

**DEMOCRACY PREP CONGRESS HEIGHTS
PUBLIC CHARTER SCHOOL**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2018 AND 2017

**Democracy Prep Congress Heights
Public Charter School**

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aronson LLC
ASSURANCE | TAX | CONSULTING

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

☎ 301.231.6200
☎ 301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Independent Auditor's Report

Board of Directors

Democracy Prep Congress Heights Public Charter School
Washington, D.C.

We have audited the accompanying financial statements of **Democracy Prep Congress Heights Public Charter School** (a nonprofit School) which comprise the Statements of Financial Position as of June 30, 2018 and 2017, and the related Statements of Activities and Changes in Net Assets, Functional Expenses and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Independent Auditor's Report (continued)

Opinion

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

Substantial Doubt about the School's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 10 to the financial statements, the the D.C. Public Charter School Board voted in December 2018 to revoke the School's charter status for the school year 2019 - 2020. There will be an appeals hearing in January 2019. Management's evaluation of the events and conditions and management's plans regarding those matters also are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (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 December 18, 2018, on our consideration of **Democracy Prep Congress Heights Public Charter School's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion

Independent Auditor's Report (continued)

on the effectiveness of **Democracy Prep Congress Heights Public Charter School's** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Democracy Prep Congress Heights Public Charter School's** internal control over financial reporting and compliance.

Aronson LLC

Rockville, Maryland
December 18, 2018

**Democracy Prep Congress Heights
Public Charter School**

Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ -	\$ 96,732
Grants receivable	921,342	972,963
Prepaid expenses	367,694	356,137
Total current assets	1,289,036	1,425,832
Property and equipment, net	263,164	246,457
Total assets	\$ 1,552,200	\$ 1,672,289
Liabilities and Net Assets		
Current liabilities		
Capital lease obligations	\$ 23,887	\$ 25,710
Accounts payable	304,516	302,674
Accounts payable - related party	86,662	35,296
Accrued expenses	155,171	190,869
Accrued salaries	377,589	314,291
Other current liabilities	21,304	32,930
Total current liabilities	969,129	901,770
Noncurrent liabilities		
Deferred rent	684,539	670,771
Capital lease obligations, net of current portion	58,941	82,828
Total noncurrent liabilities	743,480	753,599
Total liabilities	1,712,609	1,655,369
Unrestricted net (deficit) assets	(160,409)	16,920
Total liabilities and net (deficit) assets	\$ 1,552,200	\$ 1,672,289

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**Democracy Prep Congress Heights
Public Charter School**

Statements of Activities and Changes in Net Assets

<i>Years ended June 30,</i>	2018	2017
Revenues and support		
Charter school - per pupil funding	\$ 10,644,721	\$ 9,484,509
D.C. facilities allowance	2,059,310	2,049,344
Government grants	1,387,307	1,303,685
Contributions	30,939	22,732
In-kind contributions	14,051	138,505
Total revenues and support	14,136,328	12,998,775
Expenses		
Program	12,774,628	11,503,936
Management and general	1,539,029	1,760,637
Total expenses	14,313,657	13,264,573
Change in net assets	(177,329)	(265,798)
Net assets, beginning of period	16,920	282,718
Net (deficit) assets, end of period	\$ (160,409)	\$ 16,920

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**Democracy Prep Congress Heights
Public Charter School**

Statement of Functional Expenses

<i>Year Ended June 30, 2018</i>	Program Services	Management and General	2018 Total
Personnel, salaries, and benefits:			
Salaries	\$ 4,706,376	\$ 732,247	\$ 5,438,623
Employee benefits	919,545	143,069	1,062,614
Professional development	89,595	9,955	99,550
Travel	51,360	5,707	57,067
Total personnel, salaries, and benefits	5,766,876	890,978	6,657,854
Direct student costs:			
Supplies and materials	318,827	-	318,827
Student services	2,341,575	-	2,341,575
Food services	581,149	-	581,149
Total direct student cost	3,241,551	-	3,241,551
Occupancy expenses:			
Rent	1,467,139	163,016	1,630,155
Repairs and maintenance	323,654	35,961	359,615
Utilities	199,030	22,114	221,144
Total occupancy expenses	1,989,823	221,091	2,210,914
Office expenses:			
Professional fees	48,622	7,565	56,187
Printing and mailing	-	16,059	16,059
Total office expenses	48,622	23,624	72,246
General expenses:			
Management fees	1,335,128	207,728	1,542,856
Audit fees	-	28,841	28,841
Insurance	96,519	10,724	107,243
Marketing and recruitment	49,682	5,520	55,202
DCPCSB administration fee	-	123,143	123,143
Technology	85,782	9,531	95,313
Depreciation and amortization	75,672	8,408	84,080
Other general expense	84,973	9,441	94,414
Total general expenses	1,727,756	403,336	2,131,092
Total expenses	\$ 12,774,628	\$ 1,539,029	\$ 14,313,657

