

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
WASHINGTON, D.C.

COMPARATIVE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Trustees
District of Columbia International School
1400 Main Drive, NW
Washington, DC 20012

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the District of Columbia International School, (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

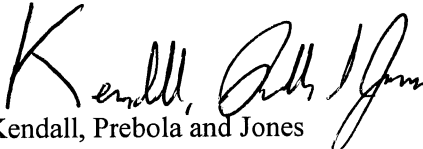
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia International School as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of functional expenses and schedules of average cost per student are presented for purposes of additional analysis and are not a required part of the financial statements. In addition, 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 presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2017, on our consideration of the District of Columbia International School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District of Columbia International School's internal control over financial reporting and compliance.


Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 17, 2017

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 3,941,715	\$ 3,061,008
Accounts Receivable	57,135	87,302
Grants Receivable	132,882	473,794
Promises Receivable	1,704	5,500
Prepaid Expenses	<u>611,272</u>	<u>234,445</u>
Total Current Assets	<u>\$ 4,744,708</u>	<u>\$ 3,862,049</u>
<u>Fixed Assets:</u>		
Furniture and Equipment	\$ 518,076	\$ 247,228
Computer Equipment	408,363	279,711
Website Design	4,175	4,175
Leasehold Improvements	23,616	23,616
Construction in Progress	39,821,854	1,265,421
Less: Accumulated Depreciation and Amortization	<u>(339,978)</u>	<u>(173,248)</u>
Total Fixed Assets	<u>\$ 40,436,106</u>	<u>\$ 1,646,903</u>
<u>Other Assets:</u>		
Cash Restricted for Debt Service	\$ 800,179	\$ -
Deposits	222,502	75,400
Interest Rate Cap	<u>123,024</u>	<u>-</u>
Total Other Assets	<u>\$ 1,145,705</u>	<u>\$ 75,400</u>
TOTAL ASSETS	<u>\$ 46,326,519</u>	<u>\$ 5,584,352</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Expenses	\$ 10,762,243	\$ 484,203
Accrued Payroll and Related Liabilities	221,459	192,822
Deferred Revenue	60,299	-
Current Portion of Long-Term Debt	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>\$ 11,044,001</u>	<u>\$ 677,025</u>
<u>Long-Term Liabilities:</u>		
Notes Payable	\$ 27,674,781	\$ -
Less: Current Portion	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 27,674,781</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 38,718,782</u>	<u>\$ 677,025</u>
<u>Net Assets:</u>		
Unrestricted	\$ 7,383,966	\$ 4,752,443
Temporarily Restricted	<u>223,771</u>	<u>154,884</u>
Total Net Assets	<u>\$ 7,607,737</u>	<u>\$ 4,907,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 46,326,519</u>	<u>\$ 5,584,352</u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	June 30, 2017			June 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenues and Other Support:</u>						
Per-Pupil Funding Allocation	\$ 7,391,180	\$ -	\$ 7,391,180	\$ 5,644,445	\$ -	\$ 5,644,445
Per-Pupil Funding - Facilities Allowance	1,624,480	-	1,624,480	1,262,096	-	1,262,096
Federal Entitlements and Grants	1,554,918	-	1,554,918	1,766,699	-	1,766,699
State Government Grants	28,591	-	28,591	53,472	-	53,472
Private Grants and Contributions	213,767	478,235	692,002	354,350	252,500	606,850
Student Activity Fees	163,853	-	163,853	235,404	-	235,404
Interest and Other Income	6,548	-	6,548	7,150	-	7,150
Donated Services and Materials	-	-	-	2,258	-	2,258
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	<u>409,348</u>	<u>(409,348)</u>	<u>-</u>	<u>97,616</u>	<u>(97,616)</u>	<u>-</u>
Total Revenues and Other Support	<u>\$ 11,392,685</u>	<u>\$ 68,887</u>	<u>\$ 11,461,572</u>	<u>\$ 9,423,490</u>	<u>\$ 154,884</u>	<u>\$ 9,578,374</u>
<u>Expenses and Losses:</u>						
Educational Services	\$ 7,649,759	\$ -	\$ 7,649,759	\$ 5,665,982	\$ -	\$ 5,665,982
General and Administrative	623,847	-	623,847	598,051	-	598,051
Fundraising	<u>136,580</u>	<u>-</u>	<u>136,580</u>	<u>48,541</u>	<u>-</u>	<u>48,541</u>
Total Expenses	<u>\$ 8,410,186</u>	<u>\$ -</u>	<u>\$ 8,410,186</u>	<u>\$ 6,312,574</u>	<u>\$ -</u>	<u>\$ 6,312,574</u>
Changes in Net Assets before Change In Fair Value of Interest Rate Cap	\$ 2,982,499	\$ 68,887	\$ 3,051,386	\$ 3,110,916	\$ 154,884	\$ 3,265,800
Change in Fair Value of Interest Rate Cap	<u>(350,976)</u>	<u>-</u>	<u>(350,976)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	\$ 2,631,523	\$ 68,887	\$ 2,700,410	\$ 3,110,916	\$ 154,884	\$ 3,265,800
Net Assets, Beginning of Year	<u>4,752,443</u>	<u>154,884</u>	<u>4,907,327</u>	<u>1,641,527</u>	<u>-</u>	<u>1,641,527</u>
Net Assets, End of Year	<u>\$ 7,383,966</u>	<u>\$ 223,771</u>	<u>\$ 7,607,737</u>	<u>\$ 4,752,443</u>	<u>\$ 154,884</u>	<u>\$ 4,907,327</u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 2,700,410	\$ 3,265,800
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Unrealized (Gain)/Loss on Interest Rate Cap	350,976	-
Depreciation and Amortization	166,730	130,284
Accounts Receivable - (Increase)/Decrease	30,167	(60,688)
Grants Receivable - (Increase)/Decrease	340,912	(364,911)
Promises Receivable - (Increase)/Decrease	3,796	(1,490)
Prepaid Expenses - (Increase)/Decrease	(376,827)	(104,560)
Deposits - (Increase)/Decrease	(147,102)	7,010
Accounts Payable and Accrued Expenses - Increase/(Decrease)	2,747,349	78,196
Payroll and Related Liabilities - Increase/(Decrease)	28,637	89,936
Deferred Revenue - Increase/(Decrease)	<u>60,299</u>	<u>(668)</u>
Net Cash Flows from Operating Activities	<u>\$ 5,905,347</u>	<u>\$ 3,038,909</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (31,425,242)	\$ (1,158,636)
(Increase) in Restricted Cash	<u>(800,179)</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>\$ (32,225,421)</u>	<u>\$ (1,158,636)</u>
<u>Cash Flows from Financing Activities:</u>		
Proceeds from Long Term Debt	\$ 28,601,922	\$ -
Purchase of Interest Rate Cap	(474,000)	-
Acquisition of Loan Financing Costs	<u>(927,141)</u>	<u>-</u>
Net Cash Flows from Financing Activities	<u>\$ 27,200,781</u>	<u>\$ -</u>
Net Increase in Cash and Cash Equivalents	\$ 880,707	\$ 1,880,273
Cash and Cash Equivalents at Beginning of Year	<u>3,061,008</u>	<u>1,180,735</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,941,715</u>	<u>\$ 3,061,008</u>

Supplemental Disclosures:

- a) Interest in the amount of \$325,168 was paid during the year ended June 30, 2017. This was capitalized as part of construction in progress. No interest was paid during the year ended June 30, 2016.
- b) No income taxes were paid during the years ended June 30, 2017 and 2016.

Non-Cash Disclosure:

- a) During the year ended June 30, 2017 and 2016, respectively, acquisition of fixed assets in the amount of \$7,530,691 and \$341,628 was incurred and charged to accounts payable.

