

**DEMOCRACY PREP CONGRESS HEIGHTS
PUBLIC CHARTER SCHOOL**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016 AND PERIOD FROM INCEPTION
(APRIL 3, 2014) TO JUNE 30, 2015**

**Democracy Prep Congress Heights
Public Charter School**

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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, 2016 and 2015, and the related Statements of Activities and Changes in Net Assets and Cash Flows for the year ended June 30, 2016 and for the period from inception (April 3, 2014) to June 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2016 and 2015, and the changes in its net assets and its cash flows for the year and period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (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 January 13, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Democracy Prep Congress Heights Public Charter School's** internal control over financial reporting and compliance.

Aronson LLC

Rockville, Maryland
January 13, 2017

**Democracy Prep Congress Heights
Public Charter School**

Statements of Financial Position

<i>June 30,</i>	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 568,893	\$ 1,184,125
Grants receivable	1,010,823	624,619
Prepaid expenses	54,507	108,446
Total current assets	1,634,223	1,917,190
Property and equipment, net	176,366	189,132
Total assets	\$ 1,810,589	\$ 2,106,322
Liabilities and Net Assets		
Current liabilities		
Capital lease obligations	\$ 49,891	\$ 45,666
Accounts payable	395,670	232,072
Accounts payable - related party	57,549	577,807
Accrued expenses	187,670	288,750
Accrued salaries	251,186	182,358
Other current liabilities	41,817	39,570
Total current liabilities	983,783	1,366,223
Noncurrent liabilities		
Deferred rent (see Note 3)	538,225	351,622
Capital lease obligation, net of current portion	5,863	52,501
Total noncurrent liabilities	544,088	404,123
Total liabilities	1,527,871	1,770,346
Net unrestricted assets		
Unrestricted net assets	151,468	204,726
Board designated net assets	131,250	131,250
Total unrestricted net assets	282,718	335,976
Total liabilities and net assets	\$ 1,810,589	\$ 2,106,322

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

*Year Ended June 30, 2016 and Period from Inception
(April 3, 2014) to June 30, 2015*

	2016	2015
Revenues and support		
Charter school - per pupil funding	\$ 8,641,311	\$ 8,213,547
D.C. facilities allowance	2,009,678	1,904,639
Government grants	1,312,830	1,141,655
Contributions	26	236
In-kind contributions	93,996	47,494
Total revenues and support	12,057,841	11,307,571
Expenses		
Program	10,527,853	9,459,748
Management and general	1,583,246	1,511,847
Total expenses	12,111,099	10,971,595
Change in net assets	(53,258)	335,976
Net assets, beginning of period	335,976	-
Net assets, end of period	\$ 282,718	\$ 335,976

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

*Year Ended June 30, 2016 and Period from Inception
(April 3, 2014) to June 30, 2015*

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (53,258)	\$ 335,976
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	92,372	66,858
(Increase) decrease in		
Grants receivable	(386,204)	(624,619)
Prepaid expenses	53,939	(108,446)
Increase (decrease) in		
Accounts payable	163,598	232,072
Accounts payable - related party	(520,258)	577,807
Accrued expenses	(101,080)	288,750
Accrued salaries	68,828	182,358
Other current liabilities	2,247	39,570
Deferred rent	186,603	351,622
Net cash (used) provided by operating activities	(493,213)	1,341,948
Cash flows from investing activities		
Purchase of property and equipment	(74,961)	(118,176)
Cash flows from financing activities		
Proceeds from related party loan	-	150,000
Payments on related party loan	-	(150,000)
Payments on capital lease obligations	(47,058)	(39,647)
Net cash used in financing activities	(47,058)	(39,647)
Net change in cash and cash equivalents	(615,232)	1,184,125
Cash and cash equivalents, beginning of period	1,184,125	-
Cash and cash equivalents, end of period	\$ 568,893	\$ 1,184,125
Supplemental cash flow information		
Payment of interest	\$ 5,064	\$ 6,278
Non-cash financing activities		
Equipment obtained through capital lease	\$ 4,645	\$ 137,814

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.

Board designated net assets – The board may designate the use of unrestricted net assets to enhance operational capabilities. As of June 30, 2016 and 2015, the board approved the use of \$131,250 of unrestricted net assets for the “Dream Dollar Fund,” which will be utilized to support future alumni college scholarship packages for first generation students. The board is able to amend the amount at any point to reallocate money earmarked for the “Dream Dollar Fund” if more time sensitive needs arise.

