

**DEMOCRACY PREP CONGRESS HEIGHTS
PUBLIC CHARTER SCHOOL**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

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

**Democracy Prep Congress Heights
Public Charter School**

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Independent Auditor's Report

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

We have audited the accompanying financial statements of **Democracy Prep Congress Heights Public Charter School** (a nonprofit School) which comprise the Statement of Financial Position as of June 30, 2015, and the related Statements of Activities and Changes in Net Assets and Cash Flows for the period from inception (April 3, 2014) to June 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Democracy Prep Congress Heights Public Charter School** as of June 30, 2015, and the changes in its net assets and its cash flows for the initial period then ended in accordance with accounting principles generally accepted in the United States of America.

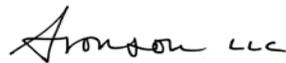
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 22, 2015, 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 22, 2015

**Democracy Prep Congress Heights
Public Charter School**

Statement of Financial Position

<i>June 30,</i>	2015
Assets	
Current assets	
Cash and cash equivalents	\$ 1,184,125
Grants receivable	624,619
Prepaid expenses	108,446
Total current assets	1,917,190
Property and equipment, net	189,132
Total assets	\$ 2,106,322
Liabilities and Net Assets	
Current liabilities	
Capital lease obligations	\$ 45,666
Accounts payable	232,072
Accounts payable - related party	577,807
Accrued expenses	288,750
Accrued salaries	182,358
Other current liabilities	39,570
Total current liabilities	1,366,223
Noncurrent liabilities	
Deferred rent	351,622
Capital lease obligation, net of current portion	52,501
Total noncurrent liabilities	404,123
Total liabilities	1,770,346
Net unrestricted assets	
Unrestricted net assets	204,726
Board designated net assets	131,250
Total unrestricted net assets	335,976
Total liabilities and net assets	\$ 2,106,322

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

**Democracy Prep Congress Heights
Public Charter School**

Statement of Activities and Changes in Net Assets

<i>Period from Inception (April 3, 2014) to June 30,</i>	2015
Revenues and support	
Charter school - per pupil funding	\$ 10,118,186
Government grants	1,141,655
Contributions	236
In-kind contributions	47,494
Total revenues and support	11,307,571
Expenses	
Program	9,459,748
Management and general	1,511,847
Total expenses	10,971,595
Change in net assets	335,976
Net assets, beginning of period	-
Net assets, end of period	\$ 335,976

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

**Democracy Prep Congress Heights
Public Charter School**

Statement of Cash Flows

<i>Period from Inception (April 3, 2014) to June 30,</i>	2015
Cash flows from operating activities	
Change in net assets	\$ 335,976
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	66,858
(Increase) decrease in	
Grants receivable	(624,619)
Prepaid expenses	(108,446)
Increase (decrease) in	
Accounts payable	232,072
Accounts payable - related party	577,807
Accrued expenses	288,750
Accrued salaries	182,358
Other current liabilities	39,570
Deferred rent	351,622
Net cash provided by operating activities	1,341,948
Cash flows from investing activities	
Purchase of property and equipment	(118,176)
Cash flows from financing activities	
Proceeds from related party loan	150,000
Payments on related party loan	(150,000)
Payments on capital lease obligations	(39,647)
Net cash used in financing activities	(39,647)
Net change in cash and cash equivalents	1,184,125
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	\$ 1,184,125
Supplemental cash flow information	
Payment of interest	\$ 6,278
Non-cash financing activities	
Equipment obtained through capital lease	\$ 137,814

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

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

1. School and significant accounting policies

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

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

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

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

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

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met either by actions of the School and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as released from restrictions. As of June 30, 2015, there were no temporarily restricted net assets.

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

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

Grants receivable: Grants receivable are recorded when expenses are incurred for government programs. Collectability is assessed based on the historical experience with the government programs. This balance is deemed fully collectible and therefore no allowance for doubtful accounts is deemed necessary at June 30, 2015.

Property and equipment: Equipment costing \$1,000 or more is recorded at cost and depreciated over estimated useful lives of three to seven years using the straight-line method.

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 Statement of Financial Position.

Revenue recognition:

Charter school – per pupil funding – A substantial portion of the School’s revenue is derived from the District of Columbia Public School system, which is based on a student allocation formula linked to enrollment. Amounts received in advance for summer school are deferred and recognized over the period to which the funding relates. The average cost per student was approximately \$17,682 for the initial period ended June 30, 2015.

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

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

In-kind contributions: In-kind contributions are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation. During the period from inception (April 3, 2014) to June 30, 2015, the School received in-kind general legal services having a fair value of \$47,494.

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.

