

**DC SCHOLARS PUBLIC CHARTER  
SCHOOL, INC. AND SUBSIDIARY**

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

**JUNE 30, 2017 AND 2016**

## TABLE OF CONTENTS

### Page No.

<b>INDEPENDENT AUDITOR’S REPORT</b>	1 – 2
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statement of Functional Expenses for Year Ended June 30, 2017	5
Consolidated Statement of Functional Expenses for Year Ended June 30, 2016	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 – 18
<b>SUPPLEMENTAL INFORMATION</b>	
Consolidating Schedule of Financial Position	19
Consolidating Schedule of Activities	20
<b>REPORTS AND SCHEDULES REQUIRED BY THE UNIFORM GUIDANCE</b>	
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 <i>Governmental Auditing Standards</i>	21 – 22
Independent Auditor’s Report on Compliance for Each Major Major Program and on Internal Control over Compliance Required by the Uniform Guidance	23 – 24
Schedule of Expenditures of Federal Awards	25
Notes to the Schedule of Expenditures of Federal Awards	26
Schedule of Findings and Questioned Costs	27 – 28



## Independent Auditor's Report

To the Board of Trustees  
DC Scholars Public Charter School, Inc. and Subsidiary  
Washington, DC

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

We have audited the accompanying consolidated financial statements of DC Scholars Public Charter School, Inc. and its subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of DC Scholars Public Charter School, Inc. and its subsidiary as of June 30, 2017 and 2016, and the changes in their net assets and their 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 consolidated financial statements as a whole. The consolidating schedule of financial position and consolidating schedule of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, on our consideration of DC Scholars Public Charter School, Inc. and its subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DC Scholars Public Charter School, Inc. and its subsidiary's 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 Scholars Public Charter School, Inc. and its subsidiary's internal control over financial reporting and compliance.

*Jane Warner & McQuade PA*

Washington, DC  
November 29, 2017

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

	2017	2016
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,349,352	\$ 2,856,816
Federal receivables	278,877	251,783
Other receivables	6,200	12,513
Prepaid expenses	41,987	13,913
Due from related parties, net	4,594	4,594
Security deposit	5,380	-
Total Current Assets	3,686,390	3,139,619
<b>OTHER ASSETS</b>		
Property and equipment, net	14,540,590	14,884,346
<b>TOTAL ASSETS</b>	<b>\$ 18,226,980</b>	<b>\$ 18,023,965</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 295,441	\$ 177,750
Accrued interest	104,314	87,342
Accrued expenses	330,537	292,025
Deferred revenue	77,327	57,713
Capital lease payable, current portion	20,472	18,000
Loans payable, current portion	296,423	256,224
Total Current Liabilities	1,124,514	889,054
<b>LONG TERM LIABILITIES</b>		
Capital lease payable, net of current	47,145	67,617
Loans payable, net	13,522,575	13,255,069
Total Long Term Liabilities	13,569,720	13,322,686
Total Liabilities	14,694,234	14,211,740
<b>NET ASSETS</b>		
Unrestricted	3,518,006	3,793,891
Noncontrolling interest	14,740	18,334
Total Net Assets	3,532,746	3,812,225
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 18,226,980</b>	<b>\$ 18,023,965</b>

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>UNRESTRICTED REVENUES AND OTHER SUPPORT</b>		
Per pupil appropriations	\$ 7,286,801	\$ 6,094,517
Per pupil facility allowance	1,568,248	1,435,103
Federal entitlements and grants	1,235,106	985,847
State and local grants	41,765	215,277
Contributions - individuals	-	10,641
Contributions - corporate	-	1,000
Contributions - foundations	90,000	75,000
Student activities	56,695	19,103
Rental income	177,526	172,587
Other income	5,075	7,105
Total Revenues and Other Support	10,461,216	9,016,180
<b>EXPENSES</b>		
Program	8,775,752	6,988,150
General and administrative	1,959,128	1,560,774
Fundraising	5,815	11,697
Total Expenses	10,740,695	8,560,621
<b>CHANGE IN NET ASSETS</b>	(279,479)	455,559
<b>NET ASSETS</b> , beginning of year	3,812,225	3,338,389
<b>CAPITAL CONTRIBUTIONS BY NONCONTROLLING INTEREST MEMBER</b>	-	18,277
<b>NET ASSETS</b> , end of year	\$ 3,532,746	\$ 3,812,225