The accompanying Notes to Financial Statements are an integral part of these financial statements

**Democracy Prep Congress Heights
Public Charter School**

Statement of Functional Expenses

<i>Year Ended June 30, 2017</i>	Program Services	Management and General	2017 Total
Personnel, salaries, and benefits:			
Salaries	\$ 4,003,690	\$ 644,658	\$ 4,648,348
Employee benefits	797,590	128,425	926,015
Professional development	176,291	19,588	195,879
Total personnel, salaries, and benefits	4,977,571	792,671	5,770,242
Direct student costs:			
Supplies and materials	304,551	-	304,551
Student services	1,506,754	165,512	1,672,266
Food services	655,343	-	655,343
Total direct student cost	2,466,648	165,512	2,632,160
Occupancy expenses:			
Rent	1,565,436	173,937	1,739,373
Repairs and maintenance	320,705	35,634	356,339
Utilities	200,186	22,243	222,429
Total occupancy expenses	2,086,327	231,814	2,318,141
Office expenses:			
Professional fees	891,027	4,965	895,992
Printing and mailing	-	44,384	44,384
Total office expenses	891,027	49,349	940,376
General expenses:			
Management fees	709,119	114,179	823,298
Audit fees	-	24,269	24,269
Insurance	89,733	9,970	99,703
Marketing and recruitment	112,915	12,546	125,461
DCPCSB administration fee	-	119,138	119,138
Technology	55,802	6,200	62,002
In-kind legal support	-	138,505	138,505
Bad debt expense	-	83,735	83,735
Depreciation and amortization	96,552	10,728	107,280
Other general expense	18,242	2,021	20,263
Total general expenses	1,082,363	521,291	1,603,654
Total expenses	\$ 11,503,936	\$ 1,760,637	\$ 13,264,573

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**Democracy Prep Congress Heights
Public Charter School**

Statements of Cash Flows

<i>Years ended June 30,</i>	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (177,329)	\$ (265,798)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	84,080	107,280
Loss on disposal of property and equipment	-	25,813
Deferred rent	13,768	132,546
(Increase) decrease in		
Grants receivable	51,621	37,860
Prepaid expenses	(11,557)	(301,630)
Increase (decrease) in		
Accounts payable	1,842	(92,996)
Accounts payable - related party	51,366	(22,253)
Accrued expenses	(35,698)	3,199
Accrued salaries	63,298	63,105
Other current liabilities	(11,626)	(8,887)
Net cash used by operating activities	29,765	(321,761)
Cash flows from investing activities		
Purchase of property and equipment	(100,787)	(82,192)
Cash flows from financing activities		
Proceeds from related party loan	-	80,000
Payments on related party loan	-	(80,000)
Payments on capital lease obligations	(25,710)	(68,208)
Net cash used in financing activities	(25,710)	(68,208)
Net change in cash and cash equivalents	(96,732)	(472,161)
Cash and cash equivalents, beginning of period	96,732	568,893
Cash and cash equivalents, end of period	\$ -	\$ 96,732
Supplemental cash flow information		
Payment of interest	\$ -	\$ 6,196
Non-cash financing activities		
Equipment obtained through capital leases	\$ -	\$ 120,992

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

1. School and significant accounting policies

Organization: Democracy Prep Congress Heights Public Charter School (the School) was incorporated in April 2014 as a not-for-profit corporation operated in the District of Columbia. The School was opened in July 2014 as an academic public charter school. The mission of the School is to educate responsible citizen-scholars for success in the college of their choice and a life of active citizenship.