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, 2016 and 2015, there were no temporarily restricted net assets.

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

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

Grants receivable: Grants receivable are recorded when 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 at June 30, 2016 and 2015.

Property and equipment: Property and equipment costing \$1,000 or more is recorded at cost and depreciated over estimated useful lives of three to seven years using the straight-line method. Subsequent to year end, the threshold for capitalization was increased to \$2,500.

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. 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. 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

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

be typically purchased if not provided by donation. During the year ended June 30, 2016 and period from inception (April 3, 2014) to June 30, 2015, the School received in-kind general legal services having a fair value of \$93,996 and \$47,494, respectively.

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, 2016 and 2015, 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 2015 balances have been reclassified to conform to the 2016 presentation.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through January 13, 2017, which is the date the financial statements were available to be issued.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

2. Property and equipment

As of June 30, 2016 and 2015, property and equipment consisted of the following:

	2016	2015
Equipment and computers	\$ 260,418	\$ 230,155
Furniture and fixtures	56,734	19,068
Software	18,444	6,767
Total	335,596	255,990
Accumulated depreciation	(159,230)	(66,858)
Property and equipment, net	\$ 176,366	\$ 189,132

Depreciation expense was \$92,372 and \$66,858 for the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015, respectively.

3. Operating lease

In July 2014, the School entered into an operating sublease for approximately 42,528 net rentable square feet of office space in Washington, D.C., which expires in June 2026. The lease provided for escalating payments. In December 2015, new lease terms were agreed upon which altered the payment terms of the lease and the School now has the right to perform construction on the property. There was no change in rental space or the expiration date of the lease. The remaining deferred rent balance of \$416,784 from the previous lease will be amortized over the life of the lease. Deferred rent represents the non-cash difference between the annual cash payments under the lease and the straight-line recognition of rent expense.

Total rent expense was \$1,497,846 and \$1,816,712 for year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015, respectively. The following is a schedule by year of future minimum rental payments required under the operating lease:

Year ending June 30,	Amount
2017	\$ 1,531,226
2018	1,569,507
2019	1,608,745
2020	1,648,963
2021	1,690,187
Thereafter	9,265,967
Total	\$ 17,314,595

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

4. Capital lease

The School leases equipment under capital lease obligations, which expire in July 2018. 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, 2016 and 2015:

	2016	2015
Equipment and computers	\$ 142,459	\$ 137,814
Less: accumulated depreciation	(85,639)	(38,282)
Total	\$ 56,820	\$ 99,532

Depreciation expense relating to property held under capital leases for the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015 was \$47,357 and \$38,282, respectively.

Minimum future payments under the capital leases as of June 30, 2016, are as follows:

Year ending June 30,	Amount
2017	\$ 51,693
2018	5,769
2019	133
Total minimum lease payments	57,595
Less: imputed interest	(1,841)
Subtotal	55,754
Less: current portion	(49,891)
Non-current portion	\$ 5,863

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 year ended June 30, 2016 and for the period from inception (April 3, 2014) to June 30, 2015, the School contributed \$114,111 and \$85,616, respectively, to the retirement plan.

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

6. Concentration The School is supported primarily through local and federal allocations and grants. Approximately 88% and 89% of total revenue for the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015, respectively, were provided through one government agency. One government agency was responsible for 91% and 89% of total receivables as of June 30, 2016 and 2015, 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:

Year and period ended June 30,	2016	2015
General education	\$ 6,630,755	\$ 6,522,713
Special education	911,444	976,212
Special education compliance	100,480	104,982
English language learners	-	4,651
At-risk students	994,045	604,989
Special education ESY	4,587	-
Facilities allowance	2,009,678	1,904,639
Total D.C. allotments	\$ 10,650,989	\$ 10,118,186

The average total cost per student was approximately \$19,471 for the year ended June 30, 2016 and \$17,500 for the the period from inception (April 3, 2014) to June 30, 2015.

Per pupil education allotments during the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015 were \$13,893 and \$13,248, respectively.

Per pupil facility allotments during the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015 were \$3,231 and \$3,072, respectively.

8. Related party transactions The School is an independent legal entity but is affiliated with three organizations: Democracy Prep Public Schools, Inc. (DPPS), Democracy Prep Charter School (DPCS) and Democracy Builders, Inc. (DBI).