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2017**

	Program	General and Administrative	Fundraising	Total
<b>PERSONNEL, SALARIES AND BENEFITS</b>				
Salaries	\$ 4,039,332	\$ 347,457	\$ -	\$ 4,386,789
Employee benefits	624,279	156,070	-	780,349
Payroll taxes	281,790	70,447	-	352,237
Professional development	89,868	-	-	89,868
Total Personnel, Salaries and Benefits	<u>5,035,269</u>	<u>573,974</u>	<u>-</u>	<u>5,609,243</u>
<b>DIRECT STUDENT COSTS</b>				
Contracted student services	256,609	-	-	256,609
Curriculum	55,731	-	-	55,731
Supplies and materials	278,807	-	-	278,807
Food service	342,930	-	-	342,930
Uniforms	13,316	-	-	13,316
Student activities	265,339	-	-	265,339
Student transportation	700	-	-	700
Total Direct Student Costs	<u>1,213,432</u>	<u>-</u>	<u>-</u>	<u>1,213,432</u>
<b>OCCUPANCY EXPENSE</b>				
Facility repairs and maintenance	126,083	80,077	-	206,160
Facility utilities	169,335	112,890	-	282,225
Facility janitorial	96,712	64,452	-	161,164
Total Occupancy Expense	<u>392,130</u>	<u>257,419</u>	<u>-</u>	<u>649,549</u>
<b>OFFICE EXPENSE</b>				
Office supplies and materials	44,258	11,254	-	55,512
Postage	775	194	-	969
Printing and publications	994	248	-	1,242
Total Office Expense	<u>46,027</u>	<u>11,696</u>	<u>-</u>	<u>57,723</u>
<b>GENERAL EXPENSE</b>				
Management fees	874,788	-	-	874,788
Authorizer fees	84,521	-	-	84,521
Professional services	99,411	27,852	-	127,263
Bad Debt	-	6,313	-	6,313
Insurance	33,208	11,459	-	44,667
Computer and network	45,214	11,303	-	56,517
Telephone	55,157	13,789	-	68,946
Staff travel	7,796	1,949	-	9,745
Staff recruitment	218,172	54,543	-	272,715
Development	-	-	5,815	5,815
Interest	57,449	661,804	-	719,253
Depreciation and amortization	613,178	327,027	-	940,205
Total General Expense	<u>2,088,894</u>	<u>1,116,039</u>	<u>5,815</u>	<u>3,210,748</u>
<b>TOTAL EXPENSES</b>	<u>\$ 8,775,752</u>	<u>\$ 1,959,128</u>	<u>\$ 5,815</u>	<u>\$ 10,740,695</u>

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2016**

	Program	General and Administrative	Fundraising	Total
<b>PERSONNEL, SALARIES AND BENEFITS</b>				
Salaries	\$ 3,316,195	\$ 269,374	\$ -	\$ 3,585,569
Employee benefits	682,681	56,708	-	739,389
Payroll taxes	267,009	22,602	-	289,611
Professional development	25,650	-	-	25,650
Total Personnel, Salaries and Benefits	4,291,535	348,684	-	4,640,219
<b>DIRECT STUDENT COSTS</b>				
Contracted student services	386,326	-	-	386,326
Curriculum	51,042	-	-	51,042
Supplies and materials	194,864	-	-	194,864
Food service	311,601	-	-	311,601
Uniforms	1,820	-	-	1,820
Student activities	41,617	-	-	41,617
Other direct student costs	4,591	-	-	4,591
Student transportation	1,021	-	-	1,021
Total Direct Student Costs	992,882	-	-	992,882
<b>OCCUPANCY EXPENSE</b>				
Facility lease	4,431	569	-	5,000
Facility repairs and maintenance	132,697	16,763	-	149,460
Facility janitorial	116,352	14,922	-	131,274
Facility utilities	104,041	13,359	-	117,400
Facility waste removal	6,367	758	-	7,125
Total Occupancy Expense	363,888	46,371	-	410,259
<b>OFFICE EXPENSE</b>				
Office supplies and materials	-	36,644	-	36,644
Other office expense	1,283	9,269	-	10,552
Postage	-	75	-	75
Printing and publications	40,412	3,430	-	43,842
Total Office Expense	41,695	49,418	-	91,113
<b>GENERAL EXPENSE</b>				
Management fees	-	752,963	-	752,963
Authorizer fees	-	84,708	-	84,708
Professional services	9,923	39,700	-	49,623
IT consultants	31,365	2,655	-	34,020
Insurance	26,075	2,207	-	28,282
Computer and network	36,601	16,204	-	52,805
Telephone	-	24,074	-	24,074
Student recruitment	1,894	-	-	1,894
Staff travel	7,551	639	-	8,190
Staff recruitment	211	-	-	211
Team building	13,298	1,126	-	14,424
Development	-	-	11,697	11,697
Interest	426,261	104,661	-	530,922
Depreciation and amortization	744,971	87,364	-	832,335
Total General Expense	1,298,150	1,116,301	11,697	2,426,148
<b>TOTAL EXPENSES</b>	<b>\$ 6,988,150</b>	<b>\$ 1,560,774</b>	<b>\$ 11,697</b>	<b>\$ 8,560,621</b>

