCASH TRANSACTIONS		
Noncash investing activities:		
Fixed assets included in accounts payable and accrued expenses	\$ 130,139	\$ -

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

D.C. PREPARATORY ACADEMY

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015**

1. Organization and Summary of Significant Accounting Policies

Organization

D.C. Preparatory Academy (DC Prep) was incorporated as a District of Columbia charter school in 2001 to provide middle school students in Washington, DC, with an outstanding education emphasizing academics, character and leadership. DC Prep has expanded to four schools – Edgewood Middle, Edgewood Elementary, Benning Middle and Benning Elementary and launched Anacostia Elementary in August 2015. Since its inception, DC Prep’s revenue and other support has consisted primarily of per pupil funding, contributions and grants from the District of Columbia, and federal and private sources.

Basis of Accounting

DC Prep prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned, and expenses are recorded when the obligation is incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, money market funds and U.S. Treasury securities with maturities of less than 90 days. Under the terms of certain note payable agreements, DC Prep is required to maintain cash balances restricted for debt service reserves and sinking funds. This restricted cash is separately reported in the accompanying statements of financial position.

Accounts Receivable

Accounts receivable are primarily from the federal government. DC Prep uses the allowance method to record potentially uncollectible accounts. Management believes that all accounts receivable are fully collectible. Therefore, no allowance is deemed necessary.

Fixed Assets and Related Depreciation and Amortization

Land, buildings, building improvements, furniture, leasehold improvements, fixtures and equipment, and construction in progress are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 39 years for the building and improvements and three to five years for furniture, fixtures and equipment. Leasehold improvements are amortized using the straight-line method over the remaining life of the lease. Construction in progress is not depreciated until the construction is completed and the asset is placed in service. The construction in progress as of June 30, 2016, is for the initial part of the project to renovate the facility DC Prep purchased in April 2016 to house the Anacostia Elementary School. Expenditures for major repairs and improvements are capitalized, while expenditures for minor repairs and maintenance costs are expensed when incurred.

Impairment of Long-Lived Assets

DC Prep reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the year ended June 30, 2016.

D.C. PREPARATORY ACADEMY

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015**

1. Organization and Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs consist of costs incurred in connection with the bond issuance, New Market Tax Credit (NMTC) program, facility purchase and construction financing, and subsequent refinancing transactions. These costs are amortized on a straight-line basis over the life of the liability to which the costs apply.

Classification of Net Assets

The net assets of DC Prep are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for general support of DC Prep's operations.
- Temporarily restricted amounts are specifically restricted by donors or grantors for various purposes or time periods.

Revenue Recognition

Grants and contributions of cash and other assets are reported as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets for a particular purpose or for a specific period of time. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Contributions and grants are reported as revenue in the year in which payments are received and/or unconditional promises are made.

Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

Federal and Charter School Funding

DC Prep receives a per pupil student allocation and facility allowance from the District of Columbia, as well as federal funding, to cover the cost of academic expenses. Revenue is recognized ratably over the academic year. Payments received for the summer following the academic year, if any, are reported as deferred summer revenue in the accompanying statements of financial position.

In-Kind Donations

In-kind donations reflect professional consulting and other services that have been contributed to DC Prep. These services include publication production, facilities consulting and legal services. Donated professional services are valued at their estimated fair value based on the type of professional services provided. These services are recognized as both revenue and expenses if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not donated. Donated services are valued at a cost consistent with amounts paid for similar services by DC Prep or at the services' estimated fair value. Also included with in-kind donations is the imputed interest on a below-market rate loan.

D.C. PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies (continued)

Estimates

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon estimates deemed to justify the benefits received by those programs and supporting services.

2. Grants and Contributions Receivable

Grants and contributions receivable consist of unconditional promises to give by individuals and foundations as of June 30, 2016 and 2015. DC Prep has not recorded an allowance for uncollectible accounts, as management believes all amounts are fully collectible. Grants and contributions receivable are due as follows:

	2016	2015
Due in less than one year	\$ 480,700	\$ 353,000
Due in one to five years	500,000	300,000
Due after five years	300,000	350,000
Total Grants and Contributions Receivable	1,280,700	1,003,000
Less: Present Value Discount	(55,659)	(60,488)
Grants and Contributions Receivable, Net	\$ 1,225,041	\$ 942,512

Discount rates between 1% and 1.9% were used to calculate the net present value of multiyear grants and contributions, depending on the year of each gift.

