Perry Street Preparatory Public Charter School

Financial Report
June 30, 2015

Contents

Independent Auditor's Report

To the Board of Trustees
Perry Street Preparatory Public Charter School
Washington, D.C.

Report on Financial Statements
We have audited the accompanying financial statements of Perry Street Preparatory Public Charter School (the School), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities 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. 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.

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, 2015 and 2014, 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.

RSM US LLP

Washington, D.C.
November 23, 2015

Perry Street Preparatory Public Charter School

Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	**$ 2,670,006**	$ 2,228,262
Accounts receivable	**545,850**	611,833
Prepaid expenses and other	**133,587**	172,271
Total current assets	**3,349,443**	3,012,366
Investments:		
Restricted – bond security	**5,081,924**	4,734,772
Unrestricted	**357,774**	3,434,235
Total investments	**5,439,698**	8,169,007
Resource materials, net	**93,636**	191,648
Property and equipment, net	**14,689,085**	15,596,431
Deposits	**5,275**	5,275
Bond issuance costs, net	**668,287**	702,548
	15,456,283	16,495,902
Total assets	**$ 24,245,424**	$ 27,677,275
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 748,293**	$ 634,372
Deferred revenue	**513,213**	753,985
Current portion of capital lease payable	**53,487**	52,889
Current portion of notes payable	**-**	3,716,694
Total current liabilities	**1,314,993**	5,157,940
Bonds payable	**12,114,656**	12,114,656
Deferred rent	**2,034,619**	1,743,026
Capital lease payable	**113,381**	166,868
Total liabilities	**15,577,649**	19,182,490
Commitments and contingencies (Notes 7, 10, 11 and 13)		
Net assets:		
Unrestricted		
Operating	**2,873,505**	2,668,885
Board designated/facilities fund	**5,462,019**	5,462,019
Total unrestricted	**8,335,524**	8,130,904
Temporarily restricted	**332,251**	363,881
Total net assets	**8,667,775**	8,494,785
Total liabilities and net assets	**$ 24,245,424**	$ 27,677,275

See notes to financial statements.

Perry Street Preparatory Public Charter School

Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Per-pupil allocation:			
District of Columbia – general education	$ 8,122,416	$ -	$ 8,122,416
District of Columbia – facilities	1,901,568	-	1,901,568
Special education funds	1,511,374	-	1,511,374
	11,535,358	-	11,535,358
Federal grants and entitlements	1,003,096	-	1,003,096
Federal food service funds	214,895	-	214,895
Miscellaneous income	155,306	-	155,306
Contributions and other grants	61,914	7	61,921
Investment income	81,904	-	81,904
In-kind revenue	88,765	-	88,765
Net assets released from restrictions	31,637	(31,637)	-
Total revenue and support	13,172,875	(31,630)	13,141,245
Expenses:			
Educational programs	9,908,895	-	9,908,895
Supporting services:			
General and administrative	3,052,652	-	3,052,652
Fundraising	6,708	-	6,708
Total expenses	12,968,255	-	12,968,255
Change in net assets	204,620	(31,630)	172,990
Net assets:			
Beginning	8,130,904	363,881	8,494,785
Ending	$ 8,335,524	$ 332,251	$ 8,667,775

See notes to financial statements.

Perry Street Preparatory Public Charter School

Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Per-pupil allocation:			
District of Columbia – general education	$ 8,955,314	$ -	$ 8,955,314
District of Columbia – facilities	2,445,000	-	2,445,000
Special education funds	1,704,928	-	1,704,928
	13,105,242	-	13,105,242
Federal grants and entitlements	1,250,981	-	1,250,981
Federal food service funds	278,704	-	278,704
Miscellaneous income	283,678	-	283,678
Contributions and other grants	122,211	20,963	143,174
Investment income	4,817	-	4,817
In-kind revenue	32,834	-	32,834
Net assets released from restrictions	51,381	(51,381)	-
Total revenue and support	15,129,848	(30,418)	15,099,430
Expenses:			
Educational programs	12,486,392	-	12,486,392
Supporting services:			
General and administrative	2,709,908	-	2,709,908
Fundraising	11,452	-	11,452
Total expenses	15,207,752	-	15,207,752
Change in net assets	(77,904)	(30,418)	(108,322)
Net assets:			
Beginning	8,208,808	394,299	8,603,107
Ending	$ 8,130,904	$ 363,881	$ 8,494,785

See notes to financial statements.