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (279,479)	\$ 455,559
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	940,205	832,335
Amortization of deferred financing costs	81,550	71,208
(Increase) decrease in assets		
Federal receivables	(27,094)	(82,188)
State receivables	-	45,625
Other receivables	6,313	(12,513)
Prepaid expenses	(28,074)	(7,962)
Due from related parties	-	(1,677)
Security deposit	(5,380)	-
Increase (decrease) in liabilities		
Accounts payable	117,691	146,927
Accrued interest	16,972	-
Accrued expenses	38,512	24,534
Deferred revenues	19,614	57,713
Net Cash Provided by Operating Activities	880,830	1,529,561
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(596,449)	(662,096)
Equity contribution	-	18,277
Net Cash Used for Investing Activities	(596,449)	(643,819)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deferred financing costs	-	(398,500)
Payments on notes payable	(256,224)	-
Draws on financing	482,379	-
Principal payments on capital lease payable	(18,000)	(5,891)
Net Cash Provided by (Used for) Financing Activities	208,155	(404,391)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	492,536	481,351
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	2,856,816	2,375,465
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 3,349,352	\$ 2,856,816
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 620,731	\$ 459,715
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION</b>		
Acquisition of equipment under capital lease	\$ -	\$ 91,508

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE A – ORGANIZATION AND PURPOSE**

DC Scholars Public Charter School, Inc. (the “School”) is a non-profit organization that was organized on June 8, 2011. The School was established as a charter school located in the District of Columbia under provisions enacted by the District of Columbia Public Charter School Board (“PCSB”).

On May 31, 2012, the School entered into a charter school agreement with the PCSB for a 15 year term beginning July 1, 2012. As part of this agreement, the School, in its first year, provided instructional and support services for students ranging from preschool through grade three. In each subsequent academic year, the School has added a grade each year through grade eight, resulting in the maximum enrollment at the School of 556.

On August 31, 2015, the School entered into a limited liability company agreement with the Charter School Incubator Initiative, a District of Columbia not-for-profit corporation, resulting in the formation of 5601 East Capitol, LLC (“the LLC”). The School is a member of the LLC and has a 99% interest in it, based on an initial capital contribution of approximately \$1.8 million. The other 1% interest is held by the Charter School Incubator Initiative, the managing member, based on an initial capital contribution of approximately \$18,000.

On September 3, 2015, the newly formed LLC committed \$17.5 million to the renovation of 5601 East Capitol Street, Lot 820 (“the Shadd property”).

Prior to the year ended June 30, 2015, the School expended approximately \$760,000 on building renovations associated with the Shadd property. These costs have been classified as leasehold improvements as of June 30, 2015, and were subsequently reclassified as part of the School’s \$1.8 million investment in the LLC when the LLC agreement was signed on September 3, 2015.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The School and the LLC (collectively, “DC Scholars”) consolidated 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.

Principles of Consolidation

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic Consolidations, these consolidated financial statements include the accounts of the School and the LLC. All material inter-organization transactions and balances have been eliminated in consolidation.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Principles of Consolidation

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic Consolidations, these consolidated financial statements include the accounts of the School and the LLC. All material inter-organization transactions and balances have been eliminated in consolidation.

Basis of Presentation

Consolidated financial statement presentation follows FASB ASC Topic for Not-for-Profit Entities. In accordance with the topic, DC Scholars reports information regarding its consolidated financial position based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and activities therein, are classified and reported as follows:

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

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

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by DC Scholars.

DC Scholars had no temporarily or permanently restricted net assets for the years ended June 30, 2017 and 2016.

Use of Estimates

Management uses estimates and assumptions in preparing consolidated 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 consolidated financial statements.