As of June 30, 2016 and 2015, DC Prep's conditional grants from funders totaled \$1,365,333 and \$646,000, respectively. The grants will be paid and recognized as revenue if DC Prep meets certain milestones.

D.C. PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2016 and 2015

3. Funds Held by Others

As part of the new construction financing for the Benning Campus Cluster, a debt service reserve fund was established in the amount of \$1,400,000 as required by the loan agreements with Building Hope and the District of Columbia, through the Office of Public Charter School Financing and Support (see Note 4). The fund was held in the name of the Charter School Incubator Initiative, a non-profit partnership between Building Hope and the District of Columbia Office of the State Superintendent of Education. DC Prep was able to direct the Charter School Incubator Initiative to draw on the reserve if it was unable to make any principal or interest payments to Building Hope or the District of Columbia Office of Public Charter School Financing and Support as required by the loan agreements. DC Prep was required to reimburse the debt service reserve fund for any amounts drawn, but did not have the obligation to do so if such amounts would violate any of DC Prep's covenants under its senior loans. The debt service reserve was released during the December 2014 refinance of the Benning Campus Cluster construction financing. The reserve was applied to the Charter School Incubator Initiative note, discussed below, and the balance was returned to DC Prep.

4. Notes Payable

In June 2005, the District of Columbia issued \$5,500,000 of tax-exempt variable rate demand revenue bonds (the Series 2005 Bonds), the proceeds of which were loaned to DC Prep. DC Prep is required to make deposits into a sinking fund, which is used for redemption of the Series 2005 Bonds. The sinking fund is to be held in a trust and invested in money market funds. Principal payments are funded through the sinking fund, payable every first business day in June, and commenced in the fiscal year ended June 30, 2008, starting at \$120,000. The payments increase each year to a final payment of \$360,000 in 2032. Interest is payable monthly and is calculated on a floating seven-day rate currently based on the Bond Market Association (BMA) Index. The average interest rate was approximately 0.17% and 0.1% during the years ended June 30, 2016 and 2015, respectively. The bond proceeds were used in part to repay the outstanding notes payable used to finance the purchase and initial renovation of DC Prep's first middle school building. The outstanding balance on this loan was \$4,180,000 and \$4,355,000 as of June 30, 2016 and 2015, respectively.

In June 2007, the District of Columbia issued \$9,580,000 of tax-exempt variable rate demand revenue bonds (the Series 2007 Bonds) and loaned the proceeds to DC Prep to refinance a loan to fund the acquisition of a building and renovation costs for a new preschool and elementary school. The building is adjacent to DC Prep's first middle school building. The Series 2007 Bonds required interest-only payments for two years, depending on construction periods. The Series 2007 Bonds then began amortizing, with an optional redemption over 25 years. DC Prep is required to make deposits into a sinking fund, which is used for redemption of the Series 2007 Bonds. The first sinking fund payment for principal was made in November 2008. The sinking fund is to be held in a trust and invested in money market funds. The first payment to bond holders was made in November 2009 for \$210,000. The payments increase each year through November 2033 to a final payment of \$630,000. Interest is payable monthly and is calculated on a floating seven-day rate currently based on the BMA Index. The

D.C. PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS For the Years Ended June 30, 2016 and 2015

4. Notes Payable (continued)

average interest rate was approximately 0.17% and 0.1% during the years ended June 30, 2016 and 2015, respectively. The outstanding balance on this loan was \$7,890,000 and \$8,165,000 as of June 30, 2016 and 2015, respectively.

The Series 2005 and the Series 2007 Bonds are secured by the land, building and improvements of DC Prep. In order to provide enhanced security and liquidity for the weekly remarketing of the Series 2005 and Series 2007 Bonds, DC Prep entered into two separate letter of credit agreements with M&T Bank, which were coterminous, in 2009. On April 30, 2009, DC Prep entered into amendments to the letter of credit agreements, which extended the expiration dates of the letters of credit to June 15, 2011. DC Prep subsequently negotiated several successive extensions to the letters of credit such that the expiration date was extended to June 14, 2015, and during the year ended June 30, 2015, DC Prep again extended the agreements to June 14, 2019. Under the terms of the letter of credit agreements, the bank is obligated to lend funds to DC Prep in amounts sufficient to pay the purchase price of any bonds tendered for purchase that cannot be successfully remarketed. These letter of credit agreements have debt service reserve requirements. The letters of credit also have various financial covenants, including maintaining a certain debt service coverage ratio, minimum liquidity and maximum annual capital expenditures. These financial covenants were modified during the year ended June 30, 2014, due to the new financing related to the Benning Campus Cluster construction project (outlined below) in which documents were executed among DC Prep's existing and new lenders as part of that financing, and again during the year ended June 30, 2015, as the Benning construction financing was replaced with the NMTC financing. As of June 30, 2016 and 2015, DC Prep was in compliance with all of the covenants.