Basis of accounting: The School prepares its financial records on the accrual basis of accounting. Under this basis, support and revenue are recognized when earned, and expenses are recognized as incurred.

Basis of presentation: The School classifies revenues as restricted or unrestricted based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations. Resources are available for general operations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met either by actions of the School and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as released from restrictions. As of June 30, 2018 and 2017, there were no temporarily restricted net assets.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that are maintained permanently. As of June 30, 2018 and 2017, the School had no permanently restricted net assets.

Cash and cash equivalents: The School considers all short-term deposits in checking and savings accounts with original maturities of less than ninety days to be cash and cash equivalents. Balances may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

Grants receivable: Grants receivable are recorded when allowable expenses are incurred for government programs. Collectability is assessed based on the School's historical experience with the government programs. This balance is deemed fully collectible and therefore no allowance for doubtful accounts is deemed necessary as of June 30, 2018 and 2017.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

Property and equipment: Property and equipment costing \$2,500 or more is recorded at cost and depreciated over estimated useful lives of three to seven years using the straight-line method.

Deferred rent: Rent expense is being recognized on a straight-line basis over the term of the lease. The difference between the amounts expensed and the required lease payments are reflected as deferred rent in the accompanying Statements of Financial Position, which is a non-cash item.

Revenue recognition:

Charter school – per pupil funding – A substantial portion of the School’s revenue is derived from the District of Columbia Public School system, which is based on a student allocation formula linked to enrollment. Related revenue is recognized ratably over the school year. Amounts received in advance for summer school are deferred and recognized over the period to which the funding relates.

D.C. facilities allowance – The School recognizes a facility allowance based on a student allocation formula linked to enrollment as determined by the D.C. government. Related revenue is recognized ratably over the school year. Amounts received in advance are deferred and recognized over the period to which the funding relates.

Government grants – The School recognizes grant revenue in amounts equal to total allowable expenditures made during the period for the purposes specified by the grant.

Contributions – The School recognizes all unconditional contributions received as income in the period received or pledged.

In-kind contributions: In-kind contributions are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. During the years ended June 30, 2018 and 2017, the School received in-kind general legal services having a fair value of \$14,051 and \$138,505, respectively.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

Income taxes: The School is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

Uncertainties in income taxes: The School evaluates uncertainty in income tax positions taken or expected to be taken on a tax return based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of June 30, 2018 and 2017, there are no accruals for uncertain tax positions. If applicable, the School records interest and penalties as a component of income tax expense. Tax years from 2015 through the current year remain open for examination by tax authorities.

Use of accounting 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Costs that can be identified with particular programs or support functions are charged directly to the program or function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification: Certain 2017 balances have been reclassified to agree to 2018 presentation.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through December 18, 2018, which is the date the financial statements were available to be issued. See Note 11.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

2. Property and equipment

As of June 30, 2018 and 2017, property and equipment consisted of the following:

	2018	2017
Equipment, software and computers	\$ 455,894	\$ 364,736
Furniture and fixtures	93,125	83,496
Leasehold improvements	8,343	8,343
Total	557,362	456,575
Accumulated depreciation	(294,198)	(210,118)
Property and equipment, net	\$ 263,164	\$ 246,457

Depreciation expense was \$84,080 and \$107,280 for the years ended June 30, 2018 and 2017, respectively.

3. Operating lease

The School is obligated under an operating sublease for approximately 42,528 net rentable square feet of office space in Washington, D.C., which was to expire in June 2026. The lease provided for escalating payments and the School has the right to perform construction on the property. Deferred rent represents the non-cash difference between the annual cash payments under the lease and the straight-line recognition of rent expense. During the year ended June 30, 2018, management determined that they would terminate the lease as of June 30, 2019.

Total rent expense was \$1,630,155 and \$1,739,373 for years ended June 30, 2018 and 2017, respectively. The future minimum rental payments required under the operating lease are \$2,292,955 for fiscal year 2019.

4. Capital lease

The School leases equipment under capital lease obligations, which expire in September 2022. The asset and liability under the capital leases is recorded at the present value of the minimum lease payments. The amount necessary to reduce the minimum lease payments to their net present value is calculated at the interest rate implicit in the leases of 6% per annum.