Cash and Cash Equivalents

For purposes of reporting cash flows, DC Scholars considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. DC Scholars maintains its primary depository account with a commercial bank.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Federal, State and Other Receivables

Federal receivables primarily consist of amounts due from the District of Columbia Office of Public Charter School Financing and Support for federal grant programs. Other receivables include grants and other non-contract receivables. Receivables are stated at the amount management expects to collect from outstanding balances. Due to the nature of this funding, management believes that all grants and accounts receivable will be collected in one year or less; therefore as of June 30, 2017 and 2016, no allowance for doubtful accounts has been recorded.

Property and Equipment

It is DC Scholars' policy to capitalize equipment over \$5,000. However, consideration is also given to lesser amounts based on the nature of the purchase. Property and equipment is recorded at cost. Leasehold improvements are recorded at cost and amortized over the life of the lease. Depreciation and amortization are recorded using the straight-line method over the estimated lives of the respective assets:

Leasehold Improvements	20 Years
Furniture and fixtures	7 Years
Computer and network equipment	3 Years

Debt Issuance Costs

Cost incurred in the issuance of debt have been capitalized and are reported on the consolidated 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.

Deferred Revenue

Deferred revenues results from government and other funding received in advance of services to be provided.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction. 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 consolidated 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 reporting purposes.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Revenue Recognition - continued

Federal entitlements and grants are received primarily from the District of Columbia government. Revenue is recognized when allowable expenditures in accordance with the grant terms have been incurred. 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 consolidated financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the consolidated financial statements.

DC Scholars receives a student allocation on a per pupil basis from the District 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 \$1,824,023 and \$1,236,319 for the years ended June 30, 2017 and 2016, respectively, for enhancements, such as special education and at-risk students. Before and after school care is recognized when the service is provided.

Rental income is recognized when the related service is provided.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs 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.

**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 LLC is a District of Columbia limited liability company that has not elected to be taxed as a corporation for income tax reporting purposes, and therefore, is a disregarded entity for tax purpose. Revenues and expenses are reported on the School's information returns.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE C – INCOME TAXES – continued**

The School has adopted the accounting for uncertainty in income taxes as required by the Income Taxes topic of the FASB ASC. This topic requires the School to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax 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 – GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAM**

The School participates in federal grant reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2017 and 2016 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying consolidated financial statements for such contingencies.

**NOTE E – PROPERTY AND EQUIPMENT**

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

	2017	2016
Leasehold improvements	\$ 16,039,001	\$ 15,590,652
Computer and network equipment	493,114	397,707
Furniture and fixtures	379,194	326,502
Capital leased equipment	91,508	91,508
	17,002,817	16,406,369
Less: accumulated depreciation and amortization	(2,462,227)	(1,522,023)
Property and Equipment, Net	\$ 14,540,590	\$ 14,884,346

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE E – PROPERTY AND EQUIPMENT - continued**

Depreciation and amortization expense totaled \$940,205 and \$832,335 for the years ended June 30, 2017 and 2016, respectively.

**NOTE F – RELATED PARTY TRANSACTIONS**

The School and Scholar Academies (a non-profit organization) were considered related parties as a result of common management and management services provided to the School. The School had an academic and business service agreement with Scholar Academies, which terminated effective July 1, 2016. A management service fee was calculated based on 10% of the School's per pupil charter payment (as highlighted in the academic and business service agreement) authorized to be paid under its contract with the District of Columbia, including any increases therein, from and after the effective date of any such increase by the authorizer, State or by the Federal government, directly or indirectly. During the year ended June 30, 2016, the School incurred \$752,962 in management service fees. In addition, amounts due from Scholar Academies totaled \$4,594 and \$4,594, as of June 30, 2017 and 2016, respectively.

On June 30, 2016, due to Scholar Academies' plans to dissolve, DC Scholars executed an Amendment to Academic and Business Services Agreement with Scholar Academies, reducing the scope of services to the completion of fiscal year 2016 audit, grant and compliance report, and limited business services, and reducing the term of the agreement to October 31, 2016. During fiscal year 2017, DC Scholars transferred certain management responsibilities to a newly formed entity, DC Scholars Community Schools ("Community Schools"). Effective July 1, 2016, the School entered into an Academic and Business Services Agreement with Community Schools, for Community Schools to provide the management services, including executive, operational, academic, and strategic services. The agreement is scheduled to terminate on June 30, 2021, but includes a provisions for automatic renewal. The management service fee is equal to 10% of per pupil charter payments authorized to be paid under its contract with the District of Columbia, including any increases therein. For the year ended June 30, 2017, management fees totaled \$874,788.