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION:

The District of Columbia International School (the Charter School), a District of Columbia not-for-profit corporation was incorporated on October 4, 2012 exclusively for educational purposes. The Charter School operates as part of the District of Columbia Public School System and was chartered under the authority of the DC Public Charter School Board. The Charter School is a Middle and High School offering language immersion and inquiry-based learning. The Charter School currently offers the world-renowned International Baccalaureate Middle Years Program for students in the 6th, 7th, 8th and 9th grades. Advanced language programs are offered for Chinese, French and Spanish.

DCI is a cooperative, collaborative school founded by 5 language immersion public charter schools. These schools have amended their charters to include a secondary program for grades 6-12 at a new educational campus and as a new entity.

The DCI member schools are:

- DC Bilingual Public Charter School
- Elsie Whitlow Stokes Community Freedom Public Charter School
- Latin American Montessori Bilingual Public Charter School
- Mundo Verde Bilingual Public Charter School
- Washington Yu Ying Public Charter School

It is the mission of the Charter School to inspire inquiring, engaged, knowledgeable and caring secondary students who are multi-lingual, culturally competent, and committed to proactively creating a socially just and sustainable world.

The Charter School's primary sources of support are local appropriations for charter schools from the District of Columbia. The Charter School also receives federal entitlement funding through the Office of the State Superintendent of Education.

Basic Programs

District of Columbia International School provides advanced language learning in Chinese, French and Spanish, and the International Baccalaureate Middle Years and Diploma Programs in a 1:1 technology environment to DC public middle and high school students. The Charter School was founded by the elementary language immersion schools in DC to provide a pathway for their PreK-5th grade students.

DCI inspires inquiring, engaged, knowledgeable and caring secondary students who are multi-lingual, culturally competent, and committed to proactively creating a socially just and sustainable world.

Cornerstones of the DCI Education:

- International Baccalaureate for all
- Fluency in a second language: Chinese, Spanish or French
- 1:1 technology to provide personalized learning beyond a traditional school day/year

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION: (Continued)

Basic Programs (Continued)

DCI opened in 2014-2015. Our classes are currently:

- 40% African American; 27% American Indian (from Central America); 26% Caucasian; 6% Asian; .5% Asian Pacific Islander
- 42% identify as Hispanic
- 520 6th through 9th Graders
- 52% of students qualify for FARMS
- Mainly from Wards 1, 4 and 5 but from all over city

In SY 2014-15, DCI served 210 students, 145 students from member schools and approximately 65 lottery spaces. In 2015-16, DCI had 405 students, while serving 520 students in 16-17. The school will continue to grow to 1500 students in 6-12th grade and graduate its first class in 2020.

In Fall 2017, DCI moved to its permanent location at the Delano Hall campus of the old Walter Reed Campus at 1400 Main Drive, NW, Washington, DC.

Current Leadership:

- Mary Shaffner, Executive Director
- Simon Rodberg, Principal
- Rachel Sussman, Asst. Principal
- Deidra Bailey, Asst. Principal
- Dean Harris, IB Coordinator
- Melody Maitland, Director of Student Services
- Cody Long, Director of Student Life
- Denise Lyons, Director Business and Compliance
- Gregg Albright, Director of Athletics
- Nicole Welsh, Director of EdTech
- Allison Sandusky, Director of Student Culture
- Maya Stewart, Director of Teacher Support
- Alison Auerbach, Director of Language Learning

External funding sources (over \$10k):

- New Schools Venture Fund
- City Bridge: Breakthrough Schools
- Ed Forward DC
- Local Initiatives Support Corporation
- Building Hope

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the School are summarized below:

(a) Basis of Accounting and Presentation:

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

(b) Revenue Recognition:

Contributions

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

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

Contributions and promises to give with donor-imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any on the contribution. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history and type of contribution.

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

Federal and Charter School Funding

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

Federal entitlements are recognized based on the allowable costs incurred.

Afterschool Program

The Charter School offers fee-based extended day programming for all students. The hours of operation are structured to coincide with the typical workday of parents of the students. Tuition is collected based on a monthly fee. The amount of tuition ranges from full tuition to reduced tuition based on the National School Lunch Program guidelines.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(c) Corporate Taxes:

The Charter School is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. Exemption from District of Columbia income taxes was granted to the School effective October 4, 2012. Accordingly, no provisions for income taxes have been provided for in the accompanying financial statements. The Charter School has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions qualify as a charitable tax deduction by the contributor under Section 170(b)(i)(A)(ii). The Charter School did not have any net unrelated business income for the year ended June 30, 2017 and 2016.

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

(d) Grants:

Foundation Grants

Grant revenues result primarily from foundation grants and are recognized as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions between the applicable classes of net assets.

Government Grants

The Charter School receives grants from Federal agencies and the District of Columbia for various purposes in the form of exchange transactions. Receivables related to grant awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant award. Funds received in advance for these types of grants and those that are unexpended as of year-end are reflected as a deferred revenue. These grants are subject to financial and compliance audits by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

(e) Net Assets:

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

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

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets were available at year end for the following purposes:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Field Trip	\$ 63,235	\$ -
New School Collaboration	-	152,799
New School Venture Fund Invent	160,536	-
School Supplies	<u>-</u>	<u>2,085</u>
Total Available	<u>\$ 223,771</u>	<u>\$ 154,884</u>

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
New School Collaboration	\$ 152,799	\$ 97,201
School Supplies	2,085	415
New School Venture Fund Invent	54,464	-
Rate Cap Purchase Grant	<u>200,000</u>	<u>-</u>
Total Released	<u>\$ 409,348</u>	<u>\$ 97,616</u>

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that require the net assets be maintained permanently by the School. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The School did not have any permanently restricted net assets as of June 30, 2017 and 2016.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(f) Donated Services and Facilities:

Donated services and facilities are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Contributed services and promises to give services that do not meet the above criteria are not recognized. The time contributed by the Charter School's Board of Trustees is uncompensated and is not reflected as donated services. In-kind contributions are recorded in the statement of activities at estimated fair value and recognized as revenue and expense (or an asset) in the period they are received.

The estimated value of donated services and facilities at June 30, 2017 and 2016 has been recorded in the financial statements as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Design and Tech Services	\$ -	\$ 2,000
Meals	<u>-</u>	<u>258</u>
Total	<u>\$ -</u>	<u>\$ 2,258</u>

(g) Functional Expense Allocation Policies and Procedures:

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

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

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

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

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Functional Expense Allocation Policies and Procedures: (Continued)

For other expenses where it would not be appropriate to designate 100 percent as a program service cost, general and administrative cost, or fundraising cost, the allocation formula for personnel expenses is utilized for cost allocation purposes.

(h) Use of Estimates:

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

(i) Recognition of Salary Expense:

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

(j) Fair Value of Certain Financial Instruments:

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

(k) Reclassifications:

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

3. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in the Charter School's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Charter School performed an evaluation of uncertain tax positions for the year ended June 30, 2017, 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, 2017, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Charter School files tax returns. It is the Charter School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2017, the Charter School had no accruals for interest and/or penalties.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of June 30, 2017 and 2016, totaled \$3,941,715 and \$3,061,008, respectively, and consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Checking Account - Interest Bearing	\$ 500,042	\$ 480,547
Checking Account - Non-Interest Bearing	2,656,764	-
Money Market Accounts	351,613	811,187
Repurchase Agreement	433,056	1,769,034
Petty Cash	<u>240</u>	<u>240</u>
Total	<u>\$ 3,941,715</u>	<u>\$ 3,061,008</u>

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with original maturities of three months or less. Total cash and cash equivalents does not include cash held for debt services.

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

Cash Restricted for Debt Service

Under the terms of the master loan agreement with Bank of America, the Charter School has established a cash collateral account with Bank of America. This account serves as security for the loan obligations as a security interest is granted to Bank of America in this account. This account was established during the year ended June 30, 2017. A minimum deposit of \$800,000 was required to be made to this account upon its opening. Future deposits to this account are required as follows until the account reaches a balance of \$2,200,000:

<u>On or Before</u>	<u>Amount</u>
November 1, 2017	\$ 400,000
November 1, 2018	400,000
November 1, 2019	600,000

Withdrawals or disbursements are not allowed to be made from this account and any earnings on the account must be reinvested into the account. The balance of this account as of June 30, 2017, is \$800,179.