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

The School is managed by DPPS as noted in Note 9. For the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015, DPPS incurred costs on behalf of the School in the amount of \$70,845 and \$259,652, respectively, for rent and payroll expenses, for which they were reimbursed. The balance due to DPPS at June 30, 2016 and 2015 was \$57,549 and \$577,807, respectively, which is included in accounts payable – related party on the Statements of Financial Position.

In addition, during the initial period ended June 30, 2015, DPPS provided an interest-free loan of \$150,000 to the School for cash flow purposes. This loan was repaid in full as of June 30, 2015.

The School has a contract for communications services with a service provider through DPCS. For the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015, the amount reimbursed to DPCS for these services was \$13,667 and \$11,144, respectively. In addition, during the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015, DPCS incurred costs totaling \$108,259 and \$86,016, respectively, on behalf of the School for general operating expenses and was reimbursed for those costs.

DBI is a recruitment and outreach entity that works to build awareness of the School and recruit students. Fees for recruiting costs totaled \$55,000 for the period from inception (April 3, 2014) to June 30, 2015, which was included in the management fee from DPPS. There were no recruiting costs for the year ended June 30, 2016.

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 is effective for two years, beginning July 1, 2014 and ending June 30, 2016. For the year ended June 30, 2016 and for the period from inception (April 3, 2014) to June 30, 2015 the DPPS management fee incurred by the School was \$1,527,375 and \$1,426,450, respectively.

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

In July 2014, the School entered into an instruction agreement with Apple Tree Institute for Education, a District of Columbia organization. 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 year ended June 30, 2016 and for the period from inception (April 3, 2014) to June 30, 2015, the Apple Tree management fee incurred by the School was \$1,650,825 and \$1,407,673, respectively.



Independent Auditor's Report on Supplementary Information

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We have audited the financial statements of **Democracy Prep Congress Heights Public Charter School** as of and for the year ended June 30, 2016, and as of June 30, 2015 and for the period from inception (April 3, 2014) to June 30, 2015, and our report thereon dated January 13, 2017 which expressed an unmodified opinion on those financial statements, appears on pages 1 - 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses are presented for the purposes of additional analysis and are 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.

Rockville, Maryland
January 13, 2017

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Functional Expenses

<i>Year Ended June 30, 2016</i>	Program Services	Management and General	2016 Total
Personnel, salaries, and benefits:			
Salaries	\$ 3,468,400	\$ 585,272	\$ 4,053,672
Employee benefits	666,552	111,897	778,449
Professional development	72,466	8,052	80,518
Total personnel, salaries, and benefits	4,207,418	705,221	4,912,639
Direct student costs:			
Contracted instruction fees	1,485,743	165,082	1,650,825
Supplies and materials	277,697	-	277,697
Student services	20,185	-	20,185
Food services	614,664	-	614,664
Total direct student cost	2,398,289	165,082	2,563,371
Occupancy expenses:			
Rent	1,348,061	149,785	1,497,846
Repairs and maintenance	253,464	28,163	281,627
Utilities	188,121	20,902	209,023
Total occupancy expenses	1,789,646	198,850	1,988,496
Office expenses:			
Professional fees	553,705	-	553,705
Printing and mailing	-	26,771	26,771
Total office expenses	553,705	26,771	580,476
General expenses:			
Management fees	1,307,825	219,550	1,527,375
Audit fees	-	27,241	27,241
Insurance	56,130	6,237	62,367
Marketing and recruitment	46,738	5,193	51,931
DCPCSB administration fee	-	116,428	116,428
Technology	72,875	8,097	80,972
In-kind legal support	-	93,996	93,996
Depreciation and amortization	83,135	9,237	92,372
Other general expense	12,092	1,343	13,435
Total general expenses	1,578,795	487,322	2,066,117
Total expenses	\$ 10,527,853	\$ 1,583,246	\$ 12,111,099

Refer to Independent Auditor's Report on Supplementary Information.