Related Party Charter Schools

The School, Young Scholars Charter School, Young Scholars Kenderton Charter School, Paul Robeson Charter School for the Humanities, and Memphis Scholars, LLC, were considered related parties as a result of the common management of the schools. This common management relationship ended on June 30, 2016, as a result of these schools terminating their respective Academic and Business Services Agreement with Scholar Academies.

The School and DC Scholars Stanton Elementary School, a District of Columbia public school, are considered related parties as a result of common management of the schools. Common management by Scholar Academies ended on June 30, 2016 as a result of an amendment to their Academic and Business

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE F – RELATED PARTY TRANSACTIONS – continued**

Related Party Charter Schools (continued)

Service Agreements. However, the schools continue to be related parties subsequent to the amendment due to new common management by DC Scholars Community Schools.

**NOTE G – CHARTER SCHOOL AGREEMENT**

On July 1, 2012, the School entered into a Charter School Agreement with the PCSB, which expires on June 30, 2028. As part of this agreement, the PCSB may charge an authorizer fee, which is not to exceed one-half of one percent of the total revenues within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the PCSB. The PCSB performs a reconciliation of the fee in the summer following each fiscal year based on the School's Form 990 for that year, and adjusts the fee invoice in the following fiscal year to reflect any difference between budgeted and actual revenues. For the years ended June 30, 2017 and 2016, the School incurred \$84,521 and \$84,708 in authorizer fees, respectively.

**NOTE H – LICENSING AND USAGE AGREEMENTS**

On June 19, 2015, the LLC had entered into a Ground Lease agreement with the District of Columbia to provide a Public Charter School on the ground floor of the Shadd School. The terms of this agreement was for 20 years, commencing on June 19, 2015, and expiring on June 30, 2035. The annual base rent for the first year's rent was \$685,000, payable in equal and consecutive monthly installments of \$57,083. On the first anniversary of the rent commencement date and each anniversary thereafter, the annual base rent shall increase by two percent. During the term of this agreement, the LLC shall be entitled to a rent abatement credit against the annual base rent in an amount equal to the construction costs incurred in connection with the LLC's work for the renovation of the Shadd property, based on the rent abatement criteria stated in the lease agreement. The total cost of the renovations exceeded \$10 million, and therefore, in accordance with the lease agreement, the LLC is not obligated to make any rental payments for the remaining lease term. For the years ended June 30, 2017 and 2016, the LLC did not incur any lease expense due to the rent abatement.

On September 3, 2015, the School entered into a usage fee agreement with the LLC that shall continue until June 30, 2020. In addition, the usage fee agreement has three subsequent five-year terms to extend the term of the agreement, as stated by the requirements in the agreement. The usage fee is equal to the number of students enrolled by the School, multiplied by the per pupil facilities allowance ("facilities allowance") received by the School from the District of Columbia for each such pupil, less principal and interest payments due to the District of Columbia of Public Charter School Financing and Support. The total annual usage fee for each twelve month period throughout the term shall be payable in advance, in quarterly installments equal to quarterly payments of the usage fee, and due on August 1, November 1, February 1 and May 1 of each usage year.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE H – LICENSING AND USAGE AGREEMENTS – continued**

The August 1 and November 1 usage fee payments of each usage year will be calculated based on an estimate of enrollment as of the census date for such usage year, as provided by the School to the District of Columbia. The February 1 and May 1 usage payments will be calculated based on audited figures provided by the District of Columbia for the School's enrollment as of the census date and will "true up" the payments of usage fee made on August 1 and November 1. Accordingly, the School cannot reasonably estimate its future minimum payments under the terms of the usage fee agreement. For the years ended June 30, 2017 and 2016, the total enrollment was 502 and 446 students, respectively; at a facilities allowance of \$3,124 per student. The facilities allowance for the years ended June 30, 2017 and 2016, totaled \$1,568,248 and \$1,393,304, respectively. Out of the total facilities allowance, \$103,840 and \$49,135 was allocated for debt service payments to be paid for the loan agreement with the District of Columbia Office of Public Charter School Financing and Support, for the years ended June 30, 2017 and 2016, respectively. Refer to Note I for a description of the loan agreement.

For the years ended June 30, 2017 and 2016, the usage fee expense for the School and the rental income of \$1,464,407 and \$1,344,169 for the LLC were respectively eliminated from the consolidated financial statements.