As of June 30, 2017 and 2016, \$3,808,632 and \$1,061,225, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the year, the amount of funds at risk may have been greater than at year end. The School was at risk for the funds held in excess of the insured amounts. The Charter School has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS: (Continued)

Repurchase Agreement

The Charter School entered into a repurchase agreement with Eagle Bank in which the bank agreed to transfer to the Charter School an interest in securities issued or guaranteed by the United States or an agency thereof against the transfer of funds from the School to the respective bank.

Per the repurchase agreement, funds in excess of \$1,000 are transferred out on a daily basis and transferred back in the following day along with interest earned. The Charter School has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents. The balance of this account as shown above is \$433,056 and \$1,769,034 as of June 30, 2017 and 2016, respectively.

5. INTEREST RATE CAP:

The Charter School entered into an interest rate cap agreement through Bank of America to reduce the impact of market changes in the variable interest rate for the Bank of America loan payable. The original loan interest is LIBOR plus 3.5%. The cap agreement was purchased for a price of \$474,000 on December 14, 2016. This agreement limits the LIBOR portion of interest to 3.5%. This cap agreement effectively limits the interest rate on this loan amount to 7% per annum. The interest rate cap agreement matures on December 14, 2021.

The Charter School reports an asset for the interest rate cap agreement representing the estimated fair value of the cap agreement, which is determined quarterly. The related asset is reported at fair value in the statement of financial position, and any changes in value are included in the statement of activities. A loss of \$350,976 is reported separately in the statement of activities as a change in fair value of interest rate cap. The cap agreement is valued and reported as an asset of \$123,024 at June 30, 2017.

The interest rate cap agreement is exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with interest rate caps, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could affect the amounts reported in the statement of financial position.

6. FAIR VALUE MEASUREMENTS:

Financial Accounting Standards Board ASC Topic No. 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC No. 820-10 are described as follows:

Level 1 - Valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that the Charter School has the ability to access.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. FAIR VALUE MEASUREMENTS: (Continued)

Level 2 - Valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability (such as interest note and yield curves);
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable (Supported by little or no market activity) and not corroborated by market data. Unobservable inputs reflect the organizations estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Interest Rate Caps: Valued based on several market inputs such as interest rates and yield curves.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Charter School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Charter School's assets measured at fair value as of June 30, 2017:

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets:</u>				
Interest Rate Cap	\$ -	\$ 123,024	\$ -	\$ 123,024
Total	<u>\$ -</u>	<u>\$ 123,024</u>	<u>\$ -</u>	<u>\$ 123,024</u>

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

7. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:

Accounts and Grants Receivable

Accounts and grants receivable are current and considered to be fully collectible by management. Balances as of June 30, 2017 and 2016, consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Accounts Receivable</u>		
Per Pupil Funding	\$ 13,367	\$ 22,753
Student Activity Fees	33,453	30,421
Expense Reimbursements and Other	<u>10,315</u>	<u>34,128</u>
Total	<u>\$ 57,135</u>	<u>\$ 87,302</u>
<u>Grants Receivable</u>		
No Child Left Behind - Entitlement Funds	\$ 49,615	\$ 386
Special Education, IDEA 611, Grants to Local Education Agencies	32,899	1,418
Scholarship for Opportunity and Results Act (SOAR)	45,057	457,359
National School Lunch and Breakfast Programs	4,950	13,612
Healthy Schools Act	<u>361</u>	<u>1,019</u>
Total	<u>\$ 132,882</u>	<u>\$ 473,794</u>

The Charter School's accounts and grants receivable consists of unsecured amounts due from funding sources whose ability to pay is subject to changes in general economic conditions. Because the Charter School does not require collateral, it is at credit risk due to the type of organization for the balance of the accounts and grants receivable as of June 30, 2017 and 2016.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable. Management believes that an allowance was not required, based on its evaluation of collectability of receivables as of June 30, 2017 and 2016.

Receivables related to program service fees are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Trade receivables are written off as uncollectable when payment has not been received after 180 days.

Promises Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the School. The Charter School uses the allowance method to determine uncollectible promises to give. Promises receivable are due to be collected within one year.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

Promises Receivable (Continued)

Balances at year end consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Other - Unrestricted	\$ <u>1,704</u>	\$ <u>5,500</u>
Total Promises Receivable	\$ <u>1,704</u>	\$ <u>5,500</u>

The Charter School received a conditional promise to give that is not recognized as revenue in the financial statements. The conditional promise is in the amount of \$626,250 and is for launching an International Baccalaureate Career Program and Diploma Program for 11th and 12th grades.

8. FIXED ASSETS:

Furniture and equipment are recorded at cost, or in the case of contributed property at the fair market value at the date of contribution. If an expenditure in excess of \$1,000 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful lives of the assets. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$166,730 and \$130,284, respectively. Maintenance and repairs are charged to expenses as incurred. Major classifications of fixed assets and their estimated useful lives are as summarized below:

June 30, 2017

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and Equipment	5 Years	\$ 518,076	\$ 115,201	\$ 402,875
Computer Equipment	3 Years	408,363	198,676	209,687
Website Design	5 Years	4,175	2,485	1,690
Leasehold Improvements	2 Years	23,616	23,616	-
Construction in Progress		<u>39,821,854</u>	<u>-</u>	<u>39,821,854</u>
Total		<u>\$ 40,776,084</u>	<u>\$ 339,978</u>	<u>\$ 40,436,106</u>

June 30, 2016

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and Equipment	5 Years	\$ 247,228	\$ 59,738	\$ 187,490
Computer Equipment	3 Years	279,711	89,591	190,120
Website Design	5 Years	4,175	1,650	2,525
Leasehold Improvements	2 Years	23,616	22,269	1,347
Construction in Progress		<u>1,265,421</u>	<u>-</u>	<u>1,265,421</u>
Total		<u>\$ 1,820,151</u>	<u>\$ 173,248</u>	<u>\$ 1,646,903</u>

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. FIXED ASSETS: (Continued)

During the years ended June 30, 2017 and 2016, the Charter School incurred costs related to architectural and construction services for the development of a new school building located at 1400 Main Drive, NW, Washington, DC, on the former Walter Reed Medical Center property. This property is being leased as more fully explained in Note 14. The new school is projected to be ready for use during the 2017-2018 school year and completed by June 30, 2018. Total costs incurred as of June 30, 2017 and 2016 were \$39,821,854 and \$1,265,421, respectively, and are classified as Construction in Progress.

9. LINE OF CREDIT:

On January 29, 2015, the Charter School entered into a variable rate revolving \$200,000 line of credit arrangement with Eagle Bank. This credit line was closed during the year ended June 30, 2017. The purpose of the line of credit was to provide short-term working capital. The line was collateralized with a first priority interest on all corporate assets of the Charter School. The line was payable on demand and called for monthly interest payments at the Prime Rate as published in the Wall Street Journal on a daily basis plus .50% and subject to a floor of 6.00%. There was no balance outstanding on this credit line as of June 30, 2016.