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Functional Expenses

<i>Period from Inception (April 3, 2014) to June 30, 2015</i>	Program Services	Management and General	2015 Total
Personnel, salaries, and benefits:			
Salaries	\$ 2,844,859	\$ 533,989	\$ 3,378,848
Employee benefits	512,246	96,150	608,396
Professional development	51,323	5,703	57,026
Travel	832	93	925
Total personnel, salaries, and benefits	3,409,260	635,935	4,045,195
Direct student costs:			
Contracted instruction fees	1,266,908	140,765	1,407,673
Supplies and materials	436,509	-	436,509
Student services	23,091	-	23,091
Food services	556,915	-	556,915
Total direct student cost	2,283,423	140,765	2,424,188
Occupancy expenses:			
Rent	1,635,041	181,671	1,816,712
Repairs and maintenance	283,124	31,459	314,583
Utilities	165,657	18,406	184,063
Total occupancy expenses	2,083,822	231,536	2,315,358
Office expenses:			
Professional fees	220,686	40,725	261,411
Printing and mailing	-	22,204	22,204
Total office expenses	220,686	62,929	283,615
General expenses:			
Management fees	1,204,225	222,225	1,426,450
Audit fees	-	27,000	27,000
Insurance	67,856	7,540	75,396
Marketing and recruitment	43,900	4,878	48,778
DCPCSB administration fee	-	115,256	115,256
Technology	70,941	7,883	78,824
In-kind legal support	-	47,494	47,494
Depreciation and amortization	60,172	6,686	66,858
Other general expense	15,463	1,720	17,183
Total general expenses	1,462,557	440,682	1,903,239
Total expenses	\$ 9,459,748	\$ 1,511,847	\$ 10,971,595

Refer to Independent Auditor's Report on Supplementary Information.



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*

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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, 2016 and 2015, and the related Statements of Activities and Changes in Net Assets, and Cash Flows for the year ended June 30, 2016 and for the period from inception (April 3, 2014) to June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 13, 2017.

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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as findings 2016-001 and 2016-002, that we consider to be significant deficiencies.

Compliance and Other Matters

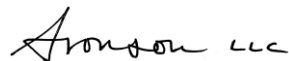
As part of obtaining reasonable assurance about whether **Democracy Prep Congress Heights Public Charter School’s** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-003.

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

Democracy Prep Congress Heights Public Charter School’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **Democracy Prep Congress Heights Public Charter School’s** responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
January 13, 2017



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, 2016. **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.

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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, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-003. Our opinion on each major federal program is not modified with respect to this matter.

Democracy Prep Congress Heights Public Charter School's response to the noncompliance finding 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 compliance and, accordingly, we express no opinion on the response.

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

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-003, that we consider to be a significant deficiency.

Democracy Prep Congress Heights Public Charter School's response to the internal control over compliance 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 compliance, and, accordingly, we express no opinion on the response.

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
January 13, 2017

**Democracy Prep Congress Heights
Public Charter School**
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Federal Grantor/Program Title	Pass-Through EIN#	Federal CFDA number	Federal Expenditures
<i>Pass-through from the D.C. Office of State Superintendent of Education</i>			
Department of Education	536001131		
Title I Grants to Local Education Agencies		84.010A	\$ 392,017
Title II - Preparing, Training, and Recruiting High Quality Teachers and Principals		84.367A	82,026
IDEA 611 - Annual		84.027A	114,567
IDEA 619 - Preschool		84.173A	1,770
MKV Homeless (Title X - PL 107-110)		N/A	19,475
Schools Technology Fund		N/A	30,101
Scholarships for Opportunity and Results (SOAR) Act		84.370C	75,778
Subtotal Department of Education pass-through programs			715,734
<i>Pass-through from the D.C. Office of State Superintendent of Education</i>			
Department of Agriculture	536001131		
National School Lunch Program		10.555	536,601
Federal Communications Commission			
Universal Service Administrative Company Schools and Libraries		32.001	60,495
Total expenditures of federal awards			\$ 1,312,830

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, 2016. 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, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes no
- Significant deficiency(s) identified? Yes none reported

Noncompliance material to financial statements noted? Yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes no
- Significant deficiency(s) identified? Yes none reported

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

Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516(a)? Yes no

Identification of Major Programs:

CFDA
84.010A
10.555

Federal Grantor
Department of Education
Department of Agriculture

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

Auditee qualified as low-risk auditee? Yes no

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2016

Section II - Financial Statement Findings

Finding 2016-001: Significant Deficiency – Cut-off for Accounts Payable

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). This includes ensuring that accounts payable are properly recorded in the correct period.

Condition – Liabilities were understated as an accrual for a balance due to the D.C. government related to fiscal year 2016 was not recorded.