In conjunction with the Series 2005 Bonds, DC Prep entered into a reimbursement agreement with Building Hope, a nonprofit organization that assists quality charter schools. This agreement called for Building Hope to provide M&T Bank with a guarantee of payment and performance to the bank of certain of DC Prep's obligations under the letter of credit agreement associated with the Series 2005 Bonds. The aggregate amount of indebtedness for which Building Hope was liable was not to exceed \$520,000. Effective October 1, 2015, DC Prep signed an amendment to the letter of credit agreement releasing Building Hope from this guaranty and obligation.

In December 2013, DC Prep entered into a \$1,000,000 subordinated loan agreement with Charter Fund, Inc., a charter school support organization. The loan is to provide general support for DC Prep in carrying out its tax-exempt purposes. The note is interest-only with a 1% interest rate. The entire unpaid principal balance and accrued unpaid interest are due on June 20, 2019. As the note payable has a below-market interest rate of 1%, DC Prep has discounted the note by \$178,568, using an effective interest rate of 4.5%. DC Prep has amortized the discount and recorded the corresponding additional interest expense in the amounts of \$31,376 and \$29,854 for the years ended June 30, 2016 and 2015, resulting in an unamortized discount of \$102,187 and \$133,563 as of June 30, 2016 and 2015.

D.C. PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

4. Notes Payable (continued)

In January 2014, DC Prep closed on new construction financing for its Benning Campus Cluster. The financing covered construction of a new addition for the Benning Middle School, buyout of prior improvements from the Charter School Incubator Initiative, and additional improvements to the existing Benning Elementary School building. The financing consisted of a senior construction loan and three subordinated loans totaling \$26,219,912. The subordinated debts were provided in full to DC Prep, while the senior construction loan was disbursed on a draw-down basis.

The senior construction loan allowed for a maximum principal amount of \$21,370,345 with a floating interest rate of 30-day London Interbank Offered Rate (LIBOR) plus 3.75%. The senior loan had a five-year term, an initial interest-only period, and principal payments commencing April 30, 2016. Two subordinated loans were provided by the District of Columbia through its Office of Public Charter School Financing in the amount of \$2,000,000 and Building Hope in the amount of \$1,500,000. Both subordinated loans had fixed interest rates at 4.5% and five-year terms with initial interest-only periods until November 2015. The third subordinated note with the Charter School Incubator Initiative in the amount of \$1,349,567 had a 15-year term and uniform monthly principal payments commencing February 1, 2019. DC Prep received a \$500,000 five-year credit enhancement from America's Charter in favor of the Benning senior construction lender as part of the construction financing package. The credit enhancement cost 1% of the remaining guaranteed obligations. As of June 30, 2015, there was no outstanding balance of the Benning Campus construction financing as the loans were repaid and replaced with new financing.

In December 2014, DC Prep refinanced the Benning Campus construction financing in a NMTC transaction. The transaction resulted in ten new loans from four Community Development Entities (CDEs) for a total of \$28,950,000. The loans, considered Qualified Low Income Community Investments (QLICs), were made to the Benning Campus Cluster, which is considered a Qualified Active Low Income Community Business. The QLICs loans have a seven-year compliance period during which no principal can be repaid; however, quarterly sinking fund payments of \$58,245 are required commencing in June 2016 through September 2021. The loans have fixed interest rates of either 3.68% or 4.08%, with a blended rate of 4.04%. Six of the loans are considered "A loans," and four are considered "B loans." The "A loans" total \$20,775,403 while the "B loans" total \$8,174,597. At the end of the compliance period, the "A loans" must be refinanced as they are due in full while the "B loans" will begin payments that fully amortize the loans over their remaining 17-year term through November 2038, if they are not accelerated by the respective lenders.

