

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

**Financial Statements and Supplemental Schedules
Together with Reports of Independent
Public Accountants**

For the Years Ended June 30, 2017 and 2016



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JUNE 30, 2017 AND 2016

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Trustees
Eagle Academy Public Charter School

Report on the Financial Statements

We have audited the accompanying statements of financial position of Eagle Academy Public Charter School (the School) as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets 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; and the auditing standards established pursuant to the District of Columbia School Reform Act, Public law No. 104-134, 110 Stat. 1321-121, 2204(C)(11)(B)(ix)(1996); D.C. Official Code 38-1802.04(ii)(B)(2001, as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.



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Opinion

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

Other Matters

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedules of functional expenses are presented for purposes of additional analysis as required by the District of Columbia Public Charter School Board and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 in the accompanying statements of functional expenses is fairly stated, in all material respects, in relation to the basic 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 6, 2017, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Washington, DC
December 6, 2017

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

**Statements of Financial Position
As of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 270,082	\$ 180,085
Restricted cash	3,951,408	-
Grants and accounts receivable, net	2,683,456	2,238,054
Employee loans	15,129	21,924
Prepaid expenses	33,705	50,125
Total Current Assets	<u>6,953,780</u>	<u>2,490,188</u>
Deposits	72,440	72,440
Property and equipment, net	22,097,061	19,942,770
Total Assets	<u>\$ 29,123,281</u>	<u>\$ 22,505,398</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,255,762	\$ 1,511,878
Deferred revenue	-	12,200
Notes payable, current portion	538,069	15,084,506
Total Current Liabilities	<u>2,793,831</u>	<u>16,608,584</u>
Notes payable, net of current portion	20,130,598	-
Total Liabilities	<u>22,924,429</u>	<u>16,608,584</u>
Net Assets		
Unrestricted	4,958,711	5,896,814
Temporarily Restricted	1,240,141	-
Total Net Assets	<u>6,198,852</u>	<u>5,896,814</u>
Total Liabilities and Net Assets	<u>\$ 29,123,281</u>	<u>\$ 22,505,398</u>

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

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

**Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
CHANGE IN UNRESTRICTED NET ASSETS		
Revenue and Support:		
Per pupil funding	\$ 13,605,100	\$ 14,128,083
DC facilities allowance	2,742,869	2,874,080
Federal grants	2,166,139	3,069,158
Federal entitlements	584,600	501,146
Grants and contributions	23,353	43,541
Before and after care	627,160	162,712
Student fees	31,597	4,663
Interest income	1,765	845
Other income	351,619	375,328
Total Revenue and Support	<u>20,134,202</u>	<u>21,159,556</u>
Expenses		
Program Services	17,049,834	16,322,248
Supporting Services:		
General and administrative	3,818,574	3,906,444
Fundraising	203,897	121,892
Total Supporting Services	<u>4,022,471</u>	<u>4,028,336</u>
Total Expenses	<u>21,072,305</u>	<u>20,350,584</u>
Change in Unrestricted Net Assets	<u>(938,103)</u>	<u>808,972</u>
Temporarily Restricted Net Assets		
Grants	<u>1,240,141</u>	<u>-</u>
Changes in net assets	302,038	808,972
Net assets, beginning of year	<u>5,896,814</u>	<u>5,087,842</u>
Net Assets, End of Year	<u>\$ 6,198,852</u>	<u>\$ 5,896,814</u>

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

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Statements of Cash Flows For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 302,038	\$ 808,972
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	769,038	805,222
Write-off of grants and accounts receivable	562,024	66,595
Forgiveness of capital lease obligations	-	(39,808)
Effect of changes in non-cash operating assets and liabilities:		
Grants and accounts receivable, net	(1,007,426)	(1,020,873)
Employee loans	6,795	8,987
Prepaid expenses	16,420	(13,010)
Deposits	-	(18,745)
Accounts payable and accrued expenses	743,884	(220,534)
Deferred revenue	(12,200)	10,069
Net Cash from Operating Activities	<u>1,380,573</u>	<u>386,875</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,894,766)	(1,159,519)
Net Cash from Investing Activities	<u>(2,894,766)</u>	<u>(1,159,519)</u>
Cash Flows from Financing Activities		
Payment of deferred financing cost	(760,569)	-
Proceeds from issuance of notes payable	21,429,236	-
Principal payments on notes payable	(15,113,069)	(1,229,773)
Net Cash from Financing Activities	<u>5,555,598</u>	<u>(1,229,773)</u>
Net change in cash and cash equivalents	4,041,405	(2,002,417)
Cash and cash equivalents, beginning of year	180,085	2,182,502
Cash and Cash Equivalents, End of Year	<u>\$ 4,221,490</u>	<u>\$ 180,085</u>
Supplemental Disclosure		
Cash paid during the year for interest	<u>\$ 528,939</u>	<u>\$ 484,796</u>