On February 3, 2016, the LLC entered into a usage agreement with The University of the District of Columbia ("UDC"), an independent instrumentality of the District of Columbia Government, to use a portion of the space within the Shadd School. The usage agreement commenced October 1, 2015 and continued until September 30, 2016. The usage agreement permits the option to extend the agreement for three terms of one year each. As of September 30, 2016 and 2017, the usage agreement was renewed for an additional year. The annual usage fee of \$230,000 for the initial year was partially payable in advance while the remaining portion is payable monthly in instalments of \$7,273. The annual usage fee for periods of renewal are \$160,000, payable annually. For the years ended June 30, 2017 and 2016, the usage fee earned under the agreement totaled \$177,526 and \$172,587, respectively.

**NOTE I – LOANS PAYABLE**

On September 3, 2015, the School entered into a loan agreement with the District of Columbia Office of Public Charter School Financing and Support ("OPCSFS") in the amount of \$1,553,690 ("OPCSFS Loan"). The OPCSFS Loan required quarterly interest only payments through May 2016 and quarterly principal and interest payments of \$25,960, based on a 25-year amortization schedule, beginning in August 2016. The OPCSFS Loan is scheduled to mature on September 3, 2020. The interest rate of the loan is fixed at 4.5% per annum. As of June 30, 2017 and 2016, the outstanding principal balance totaled \$1,519,189 and \$1,553,690, respectively.

Also on September 3, 2015, the LLC obtained a construction loan from Bank of America in the amount of up to \$14,144,140 ("BOA Loan"), for the improvement construction of the Shadd property. During

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE I – LOANS PAYABLE** - continued

the years ended June 30, 2017 and 2016, the LLC had borrowed \$482,379 and \$12,284,895, respectively against the BOA Loan. Quarterly repayments of principal and interest began on November 1, 2016, based on a 25-year amortization schedule and maturing on September 3, 2020. The interest rate is variable and equal to the LIBOR Daily Floating Rate plus 375 basis points (4.98% and 4.21% as of June 30, 2017 and 2016, respectively). The BOA Loan is secured by a lien on the land and improvements of the facility. As of June 30, 2017 and 2016, the outstanding principal balance totaled \$12,545,551 and \$12,284,895, respectively.

The School secured a \$1,054,000 promissory note with Building Hope A Charter School Facilities Fund (“Building Hope”) that bears interest at a fixed rate of 6% per annum. The School had not drawn from this loan and had no outstanding balance as of June 30, 2017 and 2016. The BOA Loan is senior to the Building Hope and OPCSFS Loan.

Per the terms of the BOA Loan, America’s Charter School Finance Corporation (an affiliate of Building Hope) and OPCSFS issued credit enhancements of \$500,000 each to secure the loans. The BOA Loan is collateralized by the real and personal property of the LLC and the loan is guaranteed by the School. The collateral for the Building Hope Loan and OPCSFS Loan is a second lien on the real and personal property attributable to the facility.

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

Interest expense for the years ended June 30, 2017 and 2016 totaled \$637,703 and \$530,922, respectively.

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

2018	\$ 296,423
2019	311,273
2020	326,867
2021	13,130,177
Total	\$ 14,064,740

In prior years, DC Scholars reported debt issuance costs as a deferred charge in the consolidated statement of financial position and amortization of such costs in the consolidated statement of activities as depreciation and amortization. To comply with new GAAP presentation requirements, in 2017 DC Scholars 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 \$327,292. The change did not affect net assets.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE I – LOANS PAYABLE - continued**

Similarly, DC Scholars 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 (and depreciation and amortization decreased) by \$71,208, 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, was \$81,550.

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

	2017	2016
Debt issuance costs	\$ 398,500	\$ 398,500
Less accumulated amortization	(152,758)	(71,208)
Debt Issuance Costs, Net	\$ 245,742	\$ 327,292

**NOTE J – CAPITAL LEASE**

In November 2015, the School leased three copiers under a capital lease that expires in March 2021. As of June 30, 2017, the leased copiers are reflected at a cost of \$91,508 and the related accumulated depreciation of \$18,302. The lease requires monthly payments of principal and interest in the amount of \$1,706 at a rate of 3.13% per annum.

Future minimum payments under the capital lease are as follows for the years ending June 30:

2018	\$ 20,472
2019	20,472
2020	20,472
2021	9,997
	71,413
Less interest	(3,796)
Total	\$ 67,617

**NOTE K – OPERATING LEASE**

DC Scholars has entered into two lease agreements for the use of office equipment. DC Scholars is required to make forty-eight payments in the amount of \$365 and \$775, respectively. These leases expired on August 1, 2017 and September 30, 2017, respectively. For the years ended June 30, 2017 and 2016, rent expense incurred under these lease agreements totaled \$15,326 and \$13,680, respectively.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**  
(continued)

**NOTE L – RETIREMENT PLAN**

The School established a defined contribution plan under Section 403(b) of the Internal Revenue Code. For an employee with less than three years of service, the School will match up to 2% of the qualified employee's compensation. For employees with more than three years of service the School will match up to 4% of the qualified employee's compensation. Qualifying employees may contribute an amount as determined by the Internal Revenue Code of their compensation to the plan. Retirement expense for the years ended June 30, 2017 and 2016, totaled \$62,577 and \$70,836, respectively.