Each "B loan" may be accelerated within six months of the end of the NMTC compliance period by each respective lender. Each lender may provide notice of such accelerated repayment and will accept a discounted repayment amount of \$1,000 for the full principal balance of each respective "B loan." While there is no guarantee, much of the value of the

D.C. PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

4. Notes Payable (continued)

NMTC financing transaction is in the expected acceleration of the “B loans,” by which the \$8,174,597 principal balance would be retired for \$4,000. The loans from the CDE’s were as follows:

<u>Lender</u>	<u>Loan</u>	<u>Rate</u>	<u>Category</u>
Banc of America CDE I, LLC	\$ 1,690,750	3.68%	A
LIIF Sub-CDE XXVIII, LLC	3,116,314	4.08%	A
LIIF Sub-CDE XXVIII, LLC	4,000,000	4.08%	A
City First Capital 36, LLC	5,201,935	4.08%	A
City First Capital 36, LLC	2,000,000	4.08%	A
Telesis CDE Nine, LLC	4,766,404	4.08%	A
Banc of America CDE I, LLC	809,250	3.68%	B
LIIF Sub-CDE XXVIII, LLC	2,883,686	4.08%	B
City First Capital 36, LLC	2,598,065	4.08%	B
Telesis CDE Nine, LLC	<u>1,883,596</u>	4.08%	B
Total	<u>\$ 28,950,000</u>		

The loans under the NMTC financing are secured by all Benning Campus Cluster revenue, accounts, furniture, fixtures, equipment, other assets, licenses, intangibles and leasehold deed of trust.

The NMTC financing agreement required DC Prep to establish and maintain individual fee and expense reserve accounts totaling \$941,500 to pay certain annual service fees to the respective CDEs over the seven-year NMTC compliance period. The remaining balance associated with each reserve account is reported and included in restricted cash – reserve funds in the accompanying statement of financial position and will be paid over the compliance period as these fees become due and payable.

The construction financing for the Benning Campus Cluster had various financial covenants that continued and were modified during the NMTC refinance, which includes maintaining certain debt service coverage ratios, minimum liquidity and minimum tangible net worth. In addition to the financial covenants, DC Prep’s Benning Campus Cluster must comply with certain NMTC program requirements during the seven-year compliance period. As of June 30, 2016 and 2015, DC Prep was in compliance with all of its financial covenants and NMTC program requirements.

In June 2016, DC Prep entered into an additional subordinated loan agreement with Charter School Growth Fund for \$1,200,000. The loan is to support the acquisition and development of DC Prep’s Anacostia Elementary Facility located at 1409 V Street, SE. The note is interest-only with a 3% interest rate. The entire unpaid principal balance and accrued unpaid interest are due on June 30, 2017. As the note payable has a below-market interest rate of 3%, DC Prep has discounted the note by \$19,531, using an effective interest rate of 4.5%. This amount has been recorded in in-kind donations in the accompanying statement of activities for the year ended June 30, 2016. DC Prep has amortized the discount and recorded the corresponding additional interest expense in the amount of \$850 for the year ended June 30, 2016, resulting in an unamortized discount of \$18,681 as of June 30, 2016.

Continued

D.C. PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

4. Notes Payable (continued)

A summary of outstanding principal balances by source type as of June 30, 2016 and 2015, is as follows:

	2016	2015
New Market Tax Credit financing	\$ 28,950,000	\$ 28,950,000
2007 Series Bonds	7,890,000	8,165,000
2005 Series Bonds	4,180,000	4,355,000
Charter School Growth Fund	2,200,000	1,000,000
Total Outstanding Principal Balances	43,220,000	42,470,000
Less: Discount on Imputed Interest	(120,868)	(133,563)
Total Notes Payable, Net of Discount	\$ 43,099,132	\$ 42,336,437

As of June 30, 2016, aggregate sinking fund and principal payments on the notes payables over the next five years and thereafter are due as follows:

For the Year Ending June 30,	Sinking Funds	Principal Payments
2017	\$ 710,482	\$ 1,902,982
2018	733,815	722,982
2019	758,815	1,747,982
2020	783,815	772,982
2021	812,149	797,982
Thereafter	9,285,746	37,275,090
Total Payments Due	\$ 13,084,822	43,220,000
Less: Discount on Imputed Interest		(120,868)
Total Notes Payable, Net of Discount		\$ 43,099,132