Perry Street Preparatory Public Charter School

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 172,990	$ (108,322)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation – property and equipment	1,119,015	1,067,226
Amortization – resource materials	139,743	131,540
Amortized bond issuance costs	92,622	95,893
Deferred rent	291,593	291,593
Unrealized (gain) loss on investments	(6,810)	70,788
Bad debt expense	85,394	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(19,411)	(80,019)
Prepaid expenses and other	38,684	(57,024)
Increase (decrease) in:		
Accounts payable and accrued expenses	113,921	(32,594)
Agency liability	-	(277,572)
Deferred revenue	(240,772)	(124,825)
Net cash provided by operating activities	1,786,969	976,684
Cash flows from investing activities:		
Purchases of investments	(2,204,268)	(1,866,975)
Proceeds from sales of investments	4,940,387	631,623
Purchases of property and equipment	(211,669)	(244,069)
Purchases of resource materials	(41,731)	(202,227)
Net cash provided by (used in) investing activities	2,482,719	(1,681,648)
Cash flows from financing activities:		
Principal payments on notes payable	(3,716,694)	(134,012)
Principal payments on capital lease payable	(52,889)	(47,961)
Debt financing costs	(58,361)	-
Net cash used in financing activities	(3,827,944)	(181,973)
Net increase (decrease) in cash and cash equivalents	441,744	(886,937)
Cash and cash equivalents:		
Beginning	2,228,262	3,115,199
Ending	$ 2,670,006	$ 2,228,262
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 266,441	$ 309,404
Supplemental schedule of noncash investing and financing activities:		
Equipment acquired through capital lease obligations	$ -	$ 267,718

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Perry Street Preparatory Public Charter School (the School) was incorporated as a college preparatory public charter school in 1999 in an effort to develop socially responsible leaders while transforming public education. The School operated under a license agreement with Hyde Leadership Schools (HLS) in Maine. As a part of the agreement, HLS made available its trademark, educational model, curricula, written materials and certain other services. In July 2011, the School terminated its license with HLS and changed its name to Perry Street Preparatory Public Charter School.

On July 1, 1999, the School entered into a contract with the District of Columbia Public Charter School Board (DCPCSB), granting the School a charter for the establishment of a public charter school in Washington, DC.

On February 19, 2014, the School's charter school was renewed by the DCPCSB effective July 1, 2014, for another 15 years. The DCPCSB has the authority to revoke the School's charter for violations of applicable laws, conditions, terms and procedures set forth in the charter. The School's charter provides for enrollment of up to 850 students in pre-kindergarten (3 years old) through 8^{th} grade. Under the provisions of the contract, the DCPCSB is to make annual payments to the School for services provided to the students based on the number of students attending the School each year. The School's revenue and other support consist primarily of contributions, as well as grants and contracts from the District of Columbia, the federal government and private sources.

A summary of the School's significant accounting policies follows:

Basis of accounting: The School's financial statements are prepared on the accrual basis of accounting. Therefore, revenue and support and related assets are recognized when earned, and expenses and related liabilities are recognized when the obligations are incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Cash and cash equivalents: Cash and cash equivalents consist of demand deposits, money market accounts, and all investments with original maturities of 90 days or less. Money market funds and cash held temporarily in the School's investment portfolio are excluded from cash and cash equivalents.

Financial risk: The School maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to any significant financial risk on cash.

The School invests in a professionally managed portfolio that contains government obligations, corporate bonds and money market funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Accounts receivable: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management believes that an allowance was not required based on its evaluation of collectability of receivables at June 30, 2015 and 2014.

Investments: The School reports its investments at market value, and any realized and unrealized gains and losses and investment income are recorded in the statement of activities as a change in unrestricted net assets, unless their use is restricted by explicit donor-imposed stipulations or by law.

Resource materials: Resource materials consist of textbooks and reference materials and are recorded at cost and amortized using the straight-line method over estimated useful lives of four years.

Property and equipment and accumulated depreciation and amortization: The School capitalizes property and equipment purchases over $1,000. Computer equipment and software are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from three to five years, with no salvage value. Furniture and fixtures are recorded at cost and are depreciated over seven years, with no salvage value. Building improvements and leasehold improvements are stated at cost and are amortized using the straight-line method over the remaining life of the lease. Expenditures for repairs, improvements, and maintenance costs are expensed when incurred. Upon the retirement or disposal of the assets the cost and accumulated depreciation or amortization are eliminated from the respective accounts and the resulting gain or loss is included in revenue and support or expenses in the accompanying statement of activities.