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2017 and 2016

1. ORGANIZATION AND PROGRAM

Eagle Academy Public Charter School (the School), a nonprofit organization incorporated in the District of Columbia, has been granted 501(c)(3) status by the Internal Revenue Service. On August 18, 2003, the School entered into a contract with the District of Columbia Board of Education granting the School a charter for the establishment of a public charter school in Washington, DC, as authorized by the DC School Reform Act. The charter expires on August 18, 2018. The District of Columbia transferred regulatory oversight of all public charter schools chartered by the Board of Education to the District of Columbia Public Charter School Board on July 1, 2007.

As a DC public charter school, the School has a funding stream from the District of Columbia (uniform per pupil funding) and the U.S. Federal government (Federal grants for education and other programs) provided it meets certain compliance requirements. DC public charter schools are considered a Local Educational Agency (LEA) under Federal education guidelines. As a DC public charter school, the School enjoys significant freedom from the budget and operational restrictions placed on traditional public schools, allowing it to create a unique educational mission and approach.

The School provides educational opportunities to children from preschool to third grade in poverty-impacted households and economically distressed communities in the District of Columbia. The School is Washington DC's first exclusively early childhood specialty public school. It seeks to develop a solid academic foundation for each student, believing that through play, children will learn pre-reading and pre-math skills that will enable them to understand more complex skills. Educational goals include: (i) enabling each student to achieve grade-level maturity; (ii) encouraging parent participation regularly in school and home assigned activities in order to achieve a holistic academic environment, and (iii) establishing a solid community relationship so that children understand the importance of becoming a responsible member of their community.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

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

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The School considers all cash in the bank and other short-term investments with original maturities of less than 90 days to be cash and cash equivalents. Cash equivalents as of June 30, 2017 and 2016, consisted of money market funds.

Restricted Cash

Escrow accounts were maintained associated with the bonds and notes payable. The balance on the escrow accounts were \$3,951,408 as of June 30, 2017.

Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and notes payable. The carrying value of the School's financial instruments in the accompanying statements of financial position approximated their respective fair values as of June 30, 2017 and 2016. Fair values are estimated based on current market rates, prices or liquidation value.

Grants and Accounts Receivable

Grants and accounts receivable represent revenue earned, but not collected as of the year end. Receivables are recorded at their net realizable value. The School provides an allowance for doubtful accounts equal to the estimated uncollectible accounts. The School's estimate is based on historical collection experience and a review of the current status of specific accounts and grants receivable. There was an allowance for doubtful accounts of \$224,971, as of June 30, 2016. There was no allowance for doubtful accounts as of June 30, 2017.

Deferred Financing Costs

Deferred financing costs consist of debt issuance costs, such as bank fees and legal costs, associated with obtaining debt from BB&T, Building Hope, the DC Office of Public Chartered Schools, and DC Revenue Bonds. During the year ended June 30, 2017, the School incurred loan financing cost of \$760,569. These deferred financing costs are being amortized over the life of the loan using the straight line method, which approximates the effective interest rate method. Accounting principles generally accepted in the United States of America requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Net deferred financing costs were \$760,569 and \$28,563, as of June 30, 2017 and 2016, respectively. Amortization expense was \$28,563 and \$48,960, for the years ended June 30, 2017 and June 30, 2016, respectively.

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment valued in excess of \$1,000, with an estimated useful life of more than one year, are capitalized and recorded at cost if purchased or estimated fair market value as of the date of gift, if donated. Depreciation is recorded using the straight line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to expense as incurred.