DC Prep purchased two interest rate swap agreements for the Series 2005 and 2007 Bonds to reduce its exposure to interest rate risk on its variable rate debt. Since inception of each bond series, DC Prep has hedged a portion of the outstanding principal of the bonds as required by the letter of credit agreements. On June 15, 2012, DC Prep purchased two new interest rate swap agreements for the Series 2005 and 2007 Bonds that expire May 31, 2019. The two interest rate swap agreements cover \$3,135,000 and \$5,920,000, respectively, of the \$12,070,000 outstanding balance of the Bonds, representing approximately 75% of the combined bond issuance. DC Prep increased the proportion of its interest rate hedge, historically approximately 50%, to take advantage of the low interest rate environment and reduce its exposure to interest rate risk over the following seven years. The swaps have a

D.C. PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

4. Notes Payable (continued)

fixed interest rate of 1.28%. DC Prep bears the interest rate risk on the uncovered balances of the two variable rate bond issuances totaling \$3,015,000 as of June 30, 2016. The fair value of the swaps as of June 30, 2016 and 2015, represented liability positions of (\$186,029) and (\$146,141), respectively.

The following schedule presents the notional principal amounts of DC Prep's interest rate swaps as of June 30, 2016 and 2015:

	<u>Remaining Notional Amount at June 30, 2016</u>	<u>Expiration Date</u>	<u>Estimated Fair Value</u>
Series 2005 Bonds	\$ 3,135,000	5/31/2019	\$ (65,125)
Series 2007 Bonds	<u>5,920,000</u>	5/31/2019	<u>(120,904)</u>
	<u>\$ 9,055,000</u>		<u>\$ (186,029)</u>
	<u>Remaining Notional Amount at June 30, 2015</u>	<u>Expiration Date</u>	<u>Estimated Fair Value</u>
Series 2005 Bonds	\$ 3,265,000	5/31/2019	\$ (51,361)
Series 2007 Bonds	<u>6,125,000</u>	5/31/2019	<u>(94,780)</u>
	<u>\$ 9,390,000</u>		<u>\$ (146,141)</u>

The classifications in the financial statements of the derivative financial instruments are summarized below as of June 30, 2016 and 2015:

	<u>Fair Value</u>	
	<u>2016</u>	<u>2015</u>
Statements of financial position location:		
Interest Rate Swaps Liability	<u>\$ 186,029</u>	<u>\$ 146,141</u>
	<u>Amount of Loss Recognized in the Statements of Activities</u>	
	<u>2016</u>	<u>2015</u>
Location of loss recognized in the statements of activities:		
Unrealized Loss on Interest Rate Swaps	<u>\$ (39,888)</u>	<u>\$ (82,739)</u>

D.C. PREPARATORY ACADEMY

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015**

4. Notes Payable (continued)

Interest of \$128,268 and \$130,374 was incurred on the Edgewood Campus Cluster revenue bonds and associated swaps for the years ended June 30, 2016 and 2015, respectively. Interest of \$1,214,939 and \$1,021,161 was incurred on the Benning Campus construction, NMTC financing and general operating debt for the years ended June 30, 2016 and 2015. For the years ended June 30, 2016 and 2015, \$31,935 and \$75,586 of interest was capitalized in accordance with generally accepted accounting principles.

	<u>2016</u>	<u>2015</u>
Interest (nonimputed)	\$ 1,310,981	\$ 1,121,682
Imputed interest	32,226	29,854
Capitalized interest	<u>(31,935)</u>	<u>(75,586)</u>
Interest Expense in Statements of Functional Expenses	<u>\$ 1,311,272</u>	<u>\$ 1,075,950</u>

5. Line of Credit

On October 12, 2010, DC Prep entered into a line of credit agreement with M&T Bank for \$1,750,000 to support working capital requirements. The agreement bears interest at a variable rate of the one-month LIBOR plus 3.5%, floating daily. The borrowing amount is limited to a ceiling of 75% of accounts receivable due within 90 days. DC Prep has not drawn down on the line of credit since inception. The line of credit remains in effect until terminated by DC Prep or the bank, after any outstanding balance is paid in full. No amount was outstanding as of June 30, 2016 and 2015.