Context – A test of accruals revealed that a refund payment was made subsequent to year-end 2016 that should have been accrued as of June 30, 2016 as it related to 2016.

Effect – An adjustment was needed for financial presentation purposes.

Cause – Year-end close procedures did not capture the accrued liability.

Repeat finding – This is not a repeat finding.

Statistical sampling – Statistical sampling was not used; however, nonstatistical sampling following AICPA guidelines was applied.

Auditor's recommendation – Additional review is recommended during year-end closing procedures to ensure that all accrued liabilities and accounts payable are properly recorded in the correct period.

Management's response and corrective action plan (unaudited) - We were only made aware of this payable with written notification received August 15, 2016. The end of our fiscal year was June 30, 2016. Without prior advisement of the payable, it was impossible to include the entry in fiscal year 2016 as our books were already closed. Going forward, we will extend the cut-off date of booking accounts receivable and accounts payable, in order to accommodate any notifications that may be received beyond our close date. Greg Spreeman, Chief Financial Officer is the primary contact for any agency questions.

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2016

Section II - Financial Statement Findings (continued)

Finding 2016-002: Significant Deficiency – Non-cash Consideration of Deferred Rent for Change in Lease Terms

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). ASC 840-10-25 addresses changes in lease terms and ASC 470-50-40-6 addresses extinguishment of debt. The School entered into a new lease for the same property in December 2015. The new lease provided for the School to have build-out authority and the new payment terms were substantially less than those of the previous lease. There was no change in rental space or the expiration of the lease.

Condition – The School recognized a gain by de-recognizing the deferred rent liability when the lease was amended, causing the deferred rent liability to be understated.

Context – Facts and circumstances had to be evaluated in order to determine the proper accounting treatment. It was determined that the remaining deferred rent credit needed to be amortized over the life of the lease in order to properly reflect straight-line expense over the entire lease period. Deferred rent represents the non-cash difference between the annual cash payments under the lease and the straight-line recognition of rent expense.

Effect – An adjustment was needed for financial presentation purposes.

Cause – The School determined that there was a termination of the lease and recognized a gain but should have amortized the difference in the deferred rent liability over the life of the lease.

Repeat finding – This is not a repeat finding.

Statistical sampling – Sampling was not necessary in this instance.

Auditor's recommendation – Research should be conducted and accounting principles requiring the straight-line recognition of rent expense should be considered when lease terms are amended.

Management's response and corrective action plan (unaudited) - Lease accounting is one of the more complex areas of accounting. While the space covered by the lease and the length of the lease remained the same, the terms were such that the new lease was, as pointed out by the auditor, at a substantially lower cost, the lessor changed, and the new lease provided for build-out authority. In addition to this, the new lease included, among other things not part of the former lease, a Modified Sublease Structure, Tri-Party Agreement, Western Portion LOI, SNDAs, Escrow Requirement, Required Repairs, Additional Rent, (Clarification provision was added to Sections 3.4, 3.5 and 8.2.4 in the Amended Sublease explicitly carving

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2016

Section II - Financial Statement Findings (continued)

out Old Congress Heights' obligations and the related expenses from DP's responsibilities), Insurance, Environmental Reps, Assignment/Sublease, Sublandlord Financing, Subtenant Default, Condemnation, right to remove "smart boards" from prohibition on removal of wall installations upon termination or expiration, Extension Options, (Prior Sub-Sublease was coterminous with original Prime Sublease, but prior Sub-Sublease did not provide DP with any extension rights. Amended Sublease grants DP 4 extension options of 5 years each after initial termination date), Subtenant Termination Right.

Based on the differences between the two agreements, and the extinguishment of the lease with the former landlord, our interpretation of GAAP was that it was acceptable to extinguish the deferred rent in the current year as opposed to amortizing it over the length of the new lease. Not to be lost, we find it important, as pointed out by the auditor, the transaction ultimately resulted in a non-cash difference between the annual cash payments under the lease and the straight-line recognition of rent expense.

While we respect the opinion of the auditor, we don't necessarily agree with the finding based on the significant differences between the two agreements. Should it be necessary in the future, we will also see the advice of FASB where possible. Greg Spreeman, Chief Financial Officer is the primary contact for any agency questions.