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

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, 2015, there are no accruals for uncertain tax positions. If applicable, the School records interest and penalties as a component of income tax expense. Tax years from 2015 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 Statement 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 22, 2015, which is the date the financial statements were available to be issued.

2. Property and equipment

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

	<u>2015</u>
Equipment and computers	\$ 230,155
Furniture and fixtures	19,068
Software - educational	6,767
Total	174,785
Accumulated depreciation	(66,858)
Property and equipment, net	\$ 189,132

Depreciation expense was \$66,858 for the initial period ended June 30, 2015.

Democracy Prep Congress Heights Public Charter School

Notes to Financial Statements

3. Operating lease

In July 2014, the School entered into an operating sublease for approximately 42,528 net rentable square feet of office space in Washington, D.C., which expires in June 2026. The lease provides for escalating payments.

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

Year ending June 30	Amount
2016	\$ 1,620,317
2017	1,670,500
2018	1,712,262
2019	1,755,046
2020	1,798,849
Thereafter	11,778,477
Total	\$ 20,335,451

4. Capital lease

The School leases equipment under capital lease obligations, which expire in July 2018. The asset and liability under the capital leases is recorded at the present value of the minimum lease payments. The amount necessary to reduce the minimum lease payments to their net present value is calculated at the interest rate implicit in the lease of 6% per annum.

The following is a summary of property held under capital leases as of June 30, 2015:

	2015
Equipment	\$ 137,814
Less : Accumulated depreciation	(38,282)
Total	\$ 99,532

Depreciation expense of property held under capital leases from inception (April 3, 2014) to June 30, 2015 was \$38,282.

**Democracy Prep Congress Heights
Public Charter School**

Notes to Financial Statements

Minimum future payments under the capital lease as of June 30, 2015, are as follows:

Year ended June 30		
2016	\$	50,100
2017		50,100
2018		4,175
Subtotal	\$	104,375
Amount representing interest		(6,208)
Net present value of future minimum lease payments	\$	98,167
Capital lease obligation		
Current portion	\$	45,666
Long-term portion		52,501
Total capital lease obligation	\$	98,167

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. From inception (April 3, 2014) to June 30, 2015, the School contributed \$85,616.

6. Concentration The School is supported primarily through local and federal allocations and grants. Approximately 89% of total revenue from inception (April 3, 2014) to June 30, 2015 and 89% of total receivables as of June 30, 2015 were provided through one government agency.

7. 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 8. DPPS incurred costs on behalf of the School in the amount of \$259,652 for rent and payroll expenses, for which they were reimbursed. The balance due to DPPS at June 30, 2015 was \$577,807, which is included in accounts payable – related party on the Statement of Financial Position.

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

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. The amount reimbursed to DPCS for these services was \$11,144. In addition, during the initial period ended June 30, 2015, DPCS incurred costs totaling \$86,016 on behalf of the School for general operating expenses and was reimbursed for those costs.

DBI is a recruitment and outreach entity that works to build awareness of the School and recruit students. Fees for recruiting costs totaled \$55,000 during the initial period ended June 30, 2015, which were included in the management fee from DPPS.

8. Management fees

The School is managed by a related party (see Note 7), Democracy Prep Public School (“DPPS”), a New York State not-for-profit charter management organization. On July 1, 2014, the School entered into a management agreement with DPPS to assume responsibility for the School’s educational process, management, and operations. As compensation to DPPS for these services, the School shall pay to DPPS an annual fee equal to 15% of non-competitive public revenue in the initial term. This percentage will decrease by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of the non-competitive public revenue, which percentage will remain in effect for all subsequent renewal terms. The agreement is effective for two years, beginning July 1, 2014 and ending June 30, 2016. From inception (April 3, 2014) to June 30, 2015 the DPPS management fee incurred by the School was \$1,426,450.

In July 2014, the School entered into an instruction agreement with Apple Tree Institute for Education, a District of Columbia organization. Apple Tree fully manages and operates the educational program for pre-school and pre-kindergarten (“Pre-K3” and “Pre-K4”). Apple Tree is solely responsible for all costs associated with operating the program, including, but not limited to compensation for teachers and administrators, curriculum related expenses, classroom furniture and supplies, and all liabilities associated with operating the program including expenses associated with special education. As a management fee for the services rendered, Apple Tree shall receive an amount equal to the per-pupil funding the School receives for its enrolled Pre-K3 and Pre-K4 students excluding the facilities allotment and less any administrative fees. From inception (April 3, 2014) to June 30, 2015, the Apple Tree management fee incurred by the School was \$1,407,673.



Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of **Democracy Prep Congress Heights Public Charter School** as of and for the period from inception (April 3, 2014) to June 30, 2015, and our report thereon dated December 22, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 – 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses 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.

