

**DEMOCRACY PREP CONGRESS HEIGHTS
PUBLIC CHARTER SCHOOL**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2017 AND 2016

**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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

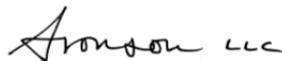
Other Matters

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 15, 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.



Rockville, Maryland
December 15, 2017

**Democracy Prep Congress Heights
Public Charter School**

Statements of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 96,732	\$ 568,893
Grants receivable	972,963	1,010,823
Prepaid expenses	356,137	54,507
Total current assets	1,425,832	1,634,223
Property and equipment, net	246,457	176,366
Total assets	\$ 1,672,289	\$ 1,810,589
Liabilities and Net Assets		
Current liabilities		
Capital lease obligations	\$ 25,710	\$ 49,891
Accounts payable	302,674	395,670
Accounts payable - related party	35,296	57,549
Accrued expenses	190,869	187,670
Accrued salaries	314,291	251,186
Other current liabilities	32,930	41,817
Total current liabilities	901,770	983,783
Noncurrent liabilities		
Deferred rent	670,771	538,225
Capital lease obligations, net of current portion	82,828	5,863
Total noncurrent liabilities	753,599	544,088
Total liabilities	1,655,369	1,527,871
Net unrestricted assets		
Unrestricted net assets	16,920	151,468
Board designated net assets	-	131,250
Total unrestricted net assets	16,920	282,718
Total liabilities and net assets	\$ 1,672,289	\$ 1,810,589

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>	2017	2016
Revenues and support		
Charter school - per pupil funding	\$ 9,484,509	\$ 8,641,311
D.C. facilities allowance	2,049,344	2,009,678
Government grants	1,303,685	1,312,830
Contributions	22,732	26
In-kind contributions	138,505	93,996
Total revenues and support	12,998,775	12,057,841
Expenses		
Program	11,503,936	10,527,853
Management and general	1,760,637	1,583,246
Total expenses	13,264,573	12,111,099
Change in net assets	(265,798)	(53,258)
Net assets, beginning of period	282,718	335,976
Net assets, end of period	\$ 16,920	\$ 282,718

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:			
Contracted instruction fees	1,489,606	165,512	1,655,118
Supplies and materials	304,551	-	304,551
Student services	17,148	-	17,148
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**

Statement 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

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>	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (265,798)	\$ (53,258)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	107,280	92,372
Loss on disposal of property and equipment	25,813	-
Deferred rent	132,546	186,603
(Increase) decrease in		
Grants receivable	37,860	(386,204)
Prepaid expenses	(301,630)	53,939
Increase (decrease) in		
Accounts payable	(92,996)	163,598
Accounts payable - related party	(22,253)	(520,258)
Accrued expenses	3,199	(101,080)
Accrued salaries	63,105	68,828
Other current liabilities	(8,887)	2,247
Net cash used by operating activities	(321,761)	(493,213)
Cash flows from investing activities		
Purchase of property and equipment	(82,192)	(74,961)
Cash flows from financing activities		
Proceeds from related party loan	80,000	-
Payments on related party loan	(80,000)	-
Payments on capital lease obligations	(68,208)	(47,058)
Net cash used in financing activities	(68,208)	(47,058)
Net change in cash and cash equivalents	(472,161)	(615,232)
Cash and cash equivalents, beginning of period	568,893	1,184,125
Cash and cash equivalents, end of period	\$ 96,732	\$ 568,893
Supplemental cash flow information		
Payment of interest	\$ 6,196	\$ 5,064
Non-cash financing activities		
Equipment obtained through capital leases	\$ 120,992	\$ 4,645

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. During the year ended June 30, 2017, the board released all designated funds for general use. As of June 30, 2016, the board designated \$131,250 of unrestricted net assets for the “Dream Dollar Fund,” which was to be utilized to support future alumni college scholarship packages for first generation students. The board was able to amend the amount at any point to reallocate money earmarked for the “Dream Dollar Fund” if more time sensitive needs were to 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, 2017 and 2016, there were no temporarily 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.