Section III – Federal Award Findings and Questioned Costs

Finding number: 2016-003

Federal Agency: Department of Education

CFDA#: 84.010A

Program: Title I Grants to Local Education Agencies

Compliance Requirement: 2 CFR Ch. II pt 230, Appendix B subsection m. *Support of Salaries and Wages*

Criteria - In accordance with 2 CFR Ch. II pt 230, Appendix B subsection m. *Support of Salaries and Wages*, charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports except when a substitute system has been approved in writing by the cognizant agency. Reports reflecting the distribution of activity

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs (continued)

of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

Condition - The School did not maintain timesheets for salaried staff for a portion of the year until new internal controls were implemented as a result of a prior year finding regarding timesheet maintenance. The use of timesheets was implemented in January 2016.

Context – Hourly employees maintained timesheets; however, salaried staff did not for a portion of the year. The salaried staff are largely comprised of teachers whose time is spent on program wide activities. Their time had not been tracked in timesheets as required by federal regulation and recommended by the D.C. Public Charter School Board.

Questioned costs – None

Cause – The School was unaware of the need to track time for salaried personnel until the audit of fiscal 2015.

Effect – The School did not have proper documentation for time spent on program wide activities or specific grants by salaried staff for a portion of the year. The issue was resolved in January 2016.

Auditor’s recommendation – The School should require all staff, including salaried staff, whose time gets charged to a federal award to track their time worked in timesheets. The timesheets should reflect the after-the-fact determination of the actual activity of each employee. Budget estimates do not qualify as support for charges to awards. The timesheets should be signed by the individual and also by a responsible supervisory official having first-hand knowledge of the activities performed by the employee. The timesheets should encompass the total number of hours worked each day, and not just the time spent on grant awards. Timesheets should be required to be submitted contemporaneous to the time worked.

Repeat finding – This is a repeat finding from 2015.

Statistical sampling – Statistical sampling was not used; however, nonstatistical sampling following AICPA guidelines was applied.

Management’s response and corrective action plan (unaudited) - As soon as we were made aware by our auditors, we changed our process in order to be compliant. We will continue to do so in the future. The issue was resolved in January 2016. Greg Spreeman, Chief Financial Officer is the primary contact for any agency questions.

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2016

Section IV – Prior Year Financial Statement Findings (continued)

Finding 2015-001: Material Weakness – Board Designated Funds

Condition – The School recorded the board designation by creating a payable and a correlating expense in order to track the designated funds instead of setting aside a portion of unrestricted net assets for the future expenditure.

Current year status – No similar issues were noted in the current year.

Finding 2015-002: Significant Deficiency – In-kind Contributions

Condition – The School retained an attorney who worked on a pro bono basis, and the services were not recorded.

Current year status – No similar issues were noted in the current year.

Finding 2015-003: Significant Deficiency – Year-end Close

Condition – Liabilities were understated as the accrued vacation had not been recorded during year-end close.

Current year status – No similar issue related to accrued vacation was noted in the current year.

Finding 2015-004: Significant Deficiency – Capital Leases

Condition – Assets and liabilities were understated as the leased equipment had not been capitalized.

Current year status – No similar issues were noted in the current year.

Section V – Prior Year Federal Award Findings and Questioned Costs

Finding number: 2015-005

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2016

Section V – Prior Year Federal Award Findings and Questioned Costs (continued)

Federal Agency: Department of Education

CFDA#: 84.010A

Program: Title I Grants to Local Education Agencies

Compliance Requirement: 2 CFR Ch. II pt 230, Appendix B subsection m. *Support of Salaries and Wages*

Condition - The School did not maintain timesheets for salaried staff.

Current year status – See current year finding 2016-003. The issue was resolved in January 2016.



Independent Auditor's Report on Compliance with the District of Columbia School Reform Act, As Amended

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

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 Statement of Financial Position as of June 30, 2016 and 2015, and the related Statements of Activities and Changes in Net Assets, and Cash Flows for the year ended June 30, 2016 and the period from inception (April 3, 2014) to June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 13, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that **Democracy Prep Congress Heights Public Charter School** failed to comply with the types of compliance requirements described in the District of Columbia School Reform Act, as amended, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding **Democracy Prep Congress Heights Public Charter School's** noncompliance with the above referenced types of compliance requirements, insofar as they relate to accounting matters.

This report is intended solely for the information of management, the Board of Directors, the District of Columbia Public Charter School Board, and awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Rockville, Maryland
January 13, 2017