10. NOTES PAYABLE:

On December 14, 2016, the District of Columbia International School entered into five (5) loan agreements totaling \$53,944,249 to be used to renovate building #11, commonly referred to as the former Walter Reed campus, or Delano Hall, located at 1400 Main Drive, NW, Washington, DC. These loans were structured with the Bank of America loan, in the amount of \$41,789,437, treated as senior debt in all respect to payment and performance over the others. The remaining four (4) subordinate loans are with: (1) Building Hope in the amount of \$949,231, (2) Local Initiatives Support Corporation in the amount of \$5,128,175, (3) Office of Public Charter School Financing and Support (“OSSE”) in the amount of \$949,231, and (4) the Reinvestment Fund in the amount of \$5,128,175. Actual loan liability as of June 30, 2017, is based on amount drawn in the current year, as shown below:

	<u>Original Amount</u>	<u>Drawn as of June 30, 2017</u>	<u>Remaining to be Drawn</u>
Bank of America	\$ 41,789,437	\$ 16,905,561	\$ 24,883,876
Building Hope	949,231	949,231	-
Local Initiative Support Corporation	5,128,175	4,899,530	228,645
OSSE	949,231	949,231	-
Reinvestment Fund	<u>5,128,175</u>	<u>4,898,369</u>	<u>229,806</u>
Total	<u>\$ 53,944,249</u>	<u>\$ 28,601,922</u>	<u>\$ 25,342,327</u>

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

10. NOTES PAYABLE: (Continued)

Bank of America

On December 14, 2016, the Charter School entered into a loan agreement with Bank of America in the amount of \$41,789,437, bearing a variable rate equal to the daily LIBOR floating rate plus 350 basis points. Loan proceeds are obtainable through draw requests submitted by the Charter School for payment of expenses related to the construction project. The amount of liability drawn as of June 30, 2017, was \$16,905,561, leaving \$24,883,876 to be requested in the future. The Charter School entered into an interest rate cap agreement with Bank of America to hedge a floating rate exposure, as more fully explained in Note 5. The effect of this interest rate cap is to limit the LIBOR interest rate portion to a maximum of 3.5% during the period of the cap agreement. This effectively would cap the total interest rate on this loan at 7.0% per annum.

Interest-only payments were due monthly beginning on January 1, 2017. On January 1, 2019, principal payments will begin and, therefore, both principal and interest payments will be due. Initial interest payments up to \$1,500,000 are to be paid by disbursements of the loan proceeds and are added to the principal balance of the loan. For the year ended June 30, 2017, \$113,257 of interest was due that was paid by loan proceeds. This interest has been capitalized as part of construction in progress, as the construction period continued beyond June 30, 2017. Payments on the loan balance are based on a twenty-five-year amortization period and are payable over the five-year life of the loan. A balloon payment will be due on the maturity date, December 14, 2021. The balance of this loan is \$16,905,561 as of June 30, 2017. Prepayments may be paid prior to maturity without penalty. This loan is secured by a leasehold Deed of Trust assignment, security agreement and fixture filing and the building and property.

In accordance with the loan agreement, the Charter School is required to maintain unencumbered liquid assets, such as cash and cash equivalents, of increasing amounts until maturity. As of June 30, 2017, the minimum liquidity amount was \$2,200,000, which will remain in effect until and including October 31, 2017. The minimum liquidity amount will then increase to \$2,400,000 for the period of November 1, 2017, through and including October 31, 2018; \$2,950,000 for the period of November 1, 2018, through and including October 31, 2019; \$3,750,000 for the period of November 1, 2019, through and including October 31, 2020; and, finally, increasing to \$5,000,000 for the period of November 1, 2020, through the remaining life of the loan. The Charter School met this requirement as of June 30, 2017.

The Charter School also needs to maintain a debt service coverage ratio of at least 1.20 to 1.00 beginning with the year ended June 30, 2018.

Future minimum required principal payments on this loan for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2018	\$ -
2019	109,384
2020	226,661
2021	237,608
2022	<u>16,331,908</u>
Total	<u>\$ 16,905,561</u>

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

10. NOTES PAYABLE: (Continued)

Building Hope

On November 9, 2016, the Charter School entered into a loan agreement with Building Hope in the amount of \$949,231, bearing an interest rate of 4.5% per year. Interest-only payments are due monthly through February 1, 2019, at which time both principal and interest payments will be due. Payments on the loan balance are based on a twenty-five-year amortization period and are payable over the five-year life of the loan. A balloon payment will be due on the maturity date, December 14, 2021. Interest payments began on March 14, 2017, and have been paid via Bank of America loan draw requests. Prepayments may be made at any time without penalty. The balance of this loan is \$949,231 as of June 30, 2017. Interest in the amount of \$27,528 was due for the year ended June 30, 2017, which was capitalized as part of construction in progress, as the construction period continued beyond June 30, 2017. This loan is secured by third priority lien of leasehold interest in the property, third priority assignment of all leases and rents from the property, third priority lien on per pupil payments, Facility Allowances, and assignment of all management, construction, architectural contracts and plans.

Future minimum required principal payments on this loan for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2018	\$ -
2019	8,650
2020	21,432
2021	22,416
2022	<u>896,733</u>
Total	<u>\$ 949,231</u>

Local Initiatives Support Corporation

On December 14, 2016, the Charter School entered into a loan agreement with Local Initiatives Support Corporation in the amount of \$5,128,175, bearing interest at 5% per annum. Loan proceeds are obtainable through draw requests submitted by the Charter School for payment of expenses related to the construction project. The amount of loan proceeds drawn as of June 30, 2017, was \$4,899,530, leaving \$228,645 remaining to be drawn down. Interest-only payments began on January 1, 2017, and will continue through January 14, 2019, at which time both principal and interest payments will be due. Initial interest payments up to \$340,000 are to be paid by disbursements of the loan proceeds and are added to the principal balance of the loan. For the year ended June 30, 2017, \$111,355 of interest due was paid by the loan proceeds. This interest has been capitalized as part of construction in progress, as the construction period continued beyond June 30, 2017. Payments on the loan balance are based on a twenty-five-year amortization period and are payable over the five-year life of the loan. A balloon payment will be due on the maturity date, December 14, 2021. Prepayments may be made at any time without penalty. The balance of this loan is \$4,899,530 as of June 30, 2017. This loan is secured by a leasehold Deed of Trust security agreement and fixture filing on the property, including improvements, assignment of leases, rents, and profits, assignments of construction and architectural contracts, permits, licenses and plan, Environment Indemnity Agreement and collateral assignment.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

10. NOTES PAYABLE: (Continued)

Local Initiatives Support Corporation (Continued)

Beginning with the fiscal year ending June 30, 2018, the Charter School needs to maintain a debt service coverage ratio of not less than 1.2 to 1.0. The Charter School also needs to maintain a lease coverage ratio of not less than 1.2 to 1.0, regarding its sublease that is expected to begin in the 17-18 year. These covenants need to be met at the end of each fiscal year. These covenants did not need to be met in relation to this loan for the year ended June 30, 2017. During the period of the loan, the Charter School is also required to maintain unrestricted cash or cash equivalents in the amount of at least one-twelfth of its total annual operating expenses, excluding depreciation, or such greater amount necessary to cover at any given time not less than thirty days operating expenses. The Charter School met this requirement during the year ended June 30, 2017.

Future minimum required principal payments on this loan for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2018	\$ -
2019	49,881
2020	103,576
2021	108,875
2022	<u>4,637,198</u>
Total	<u>\$ 4,899,530</u>

Office of Public Charter School Financing and Support

On December 14, 2016, the Charter School entered into a loan agreement with the Office of Public Charter School Financing and Support, referred to as "OSSE," in the amount of \$949,231 bearing an interest rate of 4.5% per annum. Interest-only payments are due quarterly through December 14, 2018, at which time both principal and interest payments will be due. Payments on the loan balance are based on a twenty-five-year amortization period and are payable over the five-year life of the loan. A balloon payment will be due on the maturity date, December 14, 2021. Prepayments may be made at any time without penalty. The balance of this loan is \$949,231 as of June 30, 2017. This loan is secured by third priority lien on its leasehold interest in the property and improvements, third priority assignment of all leases and rents from the property, per pupil payments, facility allowances, and assignment of all management, construction, architectural contracts and plans. Interest payments began on March 14, 2017, and have been made via Bank of America loan draw requests. For the year ended June 30, 2017, interest in the amount of \$24,680 was due, which was capitalized as part of construction in progress, as the construction period continued beyond June 30, 2017.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

10. NOTES PAYABLE: (Continued)

Office of Public Charter School Financing and Support (Continued)

Future minimum required principal payments on this loan for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2018	\$ -
2019	10,421
2020	21,556
2021	22,542
2022	<u>894,712</u>
Total	<u>\$ 949,231</u>

Reinvestment Fund, Inc.