Deferred Revenue

Deferred revenue consists of payments received in advance for summer camp. Deferred revenue was \$12,200, as of June 30, 2016.

Advertising Costs

The costs of advertising are expensed when the services are received. Advertising expense for the years ended June 30, 2017 and 2016, were \$240,466 and \$193,628, respectively.

Net Assets

Unrestricted net assets are assets and contributions that are not restricted by donors or for which restrictions have expired.

Temporarily restricted net assets are those whose use by the School has been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as unrestricted net assets. The temporarily restricted net assets was \$1,240,141, as of June 30, 2017, which are related to instruction program, nutrition program, facilities improvement program, and time restricted spending. There were no temporarily restricted net assets as of June 30, 2016.

Permanently restricted net assets are those that are restricted by donors to be maintained by the School in perpetuity. There were no permanently restricted net assets as of June 30, 2017 and 2016.

Restricted and Unrestricted Revenue and Support

The School receives a student allocation from the District of Columbia as well as Federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding and a facilities allotment. The School recognizes this funding in the year in which the school term is conducted. Revenue from other sources is recognized as earned.

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted and Unrestricted Revenue and Support (continued)

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Conditional contribution and grants, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. A conditional contributions or grants are considered unconditional if the possibility that the condition will not be met is remote.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

Revenue from other government sources is recognized as earned. In addition, the School recognizes revenue for student activities, such as field trips, as the activities take place.

Functional Expense Allocation

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. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the School.

Income Taxes

The School is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), as well as applicable District of Columbia tax laws.

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The School performed an evaluation of uncertain tax positions for the year ended June 30, 2017, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. For the year ended June 30, 2017, the statute of limitations for fiscal years 2015 through 2017 remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the School files tax returns. It is the School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The recognition and measurement of debt issuance costs are not affected by the new guidance. ASU 2015-03 was effective for fiscal years beginning after December 15, 2015. ASU 2015-03 was adopted for the year ended June 30, 2017. The adoption of ASU 2015-03 did not have a material impact on the School's financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 requires management to assess an entity's ability to continue as a going concern. Management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. This pronouncement was effective for the annual reporting periods ending after 15, 2016, and was effective for the fiscal year ended June 30, 2017.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* and ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, that provides updated guidance on the reporting model for not-for-profits and the statement of cash flows. These standards are effective for periods beginning after December 15, 2017 and December 15, 2018, respectively. Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates. Management does not believe the adoption of these pronouncements will have a material effect on the financial statements.

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The School's management evaluated subsequent events and transactions through December 6, 2017, the date the financial statements were available for issue, and have determined that no material subsequent events have occurred, except as disclosed in Note 8, that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. PROPERTY AND EQUIPMENT

As of June 30, 2017 and 2016, property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Life</u>
Land	\$ 522,049	\$ 276,301	N/A
Building	22,503,913	20,771,292	39 years
Construction in progress	420,668	32,292	N/A
Building improvements	910,009	729,595	1 to 9 years
Playground	80,618	63,756	7 years
Computers	674,907	512,804	3 years
Classroom furnishings	83,059	83,059	7 years
Office equipment and furnishings	136,813	132,793	7 years
Instructional equipment	273,117	108,305	7 years
Vehicles	10,820	10,820	3 years
Assets under capital leases	-	403,433	3 years
Total	<u>25,615,973</u>	<u>23,124,450</u>	
Less: accumulated depreciation	<u>3,518,912</u>	<u>3,181,680</u>	
Property and Equipment, Net	<u>\$ 22,097,061</u>	<u>\$ 19,942,770</u>	

Depreciation and amortization was \$740,475 and \$756,260, for the years ended June 30, 2017 and 2016, respectively.