Bond issuance costs: Bond issuance costs represent the costs associated with the issuance of the bonds. These costs are amortized over the lives of the bonds using the effective interest method.

Valuation of long-lived assets: The School reviews property and equipment and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Classification of net assets: The net assets of the School are reported as follows:

Unrestricted net assets: represent the portion of expendable funds that is available for support of the School's operations. The Board of Trustees has designated a portion of the funds and established a Facilities Fund, which will be utilized toward the acquisition of a School facility and approved leasehold improvements of the facilities currently under lease. It is the Board's goal to use the Facilities Fund for capital improvements and to liquidate debt incurred in capital improvements.

Temporarily restricted net assets: represent funds that are specifically restricted by donors for use in various programs or for future periods.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Federal and charter school funding: The School receives a student allocation from the District of Columbia, as well as federal entitlement funding, to cover the cost of academic expenses. The student allocation is on a per-pupil basis and includes academic year funding, special education funding, and a facilities allotment. The School recognizes this funding as revenue and support in the year in which the School term is conducted. Funding for the summer that is received in advance is recorded as deferred revenue.

Federal grants and entitlements are recognized as revenue and support based on allowable costs incurred. Many of the federal grant entitlements flow through from the Office of the State Superintendent of Education (OSSE).

Contributions and grants: Unconditional contributions and grants are reported as revenue in the year in which payments are received and/or unconditional promises are made. Unconditional contributions and grants of cash and other assets are reported as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets for a particular purpose or for a specific period of time. When a stipulated time restriction ends or the purpose of the restriction is met, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Temporarily restricted contributions whose restrictions are met in the same accounting period in which the contributions are originally pledged are reported as unrestricted support. Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off.

Functional allocation of expenses: The direct cost of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Salaries and benefits have been allocated among the programs and supporting services benefited.

Income taxes: The School is generally exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The School had no net unrelated business income for the years ended June 30, 2015 and 2014.

Salary expense: Salary expense is recognized in the period the service is rendered, which coincides with the academic year. Instructional salaries unpaid as of June 30 are recognized as expense and accrued.

Gifts in-kind: Gifts in-kind are reported at their fair value at the date of the gift.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Upcoming accounting pronouncements: In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs*. This ASU simplifies the presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. This ASU is effective for the School for the fiscal year beginning July 1, 2016. Early adoption is permitted. The School should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance.

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*. This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. 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 available to be issued. The amendments in this ASU are effective for the School for the year beginning July 1, 2017. Early application is permitted.

Subsequent events: The School evaluated subsequent events through November 23, 2015, which is the date the financial statements were available to be issued.

Note 2. Accounts Receivable

Accounts receivable consist of amounts due from the following entities at June 30, 2015 and 2014:

	2015	2014
U.S. Department of Education – (flowthru from OSSE)	$ 255,452	$ 395,340
District of Columbia government	256,308	167,319
U.S. Department of Agriculture – (flowthru from OSSE)	34,090	49,174
	$ 545,850	$ 611,833

All amounts are due within one year and are considered fully collectible.

Note 3. Investments

Total investments are comprised of the following at June 30, 2015 and 2014:

	2015	2014
Money market funds	$ 3,890,257	$ 3,092,396
Corporate bonds	-	1,985,973
U.S. treasury obligations	1,191,667	1,845,652
Federal mortgage-backed securities	64,266	1,171,629
Cash	293,508	73,357
	$ 5,439,698	$ 8,169,007

Restricted investments are held for the following purposes at June 30, 2015 and 2014:

	2015	2014
Restricted investments:		
Debt reserve fund	$ 841,667	$ 841,667
Bond security	350,000	825,000
Sinking fund	3,890,257	3,068,105
	$ 5,081,924	$ 4,734,772

Investment income is comprised of the following for the years ended June 30, 2015 and 2014:

	2015	2014
Dividends and interest	$ 75,094	$ 75,605
Unrealized gain (loss)	6,810	(70,788)
	$ 81,904	$ 4,817

Note 4. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC establish a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs not corroborated by market data

In determining the appropriate levels, the School performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the School at June 30, 2015 and 2014.