On December 14, 2016, the Charter School entered into a loan agreement with the Reinvestment Fund, Inc., in the amount of \$5,128,175, bearing a variable monthly rate equal to the one-month LIBOR rate plus 400 basis points during the interest-only period that began on December 14, 2016, and will end on December 1, 2018. After December 1, 2018, the interest rate will be adjusted to a fixed rate based on the three-year Treasury Rate published on November 29, 2018, plus 375 basis points. Loan proceeds are obtainable through draw requests submitted by the Charter School for payment of expenses related to the construction project. The amount of loan proceeds drawn as of June 30, 2017, was \$4,898,369, leaving \$229,806 to be requested in the future. Interest only payments are due monthly which began on January 1, 2017, and continue through December 1, 2018, at which time both principal and interest payments will be due. Initial interest payments up to \$340,000 are to be paid by disbursements of loan proceeds and are added to the principal balance of the loan. For the year ended June 30, 2017, \$110,182 of interest due was paid by the loan proceeds. This interest has been capitalized as part of construction in progress, as the construction period continued beyond June 30, 2017. Payments on the loan balance are based on a twenty-five-year amortization period and are payable over the five-year life of the loan. A balloon payment will be due on the maturity date, December 14, 2021. Prepayments may be made prior to maturity without penalty. The balance of this loan is \$4,898,369 as of June 30, 2017. This loan is secured by a second leasehold Deed of Trust on lien security interest on the property and improvements, a shared second priority lien in the rents, issues, profits and leases, a continuing shared second lien in the Block account and in the operating account, a continuing second priority lien on the payments and facilities receivables.

Beginning with the fiscal year ending June 30, 2018, the Charter School needs to maintain a debt service coverage ratio of not less than 1.2 to 1.0. The Charter School also needs to maintain a lease coverage ratio of not less than 1.2 to 1.0, regarding its sublease that is expected to begin in the 17-18 year. These covenants need to be met at the end of each fiscal year. These covenants did not need to be met in relation to this loan for the year ended June 30, 2017. During the period of the loan, the Charter School is also required to maintain unrestricted cash or cash equivalents in the amount of at least one-twelfth of its total annual operating expenses, excluding depreciation, or such greater amount necessary to cover at any given time not less than thirty days operating expenses. The Charter School met this requirement during the year ended June 30, 2017.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

10. NOTES PAYABLE: (Continued)

Reinvestment Fund, Inc. (Continued)

Future minimum required principal payments on this loan for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2018	\$ -
2019	48,038
2020	99,804
2021	104,989
2022	<u>4,645,538</u>
Total	<u>\$ 4,898,369</u>

Debt Issuance Costs

During the year ended June 30, 2017, the Charter School retroactivity adopted the requirements in FASB ASC 935-30 to present debt issuance costs as a reduction of the carrying amount of the related debt rather than an asset. Amortization of the debt issuance costs is reported as interest expense in the schedule of functional expenses. Debt issuance cost amortization was \$24,747 for the year ended June 30, 2017. This amount was capitalized as part of construction in progress during the year as the building was not placed in service as of June 30, 2017. Since there is no current portion of principal due, the current portion of debt issuance costs in the amount of \$178,835 is not reflected in the financial statements.

Long-term debt at June 30, 2017, consisted of the following:

Notes Payable	\$ 28,601,922
Less: Unamortized Debt Issuance Costs	<u>(927,141)</u>
Total	<u>\$ 27,674,781</u>

11. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The Charter School was approved by the District of Columbia Public Charter School Board as a jointly operated co-located campus of the middle-high school campuses of five language immersion charter schools in the District of Columbia. The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of the School's fiscal management and academic acceptability. The agreement effective July 1, 2014, provides for a 15-year term of operation. If not renewed, the agreement will expire on or about July 1, 2029. The contract may be renewed for successive 15-year periods if the DCPCSB deems that the School is in compliance with its contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the School every five years, with the first review expected to occur in 2019. The DCPCSB may revoke (or not renew) a school contract if a school violates applicable law, materially violates the contract or fails to meet the student academic achievement expectations set forth in the charter contract. Consequently, management does not anticipate non-renewal or revocation of its operational agreement.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

As part of the agreement with the DCPCSB, the Charter School may be charged a public charter school fee, which is not to exceed one percent of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. For the years ended June 30, 2017 and 2016, the School incurred \$89,290 and \$89,676, respectively, in administrative fees.

The contract provides that the Charter School may educate up to a predetermined number of students. However, this enrollment limit may be raised upon notification to and acceptance by the DCPCSB. The Charter School enrollment ceiling for the year ended June 30, 2017, was not permitted to be greater than 609 students. Audit enrollment for the 2016/2017 year was 520 students.

12. PER-PUPIL FUNDING ALLOCATION:

The Charter School receives local funding from the District of Columbia in the form of per-pupil educational allotments and facility allotments. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2017, the per-student rate ranged from \$8,617 to \$12,974 for the educational allotment and \$3,124 for the facility allotment. For the year ended June 30, 2016, the per-student rate ranged from \$9,492 to \$11,580 for the education allotment and \$3,124 for the facility allotment. Additional allotments were made for Special Education Services.

Per-pupil funding for the years ended June 30, 2017 and 2016, was as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Grades 6-8	\$ 5,559,404	\$ 4,141,549
Special Education	1,406,253	1,114,803
English as a Second Language	213,488	209,299
Facilities Allowance	1,624,480	1,262,096
At-Risk Students	<u>212,035</u>	<u>178,794</u>
Total	<u>\$ 9,015,660</u>	<u>\$ 6,906,541</u>

13. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2017 and 2016, the Charter School participated in the following federal awards programs:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
National School Lunch and School Breakfast Programs	\$ 80,319	\$ 92,889
No Child Left Behind - Entitlement Funds	304,256	144,105
Scholarship for Opportunity and Results Act (SOAR)	1,084,761	1,418,757
Special Education, IDEA 611, Grants to Local Education Agencies	<u>85,582</u>	<u>110,948</u>
Total	<u>\$ 1,554,918</u>	<u>\$ 1,766,699</u>

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

13. FEDERAL ENTITLEMENTS AND GRANTS: (Continued)

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

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

14. COMMITMENTS:

The loan commitments are disclosed in Note 10.

Building Lease (3220 and 3224 16th Street, NW)

The Charter School entered into a rental agreement effective August 1, 2014, through July 31, 2017, with the Charter School Incubator Initiative for the rental of a school facility located at 3220 and 3224 16th Street, NW, Washington, DC. The term of this agreement continued until July 31, 2016, with an option to renew the agreement for one option period of either one or two years by providing the landlord with one-month prior written notice. The Charter School and the landlord agreed to continue the lease through July 31, 2017. As a requirement of this lease, a total rental security deposit of \$5,000 was to be made. The annual usage fee represents an amount equal to the number of students enrolled on each census date (every October) multiplied by the per pupil facilities allowance received from the District of Columbia. The annual usage fee is full service and includes all utilities (gas, water, electricity, and trash removal), building engineering, janitorial, maintenance and repairs, and property management. Rent expense on this lease for the years ended June 30, 2017 and 2016, was \$1,588,041 and \$1,210,681, respectively, and was based on a student enrollment of 520 and 404 students, respectively.