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

4. NOTES PAYABLE

Notes payable consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Note payable from District of Columbia Office of the State Superintendent of Education dated May 25, 2017, bearing interest of 4.50%, payable in quarterly payments in year 1 of \$22,500 and year 2 and onward of \$70,700, beginning on August 15, 2017, with a balloon payment of remaining principal and unpaid interest due on May 25, 2022.	\$ 2,000,000	\$ -
Note payable from DC Revenue Bonds Series A dated May 25, 2017 for borrowings up to \$15,000,000, and Series B dated May 25, 2017 for borrowings up to \$3,500,000, for which John Marshall Bank is the banker and trustee. These notes bear interest at LIBOR plus 3.52%, payable in monthly payments beginning June 1, 2017. Principal is payable monthly and shall begin June 1, 2018. The bonds are to be paid on a monthly interest and principal basis based on a 26-year amortization schedule with a maturity date of May 1, 2043.	18,458,236	-
Note payable from Tropimac, LLC. Dated June 23, 2017 for \$200,000. This note bears interest of 10% when due with a maturity date of July 24, 2017.	200,000	-
Notes payable to an employee include two loans: \$301,000 dated June 14, 2017 with interest payable on the unpaid principal at a rate of 4.00% per annum. The loan has a maturity date of July 14th, 2017. 325,000 dated October 12, 2017 with interest payable on the unpaid principal at a rate of 4.00% per annum. The loan has a maturity date of July 16th, 2018.	626,000	-
Note payable to the Chief Executive Officer include three loans for: \$20,000 dated June 22, 2017 with interest payable on the unpaid principal at a rate of 4.00% per annum. The loan is due in full on July 24th, 2017. \$125,000 dated October 12, 2016 with interest payable on the unpaid principal at a rate of 4.00% per annum. The loan is due in full on October 25th, 2018.	145,000	-

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

4. NOTES PAYABLE (continued)

Notes payable consisted of the following as of June 30, 2017 and 2016: (continued)

Note payable from BB&T Bank dated February 22, 2012, for borrowings up to \$15,825,000. This note bears interest at LIBOR plus 2.75%, payable in monthly payments and began in March 2012. Principal is payable monthly and began in February 2014, with a balloon payment of remaining accrued and unpaid interest and principal due on February 22, 2017. This note has an option to renew for an additional 15 years at a re-negotiated rate of interest.

\$ - \$ 14,478,383

Note payable from Building Hope dated February 22, 2012. This note bears interest at 6.00%, payable in monthly payments of \$6,250 and began in March 2012. Principal is payable monthly and began in August 2013. The monthly payment, including interest, is \$33,070, with a balloon payment of remaining accrued and unpaid interest and principal due on February 22, 2017.

- 258,707

Note payable from DC Office of Public Chartered Schools dated February 22, 2012, bearing interest of 4.00%, payable in quarterly payments of \$12,500 beginning in May 2012. The quarterly payment, including interest, is \$96,126, with a balloon payment of remaining principal and unpaid interest due on February 22, 2017.

- 375,979

Total Notes Payable

	-	375,979
	<u>\$ 21,429,236</u>	<u>\$ 15,113,069</u>

The payable consists of following as of June 30,

	<u>2017</u>	<u>2016</u>
Principal amount	\$ 21,429,236	\$ 15,113,069
Less: unamortized debt issuance cost	<u>760,569</u>	<u>28,563</u>
Note payable, net	<u>\$ 20,668,667</u>	<u>\$ 15,084,506</u>

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

4. NOTES PAYABLE (continued)

The future minimum payment on the notes payable as of June 30, 2017, were as follows:

<u>Years Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 779,702	\$ 538,069	\$ 1,317,771
2019	734,098	956,907	1,691,005
2020	713,003	537,469	1,250,472
2021	693,285	557,187	1,250,472
2022	672,839	577,633	1,250,472
2023 and thereafter	7,782,318	18,261,971	26,044,289
Total	<u>\$ 11,375,245</u>	<u>\$ 21,429,236</u>	<u>\$ 32,804,481</u>

Interest expense was \$496,826 and \$498,852, for the years ended June 30, 2017 and 2016, respectively.

The notes from DC Office of Public Chartered Schools and from DC Revenue Bonds are collateralized by a general business security agreement. The Building Hope and DC Office of Public Chartered Schools notes are subordinated to the BB&T note. Prepayments on the District of Columbia and Building Hope notes are not allowed without obtaining permission from BB&T. The BB&T note subjects the School to certain financial covenants and is subject to a prepayment penalty based on the date of prepayment.