6. Fair Value Measurements

Accounting standards define fair value, establish a framework for measuring fair value in accordance with GAAP and expand disclosures about fair value measurements. Accounting standards emphasize that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, accounting standards established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, or unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy under fair value measurement standards are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

D.C. PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

6. Fair Value Measurements (continued)

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

The following table summarizes DC Prep's assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	<u>Fair Value</u>	Significant Other Observable Inputs (Level 2)
Interest Rate Swaps Liability	<u>\$ (186,029)</u>	<u>\$ (186,029)</u>

The following table summarizes DC Prep's assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	<u>Fair Value</u>	Significant Other Observable Inputs (Level 2)
Interest Rate Swaps Liability	<u>\$ (146,141)</u>	<u>\$ (146,141)</u>

As discussed in Note 4, DC Prep has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its variable rate debt. The estimated fair value of an interest rate swap is generally determined using an externally developed model using forward-looking assumptions of interest rates and the resulting effect on the underlying cash flows of the interest rate swap. Valuations provided do not include adjustments for nonperformance risk on behalf of either party. As of June 30, 2016 and 2015, DC Prep has assessed the significance of the impact of the credit valuation adjustment on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of DC Prep's derivatives. As a result, DC Prep has determined that the entirety of its derivative valuations is classified in Level 2 of the fair value hierarchy.

D.C. PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

7. Temporarily Restricted Net Assets

As of June 30, 2016 and 2015, temporarily restricted net assets were available for the following purposes or future periods:

	<u>2016</u>	<u>2015</u>
Time restriction for future years	\$ 1,094,341	\$ 1,917,512
Community and parental engagement/advocacy	139,975	-
School expansion	44,660	271,454
Leadership development	31,750	100,000
School programs	2,500	5,974
The Broad Center resident	-	3,563
Alumni support	-	1,345
Total Purpose-Restricted	<u>218,885</u>	<u>382,336</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,313,226</u>	<u>\$ 2,299,848</u>

8. Charter School Funding— Per Pupil Allocation

Per Pupil Allocation funding for the year ended June 30, 2016, is comprised of the following:

	<u>2016</u>	<u>2015</u>
General education	\$ 16,748,634	\$ 13,993,676
Facilities allowance	4,873,440	4,055,040
Special education	2,679,460	2,231,510
At-Risk students	1,554,047	1,116,423
English language learner	<u>186,043</u>	<u>139,532</u>
Total Per Pupil Allocation	<u>\$ 26,041,624</u>	<u>\$ 21,536,181</u>

9. Risks and Commitments

Concentration of Risk

DC Prep maintains its cash and cash equivalents with certain commercial financial institutions. As of June 30, 2016 and 2015, the majority of DC Prep's cash was in a sweep investment account associated with its primary operating account which is invested in U.S. Treasury money market funds. As of June 30, 2016 and 2015, the cash balance exceeding the \$250,000 per depositor per institution Federal Deposit Insurance Corporation (FDIC)-insured limit was \$340,696 and \$1,545,958, respectively.

D.C. PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

9. Risks and Commitments (continued)

Office of Management and Budget Uniform Guidance

DC Prep has instructed its independent auditors to audit its federal programs for the year ended June 30, 2016, in compliance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the federal agency's review of the independent auditor's reports for the year ended June 30, 2016, will not have a material effect on the financial position of DC Prep, or its results of operations for the years then ended.

Major Contributor

DC Prep receives a substantial portion of its revenue from the District of Columbia. If a significant reduction in this revenue should occur, it could have a material effect on DC Prep's programs. During the years ended June 30, 2016 and 2015, DC Prep earned per pupil funding revenue of \$26,041,624 and \$21,536,181, respectively, from the District of Columbia, which is approximately 81% and 77%, respectively, of DC Prep's total revenue and support each year. This revenue is reflected as per pupil allocation in the accompanying statements of activities.

Related Party

DC Prep receives funding from NewSchools Venture Fund and its successor spin-off, Education Forward DC. One of NewSchools Venture Fund's partners and now Education Forward's Chief Executive Officer is currently a governing board member of DC Prep. For the years ended June 30, 2016 and 2015, DC Prep recognized \$182,667 and \$300,000 in contribution revenue, respectively, from NewSchools Venture Fund, which is included in private grants and contributions in the accompanying statements of activities.

Ground Lease Agreement

On January 31, 2014, DC Prep entered into a lease agreement with the District of Columbia as part of the Benning Campus Cluster financing transaction. The lease term is 25 years, with one 25-year renewal term at the option of DC Prep. The annual base rent is \$850,800, increasing 2% annually at each anniversary. Rent is subject to a rent credit of one year of abatement for every \$1,000,000 spent on hard and soft construction costs or leasehold acquisition costs. Since DC Prep's construction and leasehold acquisition costs exceeded \$25 million, DC Prep is entitled to abatement of all rent that would otherwise be due under the lease for the Benning Campus. Accordingly, no rent expense is included in the financial statements for the years ended June 30, 2016 and 2015, related to this lease. There are also no anticipated future minimum payments as a result of the above rent credit and abatement provisions.