Building Lease (1500 Harvard Street, NW)

The Charter School entered into a rental agreement effective July 15, 2015, with the Charter School Incubator Initiative for the rental of certain classroom space and other premises at 1500 Harvard Street, NW, in Washington, DC. The term of this agreement was scheduled to continue until July 15, 2018, but could be terminated on July 15th of each year. The Charter School terminated this lease on July 15, 2017. As a requirement of this lease, a total rental security deposit of \$10,000 was to be made. As of June 30, 2017 and 2016, respectively, the Charter School did not owe any usage fees under this agreement. The usage fee for this lease is included in the above lease.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

14. COMMITMENTS: (Continued)

Building Lease (1400 Main Drive, NW)

On November 10, 2016, the Charter School entered into a lease for property located at 1400 Main Drive, NW, Washington, DC, the former Walter Reed Army Medical Center property. The purpose of this lease was to obtain the property in order to renovate it for a school building. The Charter School obtained this lease for the property from a development company who in turn has leased the property from the District of Columbia. The term of this lease began on November 10, 2016, and ends on October 10, 2046. The annual lease payments for this lease are \$50 per year.

Total rent expense for the years ended June 30, 2017 and 2016 was \$1,594,541 and \$1,217,181, respectively, for the building leases noted above. Included in rent expense for the years ended June 30, 2017 and 2016 are payments for the rental of a gym totaling \$6,500 for both years.

Copier Lease

The Charter School entered into a copier operating lease for four Lanier copiers during the year. The lease is for a period of 60 months and is scheduled to continue through July 15, 2021.

Future minimum payments on this lease are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2018	\$ 12,120
2019	12,120
2020	12,120
2021	<u>12,120</u>
Total	<u>\$ 48,480</u>

Rental expense for the year ended June 30, 2017, was \$12,120 for these copiers.

15. CONCENTRATIONS:

Revenues

The Charter School receives public funds from the District of Columbia based on the number of students they enroll according to the Uniform Per Student Funding Formula developed by the Mayor and City Council. This per pupil allocation is supplemented with extra funds for students with special needs. During the years ended June 30, 2017 and 2016, seventy-nine percent (79%) and seventy-two percent (72%), respectively, of total support was received from the District of Columbia in the form of per pupil funding.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

15. CONCENTRATIONS: (Continued)

Revenues (Continued)

In addition to the revenue received through the Uniform Per Student Funding, the Charter School receives state and federal grants awarded under the auspices of the U.S. Department of Education (No Child Left Behind and special education) as well as the U.S. Department of Agriculture (Child Nutrition). The Charter School is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DC PCSB).

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

16. CONTINGENCIES:

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

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

Laws and regulations governing charter schools are complex and subject to interpretation. The School believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

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

17. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 17, 2017, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts represented in the accompanying financial statements.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

17. SUBSEQUENT EVENTS: (Continued)

Additional Funding - Washington Teacher's Union Contract

On October 1, 2017, the City Council approved the Washington Teacher's Union Contract. This contract will result in additional funds to both DC Public Schools and DC Public Charter Schools through an increase in the Uniform per Student Funding Formula. These additional funds result in a 5.9% increase above the original per pupil funding amounts. The Charter School will receive an additional one-time payment during the year ended June 30, 2018 to reflect the increase to the 2017 fiscal year per pupil funding base rate. The amount paid to the Charter School will be calculated based on the final enrollment audit count, supplemental payments and extended school year funding for the year ended June 30, 2017. The 2017 fiscal year base rate will increase by an amount of \$203 over the original base rate of \$9,682 to a revised base rate of \$9,885.

Enrollment

Enrollment for the 2017/2018 school year is projected to be approximately eight hundred four (804) students. These enrollment numbers are up from the current enrollment number of five hundred twenty (520) students during the 2016/2017 school year.

Sublease of School Building

The Charter School entered into a sublease rental agreement in November 2016 with the Latin American Montessori Bilingual Public Charter School for the rental of space located at 1400 Main Drive, NW, the former Walter Reed Army Medical Center in Washington, DC. The rental lease is effective for a twenty-nine-year and eleven-month period after the commencement date. The commencement date is expected to occur in the 17-18 school year. As a requirement of this lease, a total rental security deposit of \$130,166 is to be made. A reserve in the amount of \$25,000 is also required. This lease calls for quarterly lease payments. Annual base rent for year one is \$468,600, which is for the year ended June 30, 2018. If the commencement date occurs after September 30, 2017, prorated adjustments could be made to this base rent. Year two annual rent is \$624,800 and year three annual base rent is \$781,000. Each year thereafter, the base rent will increase by the lesser of (a) the percentage increase in the per pupil facilities allowance from the prior year or (b) three percent (3%). As of the date of this report, no rent payments were made nor was the security deposit paid.

18. RELATED PARTY TRANSACTIONS:

Grant Revenues

A board member of the Charter School is affiliated with the New Schools Venture Fund. During December 2013, this organization granted \$936,250 to the Charter School. This grant was accounted for as a conditional grant by the Charter School. During the year ended June 30, 2016, the final installment of \$286,250 was recognized as revenue in relation to this grant by the Charter School.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

18. RELATED PARTY TRANSACTIONS: (Continued)

Member Schools

DCI is a cooperative, collaborative school founded by 5 language immersion public charter schools. These schools have amended their charters to include DCI as a secondary program for grades 6-12. Certain federal government grants were received from the Department of Education and passed through these member schools to DCI. These federal grants are listed on DCI's schedule of expenditures of federal awards.

19. FUNDRAISING:

During the years ended June 30, 2017 and 2016, expenses incurred for the purpose of fundraising were \$136,580 and \$48,541, respectively.

20. ADVERTISING:

Advertising was conducted for the purpose of promoting open enrollment and student recruiting to the school and to provide outreach to the community. Advertising costs are expensed when incurred. Direct advertising expenses were \$33,712 and \$27,608 for the years ended June 30, 2017 and 2016, respectively.

21. RETIREMENT PLAN:

Teachers Retirement Plan

As authorized by the Title 38 of the Code of the District of Columbia, teachers of the DC Public School System may participate in a defined benefit plan named the "Teacher's Retirement Plan." The District of Columbia Retirement Board (DCRB) is responsible for paying benefits attributable to teacher service. An employee may elect to remain in the Teacher's Retirement Plan if that individual leaves employment with the District of Columbia Public School system and becomes an employee of a DC Public Charter School provided the election is made within 60 days of departure. To remain in the plan, the teacher must make the required employee retirement contributions and the Charter School must make the match contributions that the District Government would have made to the plan. Employee contributions of 11% of annual salary are required to be made on a pre-tax basis to the plan.

401(k) Retirement Plan

The Charter School provides pension benefits for its employees through a defined contribution 401(k) retirement plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the Plan allow for the employees to contribute up to the statutory limits set by the Internal Revenue Code. The Charter School contributes, on a matching basis, an amount up to 3% of an employee's base annual salary for employees with one or more years of employment. In addition to the traditional 401(k) contributions, the Plan accepts Roth 401(k) contributions.