The following is a summary of property held under capital leases as of June 30, 2018 and 2017:

	2018	2017
Equipment and computers	\$ 182,246	\$ 125,637
Accumulated depreciation	(109,777)	(82,457)
Total	\$ 72,469	\$ 43,180

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

Depreciation expense relating to property held under capital leases for the years ended June 30, 2018 and 2017 was \$27,320 and \$63,303, respectively.

Minimum future payments under the capital leases as of June 30, 2018, are as follows:

Year ending June 30,	Amount
2019	\$ 28,141
2020	28,069
2021	28,069
2022	7,080
Total minimum lease payments	91,359
Less: imputed interest	(8,531)
Subtotal	82,828
Less: current portion	(23,887)
Non-current portion	\$ 58,941

5. Retirement plan The School participates in a 403(b) retirement plan. Eligible employees may contribute up to 100% of their salary. The School matches up to 15% of yearly pay. For the years ended June 30, 2018 and 2017, the School contributed \$103,498 and \$127,847, respectively, to the retirement plan.

6. Concentration The School is supported primarily through local and federal allocations and grants. Approximately 90% and 96% of total revenue for the years ended June 30, 2018 and 2017, respectively, were provided through one government agency. One government agency was responsible for 100% and 77% of total receivables as of June 30, 2018 and 2017, respectively.

7. Charter school per pupil funding and facilities allowance The School receives funding from the District of Columbia which is based on a student allocation formula linked to enrollment. The funding is received in the form of per pupil education allotments and facility allotments and was as follows:

Years ended June 30,	2018	2017
General education	\$ 7,336,937	\$ 6,997,457
Special education	1,991,910	1,326,180
Special education compliance	189,192	134,619
At-risk students	1,126,682	1,026,253
Facilities allowance	2,059,310	2,049,344
Total D.C. allotments	\$ 12,704,031	\$ 11,533,853

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

The average total cost per student was approximately \$22,192 and \$21,065 for the years ended June 30, 2018 and 2017 respectively.

Per pupil education allotments during the years ended June 30, 2018 and 2017 were \$16,503 and \$14,458, respectively.

Per pupil facility allotments during the years ended June 30, 2018 and 2017 were \$3,193 and \$3,124, respectively.

8. Related party transactions

The School is an independent legal entity but is affiliated with two organizations: Democracy Prep Public Schools, Inc. (DPPS) and Democracy Prep Charter School (DPCS).

The School is managed by DPPS as noted in Note 9. For the years ended June 30, 2018 and 2017, DPPS incurred costs on behalf of the School in the amount of \$175,826 and \$174,495, respectively, for rent, general expenses and payroll expenses, for which they are reimbursed. The balance due to DPPS at June 30, 2018 was \$31,145. The balance due from DPPS at June 30, 2017 was \$20,214. In addition, during the year ended June 30, 2017, DPPS provided an interest free short term loan of \$80,000 to the School for cash flow purposes which was paid in full as of June 30, 2017.

During the years ended June 30, 2018 and 2017, DPCS incurred costs totaling \$0 and \$4,876, respectively, on behalf of the School for general operating expenses and was reimbursed for those costs. The balance due to DPCS was \$55,517 and \$55,510 at June 30, 2018 and 2017, respectively which is included in the accounts payable – related party on the Statements of Financial Position.

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

9. Management fees

The School is managed by a related party (see Note 8), Democracy Prep Public School (“DPPS”), a New York State not-for-profit charter management organization. On July 1, 2014, the School entered into a management agreement with DPPS to assume responsibility for the School’s educational process, management, and operations. As compensation to DPPS for these services, the School shall pay to DPPS an annual fee equal to 15% of non-competitive public revenue in the initial term. This percentage will decrease by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of the non-competitive public revenue, which percentage will remain in effect for all subsequent renewal terms. The agreement was renewed beginning July 1, 2017 and ended June 30, 2018. The annual fee was 14% and 14.5% of non-competitive public revenue, for the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the DPPS management fee incurred by the School was \$1,542,856 and \$823,298, respectively. The agreement was renewed for the 2018-2019 school year. See Note 11 for subsequent event.