Note 4. Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis by Level within the hierarchy as of June 30, 2015:

	2015			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Money market funds	$ 3,890,257	$ -	$ -	$ 3,890,257
Federal mortgage-backed securities	-	64,266	-	64,266
	$ 3,890,257	$ 64,266	$ -	3,954,523
Investments at cost:				
U.S. treasury obligations				1,191,667
Cash				293,508
Total investments				$ 5,439,698

The table below presents the balances of assets measured at fair value on a recurring basis by Level within the hierarchy as of June 30, 2014:

	2014			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Money market funds	$ 3,092,396	$ -	$ -	$ 3,092,396
U.S. treasury obligations	-	178,985	-	178,985
Federal mortgage-backed securities	-	1,171,629	-	1,171,629
Corporate bonds:				
Financial	1,599,329	-	-	1,599,329
Industrials	96,220	-	-	96,220
Utilities	88,129	-	-	88,129
Technology	65,585	-	-	65,585
Healthcare	54,087	-	-	54,087
Consumer goods	42,697	-	-	42,697
Conglomerate	39,926	-	-	39,926
	1,985,973	-	-	1,985,973
	$ 5,078,369	$ 1,350,614	$ -	6,428,983
Investments at cost:				
U.S. treasury obligations				1,666,667
Cash				73,357
Total investments				$ 8,169,007

The School’s corporate bonds and money market funds are publicly traded on the New York Stock Exchange and are considered Level 1 items. U.S. Treasury obligations, reported at fair value, and federal mortgage-backed securities are priced based on based on their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full term of the instruments and are, therefore, considered Level 2 items.

Note 4. Fair Value Measurements (Continued)

The U.S. treasury obligations, reported at cost, are restricted and held by the Trustee for the bonds (Note 7). These securities are State and Local Government Series Securities, issued specifically to be held privately and therefore not traded in the public market. These are issued as time deposits and are reported at cost.

Note 5. Property and Equipment

Property and equipment consist of the following at June 30, 2015 and 2014:

	2015	2014
Tenant improvements on land lease	$ 17,009,377	$ 17,008,309
Computer equipment and software	2,716,054	2,547,162
Furniture and fixtures	940,786	899,077
	20,666,217	20,454,548
Less accumulated depreciation and amortization	5,977,132	4,858,117
	$ 14,689,085	$ 15,596,431

Depreciation expense totaled $1,119,015 and $1,067,226 for the years ended June 30, 2015 and 2014, respectively.

Note 6. Capital Lease Payable

In August 2013, the School entered into a 60-month capital lease for copiers with a recorded cost basis of $267,718 and related accumulated depreciation at June 30, 2015 and 2014, of $107,087 and $53,544, respectively. The copiers and capital lease obligation were recorded at the present value of the future payments due under the lease. The related liability under the capital lease at June 30, 2015 and 2014, was $166,868 and $219,757, respectively. Interest expense related to the capital lease for the years ended June 30, 2015 and 2014, amounted to $2,200 and $2,352 respectively.

The following is a schedule by years of future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments, at June 30, 2015:

Years ending June 30:	
2016	$ 55,089
2017	55,089
2018	55,089
2019	4,590
	169,857
Less amount representing interest	(2,989)
Present value of net minimum lease payments	$ 166,868
Current portion of capital lease	$ 53,487
Long-term portion of capital lease	113,381
	$ 166,868

Note 7. Bonds Payable

In May 2010, the District of Columbia issued and sold qualified school construction revenue bonds (Hyde Leadership Public Charter School of Washington, D.C., Inc. Issue, Series 2010) (the Bonds), totaling $12,625,000 for a period of 16 years and maturing in May 2026, to Eagle Bank, the proceeds of which were loaned to the School by the District of Columbia government and were used to finance the building improvements and related capital expenditures at 1800 Perry Street, NE, Washington, D.C. During the construction period, draw requests were reviewed by a third-party project engineer contracted by the financial institution at the School's expense and advanced to the School's operating bank account as approved. Beginning on November 1, 2010, the School is required to make deposits into a sinking fund, which are to be used for redemption of the principal by the maturity date. The sinking fund will be invested in a money market or business savings account with a fixed rate of 2% for five years. Thereafter, the interest rate will adjust to the then prevailing five-year certificate of deposit interest rate of the financial institution at the call date of the Bonds. The financial institution has the ability to call the Bonds as a whole for prepayment after 60 months and 120 months, following the initial Bond closing date, upon six months' notice. The first call date was November 1, 2014. The Bonds were not called by Eagle Bank.