The combined amount of employer contributions for the years ended June 30, 2017 and 2016, was \$53,770 and \$42,249, respectively.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO FINANCIAL STATEMENTS

22. EMPLOYEE BENEFITS:

The cost of fringe benefits incurred for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Social Security/Medicare	\$ 314,168	\$ 198,213
Health Insurance	348,182	252,546
Life and Disability Insurance	20,421	11,815
Retirement	53,770	42,249
Unemployment	29,412	26,816
Mass Transit	31,355	23,932
Workers Compensation	<u>18,066</u>	<u>6,638</u>
Total	<u>\$ 815,374</u>	<u>\$ 562,209</u>

23. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Rent	\$ 1,594,541	\$ 1,217,181
Maintenance and Repairs	56,430	12,771
Janitorial Supplies	1,236	5,133
Contracted Building Services	4,033	3,574
Depreciation - Facilities	<u>1,347</u>	<u>15,736</u>
Total	<u>\$ 1,657,587</u>	<u>\$ 1,254,395</u>

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	June 30, 2017				June 30, 2016			
	Total	Educational Services	General and Administrative	Fundraising	Total	Educational Services	General and Administrative	Fundraising
<u>Personnel, Salaries and Benefits:</u>								
Leadership Salaries	\$ 512,010	\$ 352,761	\$ 128,921	\$ 30,328	\$ 373,633	\$ 306,550	\$ 45,876	\$ 21,207
Teaching Staff Salaries	2,783,962	2,782,340	1,522	100	2,071,939	2,071,939	-	-
Student Support Salaries	792,223	723,535	32,394	36,294	448,363	445,414	2,739	210
Office and Administrative Staff	389,453	180,312	196,451	12,690	296,543	116,901	172,084	7,558
Employee Benefits	471,794	425,558	37,838	8,398	337,180	310,795	23,324	3,061
Payroll Taxes	343,580	309,909	27,555	6,116	225,029	207,419	15,566	2,044
Staff Development Expense	72,538	65,429	5,818	1,291	90,823	83,716	6,283	824
Other Personnel Expenses	101,655	91,693	8,153	1,809	72,781	66,912	5,379	490
Total Personnel, Salaries and Benefits	\$ 5,467,215	\$ 4,931,537	\$ 438,652	\$ 97,026	\$ 3,916,291	\$ 3,609,646	\$ 271,251	\$ 35,394
<u>Direct Student Costs:</u>								
Textbooks	\$ 66,312	\$ 66,312	\$ -	\$ -	\$ 46,959	\$ 46,959	\$ -	\$ -
Student Supplies and Materials	189,117	189,117	-	-	159,474	159,474	-	-
Student Assessment Materials	31,282	31,282	-	-	18,446	18,446	-	-
Food Service	133,121	133,121	-	-	141,287	141,287	-	-
Contracted Instruction	102,944	102,944	-	-	200,706	200,706	-	-
Student Travel/Transportation	63,908	63,908	-	-	27,577	27,577	-	-
Other Student Costs	57,968	57,968	-	-	48,969	48,969	-	-
Total Direct Student Costs	\$ 644,652	\$ 644,652	\$ -	\$ -	\$ 643,418	\$ 643,418	\$ -	\$ -
<u>Occupancy Costs:</u>								
Rent	\$ 1,594,541	\$ 1,438,276	\$ 127,882	\$ 28,383	\$ 1,217,181	\$ 1,121,930	\$ 84,197	\$ 11,054
Contracted Building Services	4,033	3,638	323	72	3,574	3,296	246	32
Maintenance and Repairs	56,430	50,900	4,526	1,004	12,771	11,772	883	116
Janitorial Supplies	1,236	1,115	99	22	5,133	4,729	357	47
Depreciation - Facilities	1,347	1,215	108	24	15,736	14,505	1,088	143
Total Occupancy Costs	\$ 1,657,587	\$ 1,495,144	\$ 132,938	\$ 29,505	\$ 1,254,395	\$ 1,156,232	\$ 86,771	\$ 11,392
<u>Office Expenses:</u>								
Office Supplies and Materials	\$ 45,738	\$ 41,256	\$ 3,668	\$ 814	\$ 28,682	\$ 26,438	\$ 1,984	\$ 260
Equipment Rental and Maintenance	17,876	16,124	1,434	318	15,736	14,504	1,089	143
Telephone/Telecommunications	14,084	12,703	1,130	251	13,065	12,042	904	119
Postage and Shipping	2,655	2,395	213	47	4,600	4,240	318	42
Computer Support Fees	37,777	34,075	3,030	672	30,359	27,983	2,100	276
Printing and Duplication	-	-	-	-	3,628	3,344	251	33
Total Office Expenses	\$ 118,130	\$ 106,553	\$ 9,475	\$ 2,102	\$ 96,070	\$ 88,551	\$ 6,646	\$ 873
<u>General Expenses:</u>								
Insurance	\$ 25,983	\$ 22,866	\$ 2,858	\$ 259	\$ 19,340	\$ 17,827	\$ 1,337	\$ 176
Authorizer Fee	89,290	80,540	7,161	1,589	89,676	-	89,676	-
Accounting, Auditing and Payroll	118,043	106,475	9,467	2,101	100,291	-	100,291	-
Legal Fees	17,695	16,250	1,445	-	8,195	5,000	3,195	-
Business Fees and Dues	46,987	43,150	3,837	-	25,256	21,083	4,173	-
Other Professional Fees	49,486	44,636	3,969	881	29,091	1,853	26,789	449
Other Expenses	9,735	8,781	781	173	16,003	8,659	7,087	257
Depreciation	165,383	149,175	13,264	2,944	114,548	113,713	835	-
Total General Expenses	\$ 522,602	\$ 471,873	\$ 42,782	\$ 7,947	\$ 402,400	\$ 168,135	\$ 233,383	\$ 882
TOTAL FUNCTIONAL EXPENSES	\$ 8,410,186	\$ 7,649,759	\$ 623,847	\$ 136,580	\$ 6,312,574	\$ 5,665,982	\$ 598,051	\$ 48,541

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
COMPARATIVE SCHEDULES OF AVERAGE COST PER STUDENT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

June 30, 2017

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 6,154,615	\$ 11,836
Occupancy Cost	1,657,587	3,188
General and Administrative	490,909	944
Fundraising	<u>107,075</u>	<u>206</u>
Total	<u>\$ 8,410,186</u>	<u>\$ 16,174</u>

The above is the average per student cost for the year ended June 30, 2017, and is based on a full time equivalent (FTE) enrollment of 520 students.

June 30, 2016

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 4,509,750	\$ 11,162
Occupancy Cost	1,254,395	3,105
General and Administrative	511,280	1,266
Fundraising	<u>37,149</u>	<u>92</u>
Total	<u>\$ 6,312,574</u>	<u>\$ 15,625</u>

The above is the average per student cost for the year ended June 30, 2016, and is based on a full time equivalent (FTE) enrollment of 404 students.