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Rockville, Maryland
December 22, 2015

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Functional Expenses

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

Refer to Independent Auditor's Report on Supplementary Information.



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Democracy Prep Congress Heights Public Charter School** (a nonprofit School), which comprise the Statement of Financial Position as of June 30, 2015, and the related Statements of Activities and Changes in Net Assets, and Cash Flows for the period from inception (April 3, 2014) to June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2015-001 to be a material weakness.

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)

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2015-002, 2015-003, and 2015-004 to be significant deficiencies.

Compliance and Other Matters

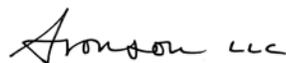
As part of obtaining reasonable assurance about whether **Democracy Prep Congress Heights Public Charter School’s** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-005.

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

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

Purpose of this Report

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



Rockville, Maryland
December 22, 2015



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

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 Circular A-133 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 period from inception (April 3, 2014) to June 30, 2015. **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 the requirements of laws, regulations, contracts, and grants 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Democracy Prep Congress Heights Public Charter School's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Democracy Prep Congress Heights Public Charter School's** compliance.

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Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 (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 initial period ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-005. Our opinion on each major federal program is not modified with respect to this matter.

Democracy Prep Congress Heights Public Charter School’s response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. **Democracy Prep Congress Heights Public Charter School’s** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of **Democracy Prep Congress Heights Public Charter School** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Democracy Prep Congress Heights Public Charter School’s** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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

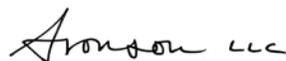
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 (Continued)

prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-005, that we consider to be a significant deficiency.

Democracy Prep Congress Heights Public Charter School’s response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. **Democracy Prep Congress Heights Public Charter School’s** response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Rockville, Maryland
December 22, 2015

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Expenditures of Federal Awards

Period from Inception (April 3, 2014) to June 30, 2015

Federal Grantor/Program Title	Federal CFDA number	Federal Expenditures
<i>Pass-through from the D.C. Office of State Superintendent of Education</i>		
Department of Education		
Title I Grants to Local Education Agencies	84.010A	\$ 305,797
Title II - Preparing, Training, and Recruiting High Quality Teachers and Principals	84.367A	48,248
IDEA 611 - Annual	84.027A	71,444
MKV Homeless (Title X - PL 107-110)	84.XXX	7,000
Scholarships for Opportunity and Results (SOAR) Act	84.370C	139,112
Subtotal Department of Education pass-through programs		571,601
 <i>Pass-through from D.C. Public Schools, Division of Food and Nutrition Services, State Agency</i>		
Department of Agriculture		
National School Lunch Program	10.555	494,770
 Federal Communications Commission		
Universal Service Administrative Company Schools and Libraries Division E-Rate	32.001	75,284
Total expenditures of federal awards		\$ 1,141,655

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 period from inception (April 3, 2014) through June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits Of States, Local Governments, and Non-Profit Organizations*. 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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Period from Inception (April 3, 2014) to June 30, 2015

Section II - Financial Statement Findings

Finding 2015-001: Material Weakness – Board Designated Funds

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). When a board of directors designates funds for a specific purpose, it is an internal restriction placed on unrestricted net assets and should be tracked as a component of net assets.

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

Context – Review of board minutes indicated the board wanted to set aside funds for a specific purpose and future expense. An internal system for tracking the board designation was in place however an adjustment to record the balance on a GAAP basis was not made during year-end close.

Effect – An adjustment to remove the expense and related payable from the current period was needed for financial presentation purposes.

Cause – Internal control processes were not in place to record the board designation as a component of unrestricted net assets.

Auditor's recommendation – We recommend tracking the board designated funds as a component of unrestricted net assets in a separate spreadsheet and implementing a periodic review of balances in net assets to ensure proper recording and subsequent releases.

Management's response and corrective action plan (unaudited) – The Senior Accountant has put in place a spreadsheet for the purpose of tracking board designated funds set aside for future use. The Chief Financial Officer will notify the Senior Director of Finance and the Senior Accountant of any Board Designated changes to these funds after each board meeting. This component of unrestricted net assets will be reconciled by the Senior Accountant for Democracy Prep Public Schools as board designated changes are made. Greg Spreeman, Chief Financial Officer is the primary contact for any agency questions.

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

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Pro bono services should be recorded as in-kind

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Period from Inception (April 3, 2014) to June 30, 2015

Section II - Financial Statement Findings (continued)

contributions with a correlating service expense. Contributions of services should be recognized if the services received either (a) create or enhance a nonfinancial asset, or (b) they require specialized skills and would typically need to be purchased if not provided by donation.