D.C. PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

9. Risks and Commitments (continued)

Operating Lease

In May 2015, DC Prep entered into a noncancelable sublease agreement that commenced on July 1, 2015 and terminated on June 30, 2016. The agreement provided DC Prep with an option for a one-year extension with no rent increase, and additional annual extensions at then-negotiated terms.

DC Prep executed an amendment to that sublease, which is dated October 27, 2015, but effective for all purposes on August 20, 2015. The amendment changes the term of the sublease to two years with an expiration on August 19, 2017, and provides one two-year extension option. The base rent due for the initial period per the amendment is \$548,000, with \$500,000 prepaid upon execution and the remaining \$48,000 paid in equal monthly installments over the two-year term. As of June 30, 2016, the prepaid balance was approximately \$283,000, which is included in prepaid expenses in the accompanying statement of financial position. Rent due under the two-year extension option, if executed, will be \$250,000 per year. Also under the modified agreement, DC Prep is required to pay all of the operating expenses of the premises during the lease term.

Related to the amendment to the sublease agreement, DC Prep entered into an unsecured promissory note and loan agreement providing \$250,000 in proceeds to the landlord of the premises which is included as a note receivable in the accompanying statement of financial position. The note will accrue interest of 6% per year and matures no later than August 19, 2019, or August 19, 2017, if DC Prep does not execute its two-year extension option. The proceeds of the note will cover costs directly related to work on the site covered by the sublease.

10. Pension Plan

DC Prep sponsors a 403(b) plan that covers all full-time employees. Employees are eligible to join the plan upon their date of hire. DC Prep matches employee contributions up to 5% of the employees' salary after employees have completed one year of service. Pension expense was \$403,013 and \$354,802 for the years ended June 30, 2016 and 2015, respectively, and is included in employee benefits in the accompanying statements of functional expenses.

11. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, DC Prep is exempt from the payment of taxes on income other than net unrelated business income. For the years ended June 30, 2016 and 2015, no provision for income taxes was made as DC Prep had no net unrelated business income.

D.C. PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

11. Income Taxes (continued)

DC Prep adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. DC Prep performed an evaluation of uncertain tax positions for the years ended June 30, 2016 and 2015, 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, 2016, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which DC Prep files tax returns. It is DC Prep's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

12. Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

13. Subsequent Events

On September 19, 2016, DC Prep entered into an early start agreement for renovation and construction services to be performed at its permanent school site for the Anacostia Elementary Campus. The agreement authorizes mobilization, demolition, site work and other evaluation services to be completed within ninety (90) days from execution of the agreement with an estimated cost of approximately \$1.9 million.

DC Prep's management has evaluated subsequent events through October 27, 2016, the date the financial statements were available to be issued. Except for the above construction services agreement, there were no other subsequent events that require recognition or disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

D.C. PREPARATORY ACADEMY

**SCHEDULE OF DISBURSEMENTS ON CONTRACTS OVER \$25,000
For the Year Ended June 30, 2016**

<u>Vendor</u>	<u>Type of Service</u>	<u>Amount</u>
Revolution Foods	Food services	\$ 857,328
Shinberg Levinas	Architectural and engineering services	\$ 561,620
PMM Companies	Janitorial and facilities management services	\$ 550,584
End-to-End Solutions for Special Education	Special education services	\$ 294,482
MCN Build, LLC	Construction services	\$ 280,770
EdOps	Accounting and facilities finance support services	\$ 243,773
The Bridgespan Group	Nonprofit advisory services	\$ 204,000
Mobile Modular Management Corporation	Leased modulars	\$ 145,752
Achievement Network	Student assessment support services	\$ 81,472
Copier Workshop, Inc	Copier rental services	\$ 81,191
The Ultimate Software Group, Inc.	HRIS and payroll services	\$ 79,075
Brailsford & Dunlavey	Development and project management services	\$ 78,215
Traditional Expressions, LLC	Instructional support services	\$ 71,970
Young Weeden, LLC	Special education services	\$ 67,897
Law Offices of Jerry Levine	Legal services	\$ 62,500
Raffa, P.C.	Financial audit services	\$ 59,374
Holland and Knight	Legal services	\$ 57,754
Shanahan Law Firm LLC, The	Legal services (retainer)	\$ 51,000
Melodie Barron	Instructional support services	\$ 50,200
Biz IT Group	IT management services	\$ 49,836
Stanley Convergent Security Solution	Security system services	\$ 49,700
B & R Associates LP	Leased parking	\$ 46,475
Limbach Company, LLC	Mechanical systems equipment and support	\$ 43,760
Pro-Air	Mechanical systems and plumbing services	\$ 43,040
Bowman Consulting Group Ltd	Civil engineering services	\$ 37,679
Millennium Construction LLC	Construction services	\$ 36,300
Teach to Lead LLC	Talent development and consulting services	\$ 35,563
USA Staffing Services	Security services	\$ 33,569
Washington Field Protective Services	Security services	\$ 32,806
ECS Capital Services, PLLC	Engineering services	\$ 30,650
KIPP DC	Talent recruitment and development services	\$ 30,000
Grafik Marketing Communications	Marketing and communications services	\$ 28,591
BYO Recreation, Inc	Outdoor recreation and playground equipment	\$ 27,548



Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy

Report on the Financial Statements

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 D.C. Preparatory Academy (DC Prep), which comprise the statement of financial position as of June 30, 2016, 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 October 27, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DC Prep'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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DC Prep's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
October 27, 2016



Certified Public Accountants

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy

Report on Compliance for Each Major Federal Program

We have audited D.C. Preparatory Academy's (DC Prep) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of DC Prep's major federal programs for the year ended June 30, 2016. DC Prep'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 DC Prep'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* (the 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 DC Prep's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, DC Prep 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, 2016.

Report on Internal Control Over Compliance

Management of DC Prep is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered DC Prep'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 DC Prep'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.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
October 27, 2016

D.C. PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Pass-through from the District of Columbia Office of the State Superintendent of Education (OSSE):			
Title I - Grants to Local Educational Agencies (LEAs)	84.010A	42010A/52010A	\$ 533,627
Preparing, Training, and Recruiting High-Quality Teachers and Principals	84.367A	42367A/52367A	152,430
Special Education Cluster (IDEA):			
Special Education - 611 Grant to LEAs	84.027A	42027A/52027A	288,591
Special Education - 619 Preschool Grant to LEAs	84.173A	52173A	10,218
Subtotal			298,809
Title V-B Charter School Program Dissemination	84.395A	ST395A	271,228
Scholarships of Opportunity and Results (SOAR) Act	84.370/84.370C	U370C130001	612,583
Bridging the Educational Divide in Washington	84.282M	N/A	366,394
Total U.S. Department of Education			2,235,071
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medicaid	93.558	N/A	16,000
Childcare Subsidy Program	93.575	N/A	43,478
Temporary Assistance for Needy Families (TANF)	93.768	N/A	36,282
Total U.S. Department of Health and Human Services			95,760
U.S. DEPARTMENT OF AGRICULTURE – FOOD AND NUTRITION SERVICE			
Pass-through from the District of Columbia Office of the State Superintendent of Education (OSSE):			
Child Nutrition Cluster:			
National School Lunch Program	10.555	N/A	349,919
School Breakfast Program	10.553	N/A	165,234
National School Snack Program	10.555	N/A	56,096
NSLP Fresh Fruit and Vegetables	10.555	N/A	16,356
Total U.S. Department of Agriculture			587,605
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,918,436

See accompanying notes to this schedule.

D.C. PREPARATORY ACADEMY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

Cost Principles

Federal expenditures were recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). DC Prep has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

2. Reconciliation of the Schedule of Expenditures of Federal Awards to the Financial Statements

The expenditures per the schedule of expenditures of federal awards are reported in the statements of activities in the audited financial statements as follows:

Total per Schedule of Expenditures of Federal Awards	\$ 2,918,436
Prior period revenue adjustment for Medicaid (FY11-13)	36,218
E-rate program revenue	<u>29,813</u>
Total Federal Grants and Entitlements Reported in the Statement of Activities	<u>\$ 2,984,467</u>
Federal grants	\$ 1,999,601
Federal entitlements	<u>984,866</u>
Total Federal Grants and Entitlements Reported in the Statement of Activities	<u>\$ 2,984,467</u>

D.C. PREPARATORY ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified Qualified
 Adverse Disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified Qualified
 Adverse Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR, 200 516(a)? Yes No

Identification of Major Programs:

<u>CFDA/Grant Numbers</u>	<u>Titles</u>
10.555/10.553	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? Yes No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None required to be reported.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.