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>Period of Award</u>	<u>Grant Receivable at 7/1/16</u>	<u>Refundable Advance at 7/1/16</u>	<u>Current Year Activity</u>		<u>Grant Receivable at 6/30/17</u>	<u>Refundable Advance at 6/30/17</u>
							<u>Receipts</u>	<u>Disbursements Expenditures</u>		
<u>U.S. Department of Education:</u>										
Passed Through the District of Columbia Government:										
Title I, Part A, Grants to Local Education Agencies	84.010A	72010A	\$ 185,765	07/01/16 to 09/30/17	\$ -	\$ -	\$ 151,688	\$ 178,676	\$ 26,988	\$ -
Title I, Part A, Grants to Local Education Agencies	84.010A	62010A	\$ 158,773	07/01/15 to 09/30/16	-	951	51,517	52,468	-	-
Title II, Part A, Preparing, Training and Recruiting High Quality Teachers and Principals	84.367A	72367A	\$ 50,060	07/01/16 to 09/30/17	-	-	27,433	50,060	22,627	-
Title II, Part A, Preparing, Training and Recruiting High Quality Teachers and Principals	84.367A	62367A	\$ 45,959	07/01/15 to 09/30/16	1,239	-	19,317	18,078	-	-
Title III, English Language Acquisition Grants	84.365A	62365A	\$ 10,908	07/01/15 to 09/30/16	98	-	5,072	4,974	-	-
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	72027A	\$ 84,198	07/01/16 to 09/30/17	-	-	51,300	84,199	32,899	-
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	62027A	\$ 112,332	07/01/15 to 09/30/16	1,418	-	2,801	1,383	-	-
Scholarship for Opportunity and Results Act (SOAR - IAQ)	84.370C	N/A	\$ 498,500	07/10/15 to 07/10/17	33,688	-	317,990	329,359	45,057	-
Scholarship for Opportunity and Results Act (SOAR - Public Facilities)	84.370C	N/A	\$ 547,500	08/12/16 to 08/12/18	-	-	547,500	547,500	-	-
Scholarship for Opportunity and Results Act (SOAR - Public Facilities)	84.370C	N/A	\$ 750,000	07/10/15 to 07/10/17	276,157	-	478,573	202,416	-	-
Subtotal Passed through District of Columbia Government					\$ 312,600	\$ 951	\$ 1,653,191	1,469,113	\$ 127,571	\$ -
Passed Through E.W. Stokes Public Charter School:										
Scholarship for Opportunity and Results Act (SOAR - Replication and Growth)	84.370C	N/A	\$ 56,250	07/10/15 to 07/10/16	\$ 20,073	\$ -	\$ 21,250	\$ 1,177	\$ -	\$ -
Passed Through Mundo Verde Public Charter School:										
Scholarship for Opportunity and Results Act (SOAR - Replication and Growth)	84.370C	N/A	\$ 75,000	07/10/15 to 07/10/16	\$ 10,042	\$ -	\$ 10,042	\$ -	\$ -	\$ -
Passed Through Latin American Montessori Bilingual Public Charter School:										
Scholarship for Opportunity and Results Act (SOAR - Replication and Growth)	84.370C	N/A	\$ 75,000	07/10/15 to 07/10/16	\$ 70,355	\$ -	\$ 70,355	\$ -	\$ -	\$ -
Passed Through Washington Yu Ying Public Charter School:										
Scholarship for Opportunity and Results Act (SOAR - Replication and Growth)	84.370C	N/A	\$ 75,000	07/10/15 to 07/10/16	\$ 23,059	\$ -	\$ 24,600	\$ 1,541	\$ -	\$ -
Passed Through DC Bilingual Public Charter School:										
Scholarship for Opportunity and Results Act (SOAR - Replication and Growth)	84.370C	N/A	\$ 75,000	07/10/15 to 07/10/16	\$ 21,985	\$ -	\$ 24,753	\$ 2,768	\$ -	\$ -
Passed Through the Flamboyan Foundation:										
Scholarship for Opportunity and Results Act (SOAR)	84.370C	N/A	\$ 10,000	07/10/15 to 06/30/16	\$ 2,000	\$ -	\$ 2,000	\$ -	\$ -	\$ -
Total U.S. Department of Education					\$ 460,114	\$ 951	\$ 1,806,191	\$ 1,474,599	\$ 127,571	\$ -

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>Period of Award</u>	<u>Grant Receivable at 7/1/16</u>	<u>Refundable Advance at 7/1/16</u>	<u>Current Year Activity</u>		<u>Grant Receivable at 6/30/17</u>	<u>Refundable Advance at 6/30/17</u>
							<u>Receipts</u>	<u>Disbursements Expenditures</u>		
<u>U.S. Department of Agriculture:</u>										
Passed Through the District of Columbia Government:										
National School Lunch Program	10.555	N/A	N/A	07/01/16 to 06/30/17	\$ -	\$ -	\$ 63,656	\$ 68,116	\$ 4,460	\$ -
National School Lunch Program	10.555	N/A	N/A	07/01/15 to 06/30/16	11,801	-	11,801	-	-	-
School Breakfast Program	10.553	N/A	N/A	07/01/16 to 06/30/17	-	-	6,120	6,610	490	-
School Breakfast Program	10.553	N/A	N/A	07/01/15 to 06/30/16	1,811	-	1,811	-	-	-
Donated Commodities Program	10.555	N/A	N/A	07/01/16 to 06/30/17	-	-	<u>5,593</u>	<u>5,593</u>	-	-
Total U.S. Department of Agriculture					<u>\$ 13,612</u>	<u>\$ -</u>	<u>\$ 88,981</u>	<u>80,319</u>	<u>\$ 4,950</u>	<u>\$ -</u>
TOTAL FEDERAL AWARDS					<u>\$ 473,726</u>	<u>\$ 951</u>	<u>\$ 1,895,172</u>	<u>1,554,918</u>	<u>\$ 132,521</u>	<u>\$ -</u>

Summary by CFDA

<u>Program</u>	<u>CFDA Number</u>	<u>Amount of Expenditures</u>
Title I, Part A, Grants to Local Education Agencies	84.010A	\$ 231,144
Title II, Part A, Preparing, Training and Recruiting High Quality Teachers and Principals	84.367A	68,138
Title III, English Language Acquisition Grants	84.365A	4,974
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	85,582
Scholarship for Opportunity and Results Act (SOAR)	84.370C	1,084,761
National School Lunch Program	10.555	68,116
School Breakfast Program	10.553	6,610
Donated Commodities Program	10.555	<u>5,593</u>
Total Federal Awards		<u>\$ 1,554,918</u>

(See Accompanying Notes and Auditor's Report)

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on 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 expenditures are not allowable or are limited as to reimbursement.

The School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

<u>Programs</u>	<u>CFDA #</u>	<u>Amount of Expenditures</u>
Title I, Part A, Grants to Local Educational Agencies	84.010A	\$ 231,144
Title II, Part A, Preparing, Training, and Recruiting High Quality Teachers and Principals	84.367A	68,138
Title III, English Language Acquisition Grants	84.365A	4,974
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	85,582
Scholarship for Opportunity and Results Act (SOAR)	84.370C	1,084,761 *
National School Lunch Program	10.555	68,116
School Breakfast Program	10.553	6,610
Donated Commodities Program	10.555	<u>5,593</u>
Total Federal Awards		<u>\$ 1,554,918</u>

*Denotes Major Program

Note 3 - Major Program Disclosure:

Scholarship for Opportunity and Results Act (SOAR)

To provide low-income parents residing in the District of Columbia (District) with expanded options for the education of their children. This program is part of a broader school improvement effort in the District.

Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Trustees
District of Columbia International School
1400 Main Drive, NW
Washington, DC 20012

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the District of Columbia International School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2017.

Internal Control Over Financial Reporting

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

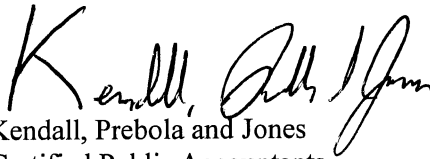
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 the District of Columbia International School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 17, 2017

Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Trustees
District of Columbia International School
1400 Main Drive, NW
Washington, DC 20012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited the District of Columbia International School's (a nonprofit organization) compliance with the types of compliance requirements described in the *Compliance Supplement* that could have a direct and material effect on each of District of Columbia International School's major federal programs for the year ended June 30, 2017. The District of Columbia International School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs and in the notes to the schedule of expenditures of federal awards.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and 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 District of Columbia International 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 District of Columbia International 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 District of Columbia International School's compliance.

Opinion on Each Major Federal Award Program

In our opinion, the District of Columbia International 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.

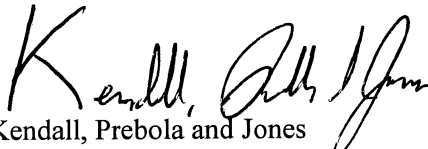
Report on Internal Control Over Compliance

Management of the District of Columbia International School is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the District of Columbia International 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 District of Columbia International 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 a 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.


Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 17, 2017

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings reported in the prior year.

DISTRICT OF COLUMBIA INTERNATIONAL SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of the Charter School were prepared in accordance with generally accepted accounting principles.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. No instances of noncompliance material to the financial statements of the Charter School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- d. No significant deficiencies relating to the audit of the major federal award program have been reported.
- e. The Auditor's report on compliance for the major federal award program for the District of Columbia International School expresses an unmodified opinion.
- f. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516 (a) of the Uniform Guidance in the schedule of findings and questioned costs.
- g. The major program of the District of Columbia International School was as follows:

<u>Program</u>	<u>CFDA #</u>
Scholarship for Opportunity and Results Act (SOAR)	84.370C

- h. The dollar threshold utilized to determine Type A programs was \$750,000.
- i. The District of Columbia International School did qualify as a low-risk auditee.

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

None

III. Findings relating to federal awards, which are required to be reported in accordance with the Uniform Guidance

None