In July 2014, the School entered into an instruction agreement with Apple Tree Institute for Education (Apple Tree), a District of Columbia organization. The agreement was renewed beginning July 1, 2017 and ended June 30, 2018. Automatic renewals will continue for successive one-year periods unless either party gives notice, at least 120 days prior to the expiration of the then-current term, of its intention to not renew the agreement. Apple Tree fully manages and operates the educational program for pre-school and pre-kindergarten (“Pre-K3” and “Pre-K4”). Apple Tree is solely responsible for all costs associated with operating the program, including, but not limited to compensation for teachers and administrators, curriculum related expenses, classroom furniture and supplies, and all liabilities associated with operating the program including expenses associated with special education. As a management fee for the services rendered, Apple Tree shall receive an amount equal to the per-pupil funding the School receives for its enrolled Pre-K3 and Pre-K4 students excluding the facilities allotment and less any administrative fees. For the years ended June 30, 2018 and 2017, the Apple Tree management fee incurred by the School was \$1,452,928 and \$1,655,118, respectively, and is recorded under student services on the Statements of Functional Expenses.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

**10. Going concern
evaluation**

Management has evaluated conditions and events, in the aggregate, regarding the School's ability to meet their financial obligations as they become due within one year from the date of these financial statements. Management's evaluation considered only relevant conditions and events that are known and reasonably knowable at the date the financial statements were available to be issued.

The School built out additional classrooms that were completed by the beginning of the 2018-2019 school year. With the additional space, the expected number of scholars increased from 656 to 758. The School is under new management as noted in Note 11. The D.C. Public Charter School Board voted in December 2018 to revoke the School's charter status for the 2019-2020 school year. There is an appeals hearing in January 2019. If the vote is negative, this raises substantial doubt about the School's continuing existence for at least one year from the date of these financial statements. Regardless of the outcome, the School will be allowed to complete its 2018-2019 school year.

As of the end of the first quarter of the fiscal year 2019, the School anticipated that while revenues and expenses increase, the expenses would increase at a much lower rate; therefore, the School expects an increase in cash reserve at year end.

Expenses as a whole have decreased for the 2018-2019 school year, with a decrease in redundant staffing as well as more active budget line item management. As a result, expenditures are expected to stay in line with projected revenues and cash reserves are expected to increase at year end.

The School feels that its continuing efforts to increase revenue and keep expenses at a lower rate will provide revenue stability over the coming school year.

**11. Subsequent
event**

In July 2018, the DPPS charter management organization announced that it would not renew its contract with the School for the 2019-2020 school year and that the School would look for a new operator. The School's board of trustees contracted with TenSquare, a turnaround provider effective November 5, 2018. DPPS transitioned away from managing the School's operations and budget as of November 7, 2018 and is continuing to provide certain administrative services as of December 18, 2018. The School will continue its charter under conditions set by the D.C. Public Charter School Board through the end of the 2018-2019 school year. A vote on the continuation of the School's charter status resulted in the revocation of the charter status affecting the 2019-2020 school year. The School has an opportunity to appeal the results of the vote in a hearing scheduled for January 2019. If the School continues, it must meet the following conditions:

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

- a.) The School will be required to remove DPPS from all legal, financial, and operational control of the School by June 30, 2019, and revise the charter agreement and any governing documents to reflect the change in governance.

- b.) The School will be required to change its name and make all necessary changes to the charter agreement and governing documents by June 30, 2019.

Whether the School will appeal the results of the vote is uncertain at the time of issuance of these statements. If the appeal is not approved, there is substantial doubt about the School's ability to continue as a going concern as noted in Note 10.

Subsequent to the year ended June 30, 2018, DPPS forgave all accumulated unpaid management fees due to DPPS from the School totaling \$712,317.



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*

Board of Directors
Democracy Prep Congress Heights Public Charter School
Washington, D.C.

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

☎ 301.231.6200
☎ 301.231.7630
www.aronsonllc.com
info@aronsonllc.com

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Democracy Prep Congress Heights Public Charter School** (a nonprofit School), which comprise the Statements of Financial Position as of June 30, 2018 and 2017, and the related Statements of Activities and Changes in Net Assets, Functional Expenses and Cash Flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2018.