The Bonds are secured by (1) a first leasehold deed of trust on the property at 1800 Perry Street, NE; (2) the School's $2,000,000 deposit account with a financial institution; (3) a $600,000 guaranty provided by America's Charter School Corporation, a subsidiary of Building Hope; (4) a $1,000,000 guaranty provided by the Office of the State Superintendent of Education (OSSE) for four years from the date of closing; (5) a first priority Uniform Commercial Code (UCC) lien on all of the School's tangible assets, including all equipment and fixtures located on the real estate collateral; (6) a pledge of all net revenue, including, but not limited to, the School's facilities allowance, the District of Columbia Public Charter School Board's per-pupil quarterly funding and all future non-designated philanthropic pledges; (7) construction documents and materials; (8) an assignment of the lease between the School and the District of Columbia Office of Property Management for the property; (9) a pledge of a debt service reserve fund held by Eagle Bank equal to no less than 12 months of senior debt service in the amount of $841,667, funded by a source acceptable to the bank; and (10) the full balance of the sinking fund. The interest rate is calculated at each put date at the prevailing Five-Year Treasury Constant Maturity Rate plus 4.25% less the tax credit rate.

On June 30, 2015, the Bond agreement was modified and extended and the interest rate reset as of the put date on May 1, 2015 to .21% per annum until the next put date. In addition, the debt payable to Building Hope and OSSE by the School were paid in full on June 30, 2015 and related guarantees released. As of June 30, 2015 and 2014, the rate was .21% and .98%, respectively. The subsequent put date is May 1, 2020. The outstanding balance on the Bonds as of June 30, 2015 and 2014, is $12,114,656. The maturity date of the Bonds is May 1, 2026.

The sinking fund payments on the revenue Bonds over the next five years and thereafter are as follows:

Years ending June 30:	
2016	$ 810,160
2017	810,160
2018	810,160
2019	810,160
2020	810,160
Thereafter	4,793,449
	$ 8,844,249

Note 7. Bonds Payable (Continued)

The Bonds have various covenants. The School must maintain a minimum debt-service coverage ratio, be in good standing at all times with the jurisdiction in which it is domiciled, and deliver audited financial statements within 120 days of the School's fiscal year end. The School obtain a written waiver of compliance from Eagle Bank regarding delivery of the financial statements. The School is also restricted from incurring additional debt. As detailed in Note 15, the School phased out its High School Operations at the end of the fiscal year 2015.

Note 8. Notes Payable

Notes payable consist of the following as of June 30, 2015 and 2014:

On May 1, 2010, the School entered into various funding arrangements for the rehabilitation of the Taft Facility at 1800 Perry Street, NE, Washington, D.C. The note payable agreements are as follows:

(a) A $2,000,000 five-year promissory note with the District of Columbia to fund the renovation of the Taft Facility, bearing interest at 3% per annum and secured by a subordinated leasehold deed of trust, a security agreement and a UCC-1. The note matured on May 1, 2015, and required monthly interest-only payments for the first and second years. Commencing in the third year, principal and interest payments were due on a monthly basis, with a balloon payment due at maturity, based on a 20-year amortization period. The principal balance outstanding as of June 30, 2014, was $1,836,562. The note was paid in full in fiscal year 2015.

(b) A $2,000,000 five-year promissory note with Building Hope to fund the renovation of the Taft Facility, bearing interest at 6% per annum and secured by a subordinated deed of trust, a hazardous materials indemnity agreement, and a UCC-1. The note matured on June 1, 2015, and required interest-only payments from June 1, 2010, through May 1, 2012. Commencing on June 1, 2012, principal and interest payments were due on a monthly basis, with a balloon payment due at maturity, based on a 20-year principal amortization. The principal balance outstanding as of June 30, 2014, was $1,880,132. The note was paid in full in fiscal year 2015.

Interest expense totaled $266,441 and $309,404 for the years ended June 30, 2015 and 2014, respectively, on all outstanding debt instruments.