**NOTE M – CONCENTRATIONS**

DC Scholars receives the majority of its revenues, 85% in 2017 and 84% in 2016, based on per pupil funding from the PCSB. DC Scholars also receives various federal grants, which are subject to audit by the overseeing agency.

As of June 30, 2017 and 2016, DC Scholars held cash that exceeded the \$250,000 federally insured limit. DC Scholars has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash held by the financial institution.

**NOTE N – SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, DC Scholars' management has evaluated events and transactions for potential recognition or disclosure through November 29, 2017, the date the consolidated financial statements were available to be issued. There were no events or transactions discovered during the evaluation that required recognition or further disclosure.

## **SUPPLEMENTAL INFORMATION**

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**JUNE 30, 2017**

	DC Scholars Public Charter Schools, Inc.	5601 East Capitol, LLC	Eliminations	Total
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 2,163,600	\$ 1,185,752	\$ -	\$ 3,349,352
Federal receivables	278,877	-	-	278,877
Other receivables	6,200	-	-	6,200
Prepaid expenses	31,668	10,319	-	41,987
Due from related parties, net	4,594	-	-	4,594
Security deposit	-	5,380	-	5,380
Total Current Assets	<u>2,484,939</u>	<u>1,201,451</u>	<u>-</u>	<u>3,686,390</u>
<b>OTHER ASSETS</b>				
Investment in 5601 East Capitol, LLC	1,459,308	-	(1,459,308)	-
Property and equipment, net	1,788,131	12,752,459	-	14,540,590
Total Other Assets	<u>3,247,439</u>	<u>12,752,459</u>	<u>(1,459,308)</u>	<u>14,540,590</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,732,378</u></b>	<b><u>\$ 13,953,910</u></b>	<b><u>\$ (1,459,308)</u></b>	<b><u>\$ 18,226,980</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 259,702	\$ 35,739	\$ -	\$ 295,441
Accrued interest	-	104,314	-	104,314
Accrued expenses	330,537	-	-	330,537
Deferred revenue	37,327	40,000	-	77,327
Capital lease payable, current portion	20,472	-	-	20,472
Loans payable, current portion	36,080	260,343	-	296,423
Total Current Liabilities	<u>684,118</u>	<u>440,396</u>	<u>-</u>	<u>1,124,514</u>
<b>LONG TERM LIABILITIES</b>				
Capital lease payable, net of current	47,145	-	-	47,145
Loans payable, net	1,483,109	12,039,466	-	13,522,575
Total Long Term Liabilities	<u>1,530,254</u>	<u>12,039,466</u>	<u>-</u>	<u>13,569,720</u>
Total Liabilities	<u>2,214,372</u>	<u>12,479,862</u>	<u>-</u>	<u>14,694,234</u>
<b>NET ASSETS AND MEMBERS' EQUITY</b>				
Unrestricted net assets	3,518,006	-	-	3,518,006
Noncontrolling interest	-	-	14,740	14,740
Members' equity	-	1,474,048	(1,474,048)	-
Total Net Assets and Members' Equity	<u>3,518,006</u>	<u>1,474,048</u>	<u>(1,459,308)</u>	<u>3,532,746</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 5,732,378</u></b>	<b><u>\$ 13,953,910</u></b>	<b><u>\$ (1,459,308)</u></b>	<b><u>\$ 18,226,980</u></b>