Internal Control over Financial Reporting

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

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

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

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* (Continued)

weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

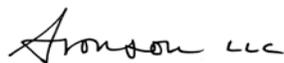
As part of obtaining reasonable assurance about whether **Democracy Prep Congress Heights Public Charter School’s** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Democracy Prep Congress Heights Public Charter School’s Response to Findings

Democracy Prep Congress Heights Public Charter School’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Democracy Prep Congress Heights Public Charter School’s** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Rockville, Maryland
December 18, 2018



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

Board of Directors
Democracy Prep Congress Heights Public Charter School
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited **Democracy Prep Congress Heights Public Charter School's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **Democracy Prep Congress Heights Public Charter School's** major federal programs for the year ended June 30, 2018. **Democracy Prep Congress Heights Public Charter School's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Democracy Prep Congress Heights Public Charter 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; 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 **Democracy Prep Congress Heights Public Charter 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 **Democracy Prep Congress Heights Public Charter School's** compliance.

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

☎ 301.231.6200
☎ 301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance (Continued)

Opinion on Each Major Federal Program

In our opinion, **Democracy Prep Congress Heights Public Charter 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, 2018.

Report on Internal Control over Compliance

Management of **Democracy Prep Congress Heights Public Charter School** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Democracy Prep Congress Heights Public Charter 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 **Democracy Prep Congress Heights Public Charter School’s** internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant

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

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.

Aronson LLC

Rockville, Maryland
December 18, 2018

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Amount Passed Through to Subrecipients	Federal Expenditures
Department of Education			
Charter Schools Program (CSP)	84.282M	\$ -	\$ 68,331
<i>Pass-through from the D.C. Office of State Superintendent of Education</i>			
Title I Grants to Local Education Agencies	84.010A	-	408,202
Title IIA - Preparing, Training, and Recruiting High Quality Teachers and Principals	84.367A	-	14,630
Title IIA - SAHE 2016 Teacher Quality Improvement Grant	84.367	-	82,564
IDEA 611 - Annual	84.027A	-	115,372
IDEA 619 - Preschool	84.173A	-	778
SP ED Enhancement Funds	N/A	-	24,671
SOAR Act - IAQ and EC Combined	84.999/84.370C	-	84,481
Schools Technology Fund	N/A	-	14,676
Subtotal Department of Education pass-through programs		-	745,374
Total direct and indirect Department of Education		-	813,705
Department of Agriculture			
<i>Pass-through from the D.C. Office of State Superintendent of Education</i>			
National School Lunch Program	10.555	-	544,477
Federal Communications Commission			
Universal Service Administrative Company Schools and Libraries Division E-Rate	32.001	-	29,125
Total expenditures of federal awards		\$ -	\$ 1,387,307

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Democracy Prep Congress Heights Public Charter School

Notes to Schedule of Expenditures of Federal Awards

- 1. Basis of presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Democracy Prep Congress Heights Public Charter School under programs of the federal government for the year ended June 30, 2018. 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 Democracy Prep Congress Heights Public Charter School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Democracy Prep Congress Heights Public Charter School.
- 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.
- 3. Indirect cost rate**

Democracy Prep Congress Heights Public Charter School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

Section II - Financial Statement Findings

Finding 2018-001: Significant Deficiency – Closing Process

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). A condition of receiving federal funding is that there be adequate internal controls in place over financial reporting.

Condition – The School made substantial entries to the trial balance several months after closing to properly state balances at year end. In addition, the accounts receivable balance did not reconcile to the support provided resulting in an audit adjustment of \$61,545.

Context – The School experienced turn over in their accounting department and staffing was insufficient. This caused delays in the timeliness and effectiveness of the final year-end closing process.

Effect – Several client prepared adjustments and an audit adjustment were required to accurately report balances at June 30, 2018.

Cause – The School had inadequate staffing for a portion of the year.

Repeat finding – This is not a repeat finding.

Statistical sampling – Sampling was not necessary in this instance.

Auditor's recommendation – Adequate staffing of the accounting department should be considered when conducting an effective year-end close.

Management's response and corrective action plan (unaudited) – Democracy Prep Public Schools Inc. (DPPS), as the management company for the School in the fiscal year ended June 30, 2018 is in agreement that adequate staffing of the accounting department will be considered by the new consulting firm, TenSquare (see Note 11 to the financial statements), School management and its Board of Directors, in order for an effective year-end close.

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior Year Financial Statement Findings

None

Section V – Prior Year Compliance Findings

None