Note 9. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during the year ended June 30, 2015, by purpose were as follows:

	Balance June 30, 2014	Additions	Released	Balance June 30, 2015
Facility	$ 334,205	$ -	$ (27,850)	$ 306,355
Athletics	21,057	7	(3,787)	17,277
Parent engagement funds	8,619	-	-	8,619
	$ 363,881	$ 7	$ (31,637)	$ 332,251

Note 9. Temporarily Restricted Net Assets (Continued)

Changes in temporarily restricted net assets during the year ended June 30, 2014, by purpose were as follows:

	Balance June 30, 2013	Additions	Released	Balance June 30, 2014
Facility	$ 362,055	$ -	$ (27,850)	$ 334,205
Athletics	28,978	11,781	(19,702)	21,057
Parent engagement funds	3,266	9,182	(3,829)	8,619
	$ 394,299	$ 20,963	$ (51,381)	$ 363,881

Note 10. Concentrations

The School receives a substantial portion of its revenue from the District of Columbia and the federal government. 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, 2015 and 2014, 97% of the School's revenue was comprised of grant funding from the District of Columbia and the federal government.

Note 11. Operating Leases

On May 13, 2010, the School entered into a non-cancelable operating lease agreement for its new school space with the District of Columbia. The lease term is 25 years, subject to one extension of another 25 years, and has a monthly rental obligation of $95,833, subject to adjustment and credit thereafter, as provided by the lease. The School is entitled to rent abatements equivalent to tenant improvements to the Taft Facility on a dollar-for-dollar basis against the full amount of the base rent through the 15th year of the lease. The balance of the improvements abatement is amortized over the remaining life of the lease agreement. As of June 30, 2015, the School incurred $16,930,335 in improvements to the facility. During the year ended June 30, 2013, the School received a reimbursement of funds incurred in prior years of $131,133 from a sublessee.

Rent expense totaled $292,989 and $291,593 for the years ended June 30, 2015 and 2014, respectively.

Under generally accepted accounting principles, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statement of financial position.

As of June 30, 2015, future minimum rental obligations required under this lease, net of rent abatements, are as follows:

Years ending June 30:	Rent Obligation	Rent Abatements	Net Obligation
2016	$ 1,150,000	$ (1,150,000)	$ -
2017	1,150,000	(1,150,000)	-
2018	1,150,000	(1,150,000)	-
2019	1,150,000	(1,150,000)	-
2020	1,150,000	(1,150,000)	-
Thereafter	17,098,522	(9,270,453)	7,828,069
	$ 22,848,522	$ (15,020,453)	$ 7,828,069

Note 11. Operating Leases (Continued)

Sublessee: On May 1, 2013, the School entered into a sublease agreement for a term of 21 years, expiring on July 31, 2034, for a portion of the School's building space. After April 1, 2018, the sublessee may cancel the lease with one year written notice. Annual base rent is $128,700; however, the rent is abated dollar-for-dollar for sublessee improvements made up to $4,000,000. Commencing June 1, 2025, any remaining balance of sublessee's improvements abatement is amortized over the remaining life of the agreement on a straight-line basis.

Note 12. Pension Plans

The School participates in the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and the Supplemental Retirement Annuities (SRA) plans. Both of these plans qualify as defined contribution retirement plans under Section 403(b) of the Internal Revenue Code (IRC). Full-time employees are eligible to participate in these plans after completing six months of employment. Employees participating in the TIAA-CREF plan may elect to contribute up to a maximum of 5% of their gross salary. The School provides a dollar-for-dollar match up to the 5% limit. Employees participating in the SRA plan may elect to contribute up to a maximum of 11% of their gross salary (which includes any of the employee's TIAA-CREF contributions). There is no matching contribution associated with this plan. Pension expense totaled $141,690 and $103,816 for the years ended June 30, 2015 and 2014, respectively.

Note 13. Commitments and Contingencies

Federal grants: The School participates in federally assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

Legal claims: The School is, by nature of its operations, the subject of a variety of legal claims. In the opinion of management, costs, if any, for all known legal claims are believed to be covered by insurance and the amount of any additional liability will not have a material impact on the financial statements.

Contract: On November 5, 2015, the School executed an amendment to its existing contract with TenSquare, LLC. Under the amended agreement, TenSquare, LLC will provide strategic intervention and support services to the School for a fixed fee of $2,000,000, payable in monthly installments of $41,666 beginning in July 2015 and ending in June 2019.

Note 14. High School Closing

During the year ended June 30, 2014, the School's charter was renewed with DCPCSB. See Note 1. As part of the renewal agreement, the School phased out its High School Operations at the end of the fiscal year 2015 school year. This consolidation is resulting in a significant reduction in revenues and expenses for the School, which will be reflected in the fiscal year 2016 financial statements.