The School refinanced its notes payable with BB&T. In August 2016, the DC Office of Public Chartered Schools and Building Hope notes were paid off and assumed by BB&T. The School received \$18,500,000 in a tax-exempt District of Columbia 501(c)3 Revenue bonds, which was used to pay-off the existing notes payable, along with \$2,000,000 in new funding for planned improvements to the existing property, and closing costs for the new financing.

During fiscal year 2017, the School borrowed certain amounts for operational activities from its CEO and one other employee. It also borrowed funds from a third party. The amount owed totaled \$971,000 as of June 30, 2017. The School incurred interest of \$20,156 on these borrowings for the year ended June 30, 2017.

5. EMPLOYEE RETIREMENT PROFIT SHARING PLAN

The School has a qualified profit sharing plan for all eligible employees. The plan provides that employees can elect to make contributions to the plan in accordance with the Internal Revenue Code. The School may, but is not required to, make discretionary matching or non-elective contributions to the plan. Discretionary matching contributions of \$74,109 and \$21,607, were made during the years ended June 30, 2017 and 2016, respectively.

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

6. COMMITMENTS AND CONTINGENCIES

Operating Leases

The School has various non-cancellable operating leases for buildings and office equipment. The School leases a building located at 475 School Street, S.W., Washington, DC under a lease that expires on September 30, 2016. The School also leases a building located at 1017 New Jersey Avenue, SE, Washington, DC under a lease that expires on August 14, 2018.

The future minimum lease payments required under the building leases as of June 30, 2017, were as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2018	\$ 396,303
2019	231,172
2020	54,282
Total	\$ 681,757

The School leases certain office equipment under non-cancellable operating lease agreements. The leases expire at various dates through 2019, with certain leases containing options to renew. The future minimum lease payments required under the office equipment leases, as of June 30, 2017, were 49,618 for the year ending June 30, 2018.

Lease expense under the operating leases totaled \$503,897 and \$448,299, for the years ended June 30, 2017 and 2016, respectively.

In addition, the School does not own the land at 3400 Wheeler Road, SE, Washington, DC. The School is leasing the land from the District of Columbia for 25 years, with an option to renew up to two additional 25-year terms. The School does not pay rent under this lease.

Grants

The School receives financial assistance from Federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. There is a reasonable possibility that estimates could change by material amounts. As of June 30, 2017, cost reports for fiscal years 2016 and 2017 remain open, subject to audit by the Department of Health Care Finance (DHCF). Management periodically reviews and adjusts recorded amounts due to or from third-party payors. The School's management believes such disallowance, if any, would be immaterial.

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

6. COMMITMENTS AND CONTINGENCIES (continued)

The School receives a substantial portion of its revenue from the Government of the District of Columbia. If a significant reduction in this revenue should occur, it may have an effect on the School's programs. During the years ended June 30, 2017 and 2016, the School earned revenue of \$19,099,045 and \$20,572,467, respectively, from the Government of the District of Columbia, which was 95% and 97%, respectively, of the total revenue and support. These amounts are reflected as per pupil funding, DC facilities allowance, Federal grants, and Federal entitlements in the accompanying statements of activities and changes in net assets.

Litigation

The School may be subject to various claims and legal proceedings covering a wide range of matters that may arise in the ordinary course of its activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the School.

7. RELATED PARTIES TRANSACTIONS

During fiscal year 2017, the School borrowed \$626,000 from one of its employee and \$145,000 from its CEO. These notes payable had a term with 4% interest per annum, and payments are due in full on their maturity dates.

During year ended June 30, 2017, the CEO received payment for expenses previously paid for under a demand note totaling \$53,000. Additionally, the School owes \$20,000 to the CEO related to expenses paid for by CEO as of June 30, 2017.