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

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, 2017 and 2016.

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. Prior to July 1, 2016, the threshold for capitalization was \$1,000.

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

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, 2017 and 2016, the School received in-kind general legal services having a fair value of \$138,505 and \$93,996, 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, 2017 and 2016, 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.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through December 15, 2017, 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, 2017 and 2016, property and equipment consisted of the following:

	2017	2016
Equipment and computers	\$ 355,539	\$ 260,418
Furniture and fixtures	83,496	56,734
Software	9,197	18,444
Leasehold improvements	8,343	-
Total	456,575	335,596
Accumulated depreciation	(210,118)	(159,230)
Property and equipment, net	\$ 246,457	\$ 176,366

Depreciation expense was \$107,280 and \$92,372 for the years ended June 30, 2017 and 2016, 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 expires 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.

Total rent expense was \$1,739,373 and \$1,497,846 for years ended June 30, 2017 and 2016, respectively. The following is a schedule by year of future minimum rental payments required under the operating lease:

Year ending June 30,	Amount
2018	\$ 1,569,507
2019	1,608,745
2020	1,648,963
2021	1,690,187
2022	1,732,442
Thereafter	7,533,524
Total	\$ 15,783,368

- 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.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

The following is a summary of property held under capital leases as of June 30, 2017 and 2016:

	2017	2016
Equipment and computers	\$ 125,637	\$ 142,459
Less: accumulated depreciation	(82,457)	(85,639)
Total	\$ 43,180	\$ 56,820

Depreciation expense relating to property held under capital leases for the years ended June 30, 2017 and 2016 was \$63,303 and \$47,357, respectively.

Minimum future payments under the capital leases as of June 30, 2017, are as follows:

Year ending June 30,	Amount
2018	\$ 31,423
2019	28,202
2020	28,069
2021	28,069
2022	7,080
Total minimum lease payments	122,843
Less: imputed interest	(14,306)
Subtotal	108,538
Less: current portion	(25,710)
Non-current portion	\$ 82,828

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, 2017 and 2016, the School contributed \$127,847 and \$114,111, respectively, to the retirement plan.

6. Concentration

The School is supported primarily through local and federal allocations and grants. Approximately 96% and 88% of total revenue for the years ended June 30, 2017 and 2016, respectively, were provided through one government agency. One government agency was responsible for 77% and 91% of total receivables as of June 30, 2017 and 2016, respectively.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

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,	2017	2016
General education	\$ 6,997,457	\$ 6,630,755
Special education	1,326,180	911,444
Special education compliance	134,619	100,480
At-risk students	1,026,253	994,045
Special education ESY	-	4,587
Facilities allowance	2,049,344	2,009,678
Total D.C. allotments	\$ 11,533,853	\$ 10,650,989

The average total cost per student was approximately \$21,065 and \$19,471 for the years ended June 30, 2017 and 2016 respectively.

Per pupil education allotments during the years ended June 30, 2017 and 2016 were \$14,458 and \$13,893, respectively.

Per pupil facility allotments during the years ended June 30, 2017 and 2016 were \$3,124 and \$3,231, 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).

The School is managed by DPPS as noted in Note 9. For the years ended June 30, 2017 and 2016, DPPS incurred costs on behalf of the School in the amount of \$174,495 and \$70,845, respectively, for rent, general expenses and payroll expenses, for which they were reimbursed. 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. The balance due from DPPS at June 30, 2017 was \$20,214 and due to DPPS at 2016 was \$57,549, which is included net in accounts payable – related party on the Statements of Financial Position.

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

The School has a contract for communications services with a service provider through DPCS. For the years ended June 30, 2017 and 2016, the amount reimbursed to DPCS for these services was \$0 and \$13,667, respectively. In addition, during the years ended June 30, 2017 and 2016, DPCS incurred costs totaling \$4,876 and \$108,259, respectively, on behalf of the School for general operating expenses and was reimbursed for those costs. The balance due to DPCS was \$55,510 and \$45,380 at June 30, 2017 and 2016, respectively which is included in the accounts payable – related party on the Statements of Financial Position.