Note 15. Management Plans

The School experienced a significant enrollment decline between FY15 and FY16. In FY15, the School had audited enrollment of 619 students. In FY16, it submitted its Fall enrollment roster at 323 students. Part of that decline was expected due to the full loss of its high school grades in accordance with its 2014 charter renewal by the DCPCSB, but the School was still approximately 100 students behind its original budgeted FY16 enrollment target. As a result of the enrollment shortfall, the School has undertaken aggressive cost-cutting measures and prepared a revised budget which was adopted by its Board in October 2015. This revised budget does call for an operating loss in FY16, but the School has sufficient cash reserves to fund that deficit. To ensure long-term sustainability, the School is working with a school turnaround specialist to improve academic performance and overall school operations. The School is actively pursuing opportunities to sublease the vacant space created by the closing of the high school.

Independent Auditor's Report
on the Supplementary Information

To the Board of Trustees
Perry Street Preparatory Public Charter School
Washington, D.C.

We have audited the financial statements Perry Street Preparatory Public Charter School (the School) as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon, dated November 23, 2015, which contains an unmodified opinion on those financial statements (see pages 1 and 2). Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information 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 audits 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.

RSM US LLP

Washington, D.C.
November 23, 2015

Perry Street Preparatory Public Charter School

Schedule of Functional Expenses
Year Ended June 30, 2015
(With Comparative Totals for 2014)

	Educational Programs	General and Administrative	Fundraising	Total (2015)	2014
Personnel, salaries and benefits:					
Salaries	$ 5,307,713	$ 1,096,763	$ 6,500	$ 6,410,976	$ 7,901,106
Employee benefits	506,307	105,212	108	611,627	690,268
Payroll taxes	500,305	103,972	100	604,377	746,155
Staff development	360,002	-	-	360,002	468,756
Total personnel, salaries and benefits	6,674,327	1,305,947	6,708	7,986,982	9,806,285
Direct student expenses:					
Textbooks	-	-	-	-	2,741
Student supplies and materials	80,587	-	-	80,587	128,589
Student assessment materials	8,043	-	-	8,043	149,410
Contracted student services	179,354	-	-	179,354	472,279
Student transportation/field trips	42,787	-	-	42,787	223,466
Other student services	80,476	-	-	80,476	64,172
Family learning center	880	-	-	880	34,580
Total direct student expenses	392,127	-	-	392,127	1,075,237
Occupancy expenses:					
Rent/lease	221,929	71,060	-	292,989	291,593
Maintenance/repairs (building)	48,332	15,475	-	63,807	38,203
Depreciation on facilities	512,966	164,247	-	677,213	673,940
Amortization expense	70,158	22,464	-	92,622	95,893
Interest/fees on facilities debt	201,820	64,621	-	266,441	309,404
Utilities	297,314	95,197	-	392,511	433,054
Facilities equipment rental and expense	-	-	-	-	1,936
Janitorial supplies	27,176	8,701	-	35,877	37,131
Contracted building services	147,123	47,107	-	194,230	452,509
Total occupancy expenses	1,526,818	488,872	-	2,015,690	2,333,663
Office expenses:					
Office supplies and materials	-	78,656	-	78,656	55,367
Office equipment rental/lease	-	27,063	-	27,063	30,107
Office equipment maintenance and repair	-	159	-	159	2,241
Capital lease interest expense	-	-	-	-	2,352
Telephone and telecommunications	-	14,995	-	14,995	40,658
Legal and professional fees	-	154,750	-	154,750	171,971
Postage and shipping	-	12,350	-	12,350	18,126
Other office expenses	-	404,284	-	404,284	234,208
Total office expenses	-	692,257	-	692,257	555,030
General expenses:					
Insurance	118,084	37,809	-	155,893	165,747
Bank fees	-	15,537	-	15,537	15,148
Food service	233,033	-	-	233,033	435,687
PCSB administration fee	-	124,492	-	124,492	76,739
Depreciation – general	334,650	107,152	-	441,802	393,286
Technology	629,477	201,552	-	831,029	128,461
In-kind legal	-	73,137	-	73,137	10,237
Other general expenses	379	5,897	-	6,276	212,232
Total general expenses	1,315,623	565,576	-	1,881,199	1,437,537
	$ 9,908,895	$ 3,052,652	$ 6,708	$ 12,968,255	$ 15,207,752