8. SUBSEQUENT EVENTS

In September 2017, the offices of the Deputy Mayor of Education (DME) and the State Superintendent of Education (OSSE) notified all charter school leaders of a tentative approved contract with the Washington Teacher's Union (WTU). Upon approval of the contract by the City Council and Mayor of the District of Columbia (DC), it is expected that OSSE will provide additional funding to all DC Public and Charter Schools through an increase in the per pupil allocation (Uniform per Student Funding Formula (UPSFF)), which will be applied retroactive for fiscal 2017 and to future years. All public charter schools are expected to receive a one-time payment to reflect the increase in the fiscal year 2017 UPSFF base rate, which will be calculated based on the final enrollment audit count from fiscal year 2017, supplemental payments and extended school year (ESY) funding. Based on the School's final enrollment count and the \$203 rate increase expected to the fiscal year 2017 UPSFF base rate, the School anticipates receiving approximately \$277,000 in retroactive per pupil allocation revenue, which will be recognized and reported in the School's fiscal year 2018 financial statements.

In October 2017, the School entered into a line of credit of \$500,000, with a bank at a variable interest rate equal to the prime rate plus 1%. The line of credit expires November 25, 2018.

SUPPLEMENTARY INFORMATION

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Schedule of Functional Expenses For the Year Ended June 30, 2017 with Comparative Totals for 2016

	2017				2016 Totals
	Program	General and Administrative	Fundraising	Total	
Personnel Expenses:					
Instructional staff	\$ 7,419,442	\$ -	\$ -	\$ 7,419,442	\$ 7,143,196
School administration	359,463	1,910,505	126,450	2,396,418	2,773,897
Support services	1,151,447	203,197	-	1,354,644	1,260,035
Employee benefits	1,664,876	448,236	21,345	2,134,457	2,180,822
Total Personnel Expenses:	10,595,228	2,561,938	147,795	13,304,961	13,357,950
Direct Student Costs:					
Food service	635,284	-	-	635,284	725,026
Contracted staff & consultants	289,998	-	-	289,998	119,570
Classroom furnishings and equipment	3,671	-	-	3,671	8,516
Technology, computers and materials	54,846	-	-	54,846	148,413
Contracted student services	850,744	-	-	850,744	908,261
Library and media materials	715	-	-	715	12,698
Miscellaneous student costs	61,554	-	-	61,554	91,205
Student assessment materials	1,970	-	-	1,970	19,470
Summer school expenses	127	-	-	127	3,117
Student supplies and materials	102,399	-	-	102,399	195,821
Parent and staff programs	6,189	-	-	6,189	3,760
Textbooks and curriculum	10,718	-	-	10,718	52,364
Other	1,500	-	-	1,500	-
Depreciation expense	137,319	-	-	137,319	86,702
Total Direct Student Costs	2,157,034	-	-	2,157,034	2,374,923
Occupancy Expenses:					
Amortization	21,423	6,855	285	28,563	48,962
Mortgage interest expense	372,620	119,238	4,968	496,826	498,852
Contracted building services	306,245	97,998	4,083	408,326	279,422
Equipment rental and maintenance	6,436	2,060	86	8,582	17,151
Janitorial supplies	15,338	4,908	205	20,451	34,744
Maintenance and repairs	13,674	4,376	182	18,232	38,388
Miscellaneous occupancy expenses	198	63	3	264	-
Rent expense	327,576	104,824	4,368	436,768	385,152
Taxes	191,725	61,352	2,557	255,634	192,433
Utilities	260,923	83,496	3,479	347,898	257,082
Depreciation expense	445,648	142,608	5,942	594,198	654,777
Total Occupancy Expenses	1,961,806	627,778	26,158	2,615,742	2,406,963
General and Office Expenses:					
Professional services	725,644	195,366	9,303	930,313	575,683
Staff development	261,628	70,438	3,354	335,420	331,016
Administrative fees	155,156	41,773	1,989	198,918	197,941
Insurance	105,532	28,412	1,353	135,297	171,294
Credit card fees	-	-	-	-	109
Bad debt expense	438,380	118,025	5,620	562,025	156,675
Miscellaneous general services	147,106	39,605	1,886	188,597	93,332
Travel	59,971	16,146	769	76,886	96,175
Depreciation expense	6,988	1,881	89	8,958	14,781
Copying and printing	31,611	8,510	405	40,526	48,579
Equipment rental and maintenance	52,361	14,097	671	67,129	63,147
Marketing and advertising	187,563	50,498	2,405	240,466	202,417
Miscellaneous office expenses	29,251	7,875	375	37,501	8,911
Office furnishings and equipment	1,309	352	17	1,678	3,827
Postage and shipping	1,678	452	22	2,152	3,343
Supplies and materials	45,843	12,343	588	58,774	85,205
Telephone and communications	85,745	23,085	1,098	109,928	158,313
Total General and Office Expenses	2,335,766	628,858	29,944	2,994,568	2,210,748
Total Expenses	\$ 17,049,834	\$ 3,818,574	\$ 203,897	\$ 21,072,305	\$ 20,350,584