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2017**

	DC Scholars Public Charter Schools, Inc.	5601 East Capitol, LLC	Eliminations	Total
<b>REVENUES AND OTHER SUPPORT</b>				
Per pupil appropriations	\$ 7,286,801	\$ -	\$ -	\$ 7,286,801
Per pupil facility allowance	1,568,248	-	-	1,568,248
Federal entitlements and grants	1,235,106	-	-	1,235,106
State and local grants	41,765	-	-	41,765
Contributions - foundations	90,000	-	-	90,000
Student activities	56,695	-	-	56,695
Investment loss	(374,050)	-	374,050	-
Rental income	-	1,641,933	(1,464,407)	177,526
Other income	5,075	-	-	5,075
Total Revenues and Other Support	<u>9,909,640</u>	<u>1,641,933</u>	<u>(1,090,357)</u>	<u>10,461,216</u>
<b>EXPENSES</b>				
Program	9,126,191	821,087	(1,171,526)	8,775,752
General and administrative	1,053,519	1,198,490	(292,881)	1,959,128
Fundraising	5,815	-	-	5,815
Total Expenses	<u>10,185,525</u>	<u>2,019,577</u>	<u>(1,464,407)</u>	<u>10,740,695</u>
<b>CHANGE IN NET ASSETS AND EQUITY</b>	(275,885)	(377,644)	374,050	(279,479)
<b>NET ASSETS, beginning of year</b>	<u>3,793,891</u>	<u>1,851,692</u>	<u>(1,833,358)</u>	<u>3,812,225</u>
<b>NET ASSETS, end of year</b>	<u>\$ 3,518,006</u>	<u>\$ 1,474,048</u>	<u>\$ (1,459,308)</u>	<u>\$ 3,532,746</u>

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



JONES, MARESCA & McQUADE, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

1730 Rhode Island Avenue, NW  
Suite 800  
Washington, DC 20036  
(202) 296-3306  
Fax: (202) 296-0059

**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  
DC Scholars Public Charter School, Inc. and Subsidiary  
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 consolidated financial statements of DC Scholars Public Charter School, Inc. and Subsidiary ("DC Scholars") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 29, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered DC Scholars' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DC Scholars' internal control. Accordingly, we do not express an opinion on the effectiveness of the DC Scholars' 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 Scholars' consolidated 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 consolidated 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 the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*James Maurice & McQuade PA*

Washington, DC  
November 29, 2017



JONES, MARESCA & McQUADE, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

1730 Rhode Island Avenue, NW  
Suite 800  
Washington, DC 20036  
(202) 296-3306  
Fax: (202) 296-0059

**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  
DC Scholars Public Charter School, Inc.  
Washington, DC

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

We have audited DC Scholars Public Charter School, Inc.'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 Maruca & McQuade PA*

Washington, DC  
November 29, 2017

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.**  
**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
<b>U.S. Department of Education</b>			
<b>Pass-through from District of Columbia Office of the State Superintendent of Education (OSSE)</b>			
Title I Grants to Local Educational Agencies	84.010	72010A	\$ 324,635
Twenty-First Century Community Learning Centers	84.287	72287C, 62287C	376,507
Supporting Effective Instruction State Grants	84.367	72367A	69,739
Special Education Cluster			
Special Education Grants to States	84.027	72027A	65,128
Special Education Preschool Grants	84.173	72173A	2,361
Total Special Education Cluster			<u>67,489</u>
<b>Total U.S. Department of Education</b>			<u>838,370</u>
<b>U.S. Department of Agriculture</b>			
<b>Pass-through from District of Columbia Office of the State Superintendent of Education (OSSE)</b>			
Child Nutrition Cluster			
National School Lunch Program	10.555		242,493
School Breakfast Program	10.553		118,151
Total Child Nutrition Cluster			<u>360,644</u>
Fresh Fruit and Vegetable Program	10.582		11,215
<b>Total U.S. Department of Agriculture</b>			<u>371,859</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,210,229</u></u>

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO 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 the 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 has elected not to use the 10 percent minimums indirect cost rate. Pass-through entity identifying numbers are presented where available.

**NOTE C – RECONCILIATION TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Expenditures per the Schedule exclude \$24,877 of federal funds provided under the Federal Communications Commission E-Rate program, which are reported as federal entitlements and grant revenue in the consolidated statement of activities. Funding under the E-Rate program is considered to be federal funds, however, does not qualify as direct financial support, and therefore, is exempt from Single Audit requirements.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.  
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:<br>Material weakness identified?         | No         |
| Significant deficiencies identified that are not<br>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<br>major programs:  | Unmodified |
| (b) Internal control over major programs:<br>Material weakness identified?  | No         |
| Significant deficiencies identified that are not<br>considered to be material weakness?                           | None noted |
| (c) Any audit findings disclosed that are required to be<br>reported in accordance with 2 CFR Section 200.516(a)? | No         |

***Major Programs:***

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

**SECTION II – FINDING RELATED TO FINANCIAL STATEMENTS REPORTED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*                      None**

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2017**  
(continued)

<b>SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS</b>	None
<b>SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS</b>	None