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 effective for two years, beginning July 1, 2014 and ending June 30, 2016. The agreement was renewed beginning July 1, 2016 and ending June 30, 2017, and the annual fee was 14.5% of non-competitive public revenue. For the years ended June 30, 2017 and 2016, the DPPS management fee incurred by the School was \$823,298 and \$1,527,375, respectively. The agreement was renewed as of July 1, 2017 and ending June 30, 2018 with the same terms.

In July 2014, the School entered into an instruction agreement with Apple Tree Institute for Education, a District of Columbia organization. The agreement was renewed beginning July 1, 2016 and ending June 30, 2017. 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, 2017 and 2016, the Apple Tree management fee incurred by the School was \$1,655,118 and \$1,650,825, respectively.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

As of July 1, 2017, the instruction agreement with Apple Tree automatically renewed for another one-year term. 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.

**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 is building out additional classrooms that will be completed by the beginning of the 2018-2019 school year. With the additional space, the expected number of scholars will increase from 656 to 870. This will drive up budgeted revenue to approximately \$14,300,000.

The School anticipates that while revenues and expenses increase, the expenses will increase at much lower rate, therefore, Management expects an increase in cash reserve at year end.

In addition, DPPS has an agreement with the School that prevents the School from having have zero net assets.

Management feels that their continuing efforts to increase revenue and keep expenses at a lower rate will provide revenue stability over the coming year. The School's Board and Management expects that they will be able to meet their financial obligations as they become due.

**11. Nonrecorded
subsequent
event**

In September 2017, a new Washington Teacher's Union (WTU) contract backdated to October 1, 2016 was approved by the WTU. Subsequently, in October 2017, the DC Council approved legislation to provide additional funding to both DC Public Schools (DCPS) and DC Public Charter Schools (DC PCS) through an increase in the Uniform Per Student Funding Formula (UPSFF). The additional funding will cover the increased salary and benefit expenses associated with the contract. Charter schools will receive a one-time payment based on fiscal year 2017 enrollment figures.

The amount of the one-time payment received by the School was \$192,237 and will be reflected as fiscal year 2018 revenue as the events leading to the supplemental funding did not occur until the subsequent period.



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, 2017 and 2016, 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 15, 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)

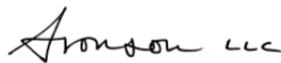
weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 15, 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, 2017. **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, 2017.

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 15, 2017

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Grantor/Program Title	Pass- Through EIN#	Federal CFDA Number	Amount Passed Through to Subrecipients	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	\$ -	\$ 411,364
Title II - Preparing, Training, and Recruiting High Quality Teachers and Principals		84.367A	-	127,872
IDEA 611 - Annual		84.027A	-	135,518
IDEA 619 - Preschool		84.173A	-	1,899
MKV Homeless (Title X - PL 107-110)		N/A	-	11,625
Schools Technology Fund		N/A	-	23,436
Subtotal Department of Education pass-through programs			-	711,714
<i>Pass-through from the D.C. Office of State Superintendent of Education</i>				
Department of Agriculture	536001131			
National School Lunch Program		10.555	-	548,242
Federal Communications Commission				
Universal Service Administrative Company Schools and Libraries				
Division E-Rate		32.001	-	43,729
Total expenditures of federal awards			\$ -	\$ 1,303,685

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, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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 (continued)

Year Ended June 30, 2017

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior Year Financial Statement Findings (continued)

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

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

Current year status – Similar issues occurred in the current year. An accrual was needed for an immaterial amount for professional services. Due to the immateriality of the adjustment, this was not deemed a finding for the current year.

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

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.

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

Section V – Prior Year 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

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2017

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

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 a portion of the year for salaried staff whose time is charged to the grant.

Current year status – No similar issue noted in the current year.