EAGLE ACADEMY PUBLIC CHARTER SCHOOL

Schedule of Functional Expenses For the Year Ended June 30, 2016

	2016			Total
	Program	General and Administrative	Fundraising	
Personnel Expenses:				
Instructional staff	\$ 7,143,196	\$ -	\$ -	\$ 7,143,196
School administration	665,735	2,052,684	55,478	2,773,897
Support services	1,071,030	189,005	-	1,260,035
Employee benefits	1,701,041	457,973	21,808	2,180,822
Total Personnel Expenses:	<u>10,581,002</u>	<u>2,699,662</u>	<u>77,286</u>	<u>13,357,950</u>
Direct Student Costs:				
Food service	725,026	-	-	725,026
Contracted staff & consultants	119,570	-	-	119,570
Classroom furnishings and equipment	8,516	-	-	8,516
Technology, computers and materials	148,413	-	-	148,413
Contracted student services	908,261	-	-	908,261
Library and media materials	12,698	-	-	12,698
Miscellaneous student costs	91,205	-	-	91,205
Student assessment materials	19,470	-	-	19,470
Summer school expenses	3,117	-	-	3,117
Student supplies and materials	195,821	-	-	195,821
Parent and staff programs	3,760	-	-	3,760
Textbooks and curriculum	52,364	-	-	52,364
Depreciation expense	86,702	-	-	86,702
Total Direct Student Costs	<u>2,374,923</u>	<u>-</u>	<u>-</u>	<u>2,374,923</u>
Occupancy Expenses:				
Amortization	36,722	11,751	489	48,962
Mortgage interest expense	374,139	119,724	4,989	498,852
Contracted building services	209,567	67,061	2,794	279,422
Equipment rental and maintenance	12,863	4,116	172	17,151
Janitorial supplies	26,058	8,339	347	34,744
Maintenance and repairs	28,791	9,213	384	38,388
Rent expense	288,864	92,436	3,852	385,152
Taxes	144,325	46,184	1,924	192,433
Utilities	192,811	61,700	2,571	257,082
Depreciation expense	491,083	157,146	6,548	654,777
Total Occupancy Expenses	<u>1,805,223</u>	<u>577,670</u>	<u>24,070</u>	<u>2,406,963</u>
General and Office Expenses:				
Professional services	437,519	132,407	5,757	575,683
Staff development	251,572	76,134	3,310	331,016
Administrative fees	150,436	45,526	1,979	197,941
Insurance	130,183	39,398	1,713	171,294
Interest expense	84	25	-	109
Bad debt expense	-	156,675	-	156,675
Miscellaneous general services	70,933	21,466	933	93,332
Travel	73,093	22,120	962	96,175
Depreciation expense	11,234	3,400	147	14,781
Copying and printing	36,921	11,173	485	48,579
Equipment rental and maintenance	47,992	14,524	631	63,147
Marketing and advertising	153,837	46,556	2,024	202,417
Miscellaneous office expenses	6,772	2,050	89	8,911
Office furnishings and equipment	2,909	880	38	3,827
Postage and shipping	2,541	769	33	3,343
Supplies and materials	64,756	19,597	852	85,205
Telephone and communications	120,318	36,412	1,583	158,313
Total General and Office Expenses:	<u>1,561,100</u>	<u>629,112</u>	<u>20,536</u>	<u>2,210,748</u>
Total Expenses	<u>\$ 16,322,248</u>	<u>\$ 3,906,444</u>	<u>\$ 121,892</u>	<u>\$ 20,350,584</u>



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**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**

The Board of Trustees
Eagle Academy Public Charter School

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Eagle Academy Public Charter School (the School), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Washington, DC
December 6, 2017

SB & Company, LLC