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

Context – Review of board minutes indicated pro bono legal services had been received. No entry was made to record the in-kind services provided which had a fair value of \$47,494.

Effect – An adjustment was needed for financial presentation purposes. There was no impact to net income or net assets of the School as a result of this entry.

Cause – Internal controls were not in place to monitor proper capturing of in-kind services.

Auditor's recommendation – Additional review is recommended at regular periodic intervals to determine if all in-kind transactions have been captured and recorded.

Management's response and corrective action plan (unaudited) – The fiscal policy will be revised during FY16 by the Chief Financial Officer in order to recognize these services when received. The Senior Director of Finance will notify the Senior Accountant when such services are received and will ensure, with the help of the Senior Accountant, that these services are properly recorded in the ledger at the end of each reporting period. Greg Spreeman, Chief Financial Officer is the primary contact for any agency questions.

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

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). This includes recording liabilities related to accrued vacation.

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

Context – A test of accruals revealed that an entry for accrued vacation was needed. This is the first period of operations and this component of the financial close process was not established.

Effect – An adjustment was needed for financial presentation purposes.

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Period from Inception (April 3, 2014) to June 30, 2015

Section II - Financial Statement Findings (continued)

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

Auditor’s recommendation – Additional review is recommended for year-end closing procedures to monitor that the vacation accrual has been properly recorded.

Management’s response and corrective action plan (unaudited) – Management has added the accrued vacation computation to its closing process to ensure that these types of liabilities are included in the ledger at year end. The Senior Director of Finance will work with HR to determine which employees have vacation balances and the Senior Accountant will calculate the overall liability to be adjusted in the ledger at the end of each reporting period. Greg Spreeman, Chief Financial Officer is the primary contact for any agency questions.

Finding 2015-004: Significant Deficiency – Capital Leases

Criteria – Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). This includes capitalizing leasehold equipment. Leased equipment should be capitalized if any of the following criteria are met: (a) transfer of ownership to the lessor, (b) presence of a bargain purchase option, (c) the lease term is greater or equal to 75% of the economic life, or (d) the present value of the equipment is greater or equal to 90% of fair value.

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

Context – During testing of leases for capitalization requirements it was noted that a portion of the equipment leased qualified as capital leases.

Effect –An adjustment was needed for financial presentation purposes.

Cause –The leased equipment had not been evaluated to determine if it should be capitalized.

Auditor’s recommendation – Additional review is recommended for leased equipment at the time of obtaining the equipment in order to determine if it meets any of the criteria for capitalization.

Management’s response and corrective action plan (unaudited) – The Chief Financial Officer and Senior Director of Finance will provide all lease agreements to the Senior Accountant to be reviewed at inception in order to determine if lease agreements qualify as operating or capital leases. The Senior Accountant will complete capital lease schedules for each new capital lease agreement executed during the fiscal year. Greg Spreeman, Chief Financial Officer is the primary contact for any agency questions.

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Period from Inception (April 3, 2014) to June 30, 2015

Section III – Federal Award Findings and Questioned Costs

Finding number: 2015-005

Federal Agency: Department of Education

CFDA#: 84.010A

Program: Title I Grants to Local Education Agencies

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

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

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

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

Questioned costs – None

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

Effect – The School did not have proper documentation for time spent on program wide activities or specific grants by salaried staff. Salaried staff time is recorded to the grants based on an allocation of cost pool method.

Auditor’s recommendation – The School should require all staff, including salaried staff, to track their time worked in timesheets. The timesheets should reflect the after-the-fact determination of the actual activity of each employee. Budget estimates do not qualify as support for charges to awards. The timesheets should be signed by the individual and also by a responsible supervisory official having first-hand knowledge of the

**Democracy Prep Congress Heights
Public Charter School**

Schedule of Findings and Questioned Costs (continued)

Period from Inception (April 3, 2014) to June 30, 2015

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

activities performed by the employee. The timesheets should encompass the total number of hours worked each day, and not just the time spent on grant awards.

Management's response and corrective action plan (unaudited) - The Chief Financial Officer will require that those employees whose hours/time need to be documented submit timesheets at the end of each week which will then be reviewed and signed off by their supervisor before each payroll is completed. Greg Spreeman, Chief Financial Officer is the primary contact for any agency questions.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Democracy Prep Congress Heights Public Charter School** (a nonprofit School), which comprise the Statement of Financial Position as of June 30, 2015, and the related Statements of Activities and Changes in Net Assets, and Cash Flows for the period from inception (April 3, 2014) to June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2015.

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

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

Rockville, Maryland
December 22, 2015