FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.

REPORT ON FINANCIAL STATEMENTS
(with supplementary information)

YEARS ENDED JUNE 30, 2016 AND 2015

Maner Costerisan
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C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Friendship Public Charter School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Friendship Public Charter School, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friendship Public Charter School, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as identified in the table of contents, and the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016, on our consideration of Friendship Public Charter School, Inc.'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 Friendship Public Charter School, Inc.'s internal controls over financial reporting and compliance.

Marcus Costeiran PC

October 18, 2016

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,075,821	$ 29,938,171
Grants and accounts receivable	5,442,846	3,865,027
Prepaid expenses	142,451	80,607
TOTAL CURRENT ASSETS	35,661,118	33,883,805
NONCURRENT ASSETS:		
Restricted cash and investments	24,621,681	14,164,956
Property and equipment, net of accumulated depreciation	105,386,573	104,773,075
Loan issuance costs, net of amortization of $217,077 and $1,887,925 for 2016 and 2015	3,468,113	4,321,432
Deposits	159,321	149,968
TOTAL NONCURRENT ASSETS	133,635,688	123,409,431
TOTAL ASSETS	$ 169,296,806	$ 157,293,236
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 1,833,476	$ 2,812,582
Accrued salaries and related	5,355,280	4,594,135
Deferred revenue	114,538	217,292
Note payable	-	4,500,000
Current portion of long-term debt	2,635,000	2,875,000
TOTAL CURRENT LIABILITIES	9,938,294	14,999,009
LONG-TERM DEBT - less current portion	121,675,942	105,344,979
TOTAL LIABILITIES	131,614,236	120,343,988
NET ASSETS:		
Undesignated - unrestricted	37,682,570	36,949,248
TOTAL LIABILITIES AND NET ASSETS	$ 169,296,806	$ 157,293,236

See notes to financial statements.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Pupil revenue:		
General and special education	$ 61,964,194	$ 53,273,002
Facilities	13,639,692	11,427,840
Federal grants	8,146,324	8,686,337
Other grants and contributions	2,703,426	3,412,164
Summer school	-	2,338,153
Other	202,575	33,562
Total operating revenues	86,656,211	79,171,058
OPERATING EXPENSES:		
Program services:		
Educational activities	70,221,948	60,352,892
Extended learning (includes summer school)	3,628,448	3,571,440
Management and general	10,996,790	10,090,854
Fundraising	68,235	86,510
Total operating expenses	84,915,421	74,101,696
NET OPERATING REVENUES	1,740,790	5,069,362
NONOPERATING ACTIVITIES:		
Interest income	171,759	143,442
Contribution received in assumption of CAPCS	1,555,381	8,408,545
Elimination of unamortized loan issuance costs	(2,734,608)	-
Total nonoperating activities	(1,007,468)	8,551,987
CHANGE IN NET ASSETS	733,322	13,621,349
NET ASSETS:		
Beginning of year	36,949,248	23,327,899
End of year	$ 37,682,570	$ 36,949,248

See notes to financial statements.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Change in net assets	$ 733,322	$ 13,621,349
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	4,863,090	4,280,268
Amortization of loan premium, discount and issuance costs - net	101,944	156,581
Elimination of unamortized loan issuance costs	2,734,608	-
Noncash contribution from assumption of CAPCS	(1,555,381)	(5,539,884)
Grants and accounts receivable	(1,577,819)	(204,922)
Prepaid expenses and deposits	(71,197)	436,259
Accounts payable and accrued expenses	(217,961)	(1,589,939)
Deferred revenue	(102,754)	(1,839,670)
Total adjustments	4,174,530	(4,301,307)
Net cash provided by operating activities	4,907,852	9,320,042
Cash flows from investing activities:		
Purchase of property and equipment	(2,607,261)	(4,239,087)
Purchase of leased asset	-	(4,051,422)
Withdrawals (deposits) of restricted cash and investments - net	(10,456,725)	4,255,717
Net cash used by investing activities	(13,063,986)	(4,034,792)
Cash flows from financing activities:		
Proceeds from District of Columbia notes payable, including premium, net of issuance costs	82,756,357	-
Proceeds on note payable	-	4,500,000
Payments on principal of notes payable	(74,460,000)	(2,205,000)
Payments on capital lease	(2,573)	-
Net cash provided by financing activities	8,293,784	2,295,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	137,650	7,580,250
CASH AND CASH EQUIVALENTS:		
Beginning of year	29,938,171	22,357,921
End of year	$ 30,075,821	$ 29,938,171

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Friendship Public Charter School, Inc. (the Charter) have been prepared on the accrual basis. The Charter's more significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

The Charter is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Charter has no permanently restricted activity or net assets. Temporarily restricted revenues for which the restrictions are met in the same period as the revenues are recognized are recorded as unrestricted revenues. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met. The Charter does not have any temporarily or permanently restricted net assets.

Cash and cash equivalents - The Charter considers unrestricted short-term highly liquid investments (including money market funds) with maturities of three months or less to be cash equivalents.

Unrestricted and restricted cash and investments consist of cash and cash equivalents (including money market funds) carried at cost, and fixed income mutual funds carried at fair market value. The guaranteed investment contract is stated at cost as a result of the restrictions placed upon it.

Accounts, grants and notes receivable are stated at amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Grants receivable consist primarily of grant reimbursements outstanding at year-end. Management estimates no allowance for uncollectible amounts is necessary for the years ended June 30, 2016 and 2015.

The loan issuance costs are amortized into interest expense over the life of the loans using the straight-line method.

Deferred revenue - Deferred revenue consists primarily of funds received prior to the close of the fiscal year for certain grants for which the related expenses had not yet been incurred.

Property and equipment is recorded at cost, or if donated, at approximate fair value at the date of donation. Depreciation is computed over the remaining estimated useful lives using the straight-line method. The Charter has a capitalization policy of $1,000.

Loan discounts are netted with loan premiums and added to long-term debt. These amounts are amortized into interest expense annually in proportion to the related interest expense incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Functional allocation of expenses - The costs of providing the various programs and other activities has been summarized on a functional basis on the statements of activities. Accordingly, certain costs have been allocated among program services and management and general expenses based on management's estimates.

NOTE 2 - NATURE OF ORGANIZATION, RISKS, AND UNCERTAINTIES

Organization - The Friendship Public Charter School, Inc. (the Charter) is a public charter school authorized under Section 2203 of the District of Columbia School Reform Act of 1995 by the District of Columbia Public Charter School Board (DCPCSB). The Charter operates 12 campuses in 8 buildings in Washington, DC, each covering different grade levels ranging from preschool through grade 12. DCPCSB has authorized the Charter through June 30, 2028.

The significant program services for the Charter are as follows:

Education services represent the cost of educating students during the regular school day and school year. Programmatic expenses include the cost of classroom instruction, school leadership, academic support and other school support services such as janitorial and food services.

Extended learning includes a before and after school program and summer school programs. The before and after school program reinforces standards and teaching practices of the Charter through project-based learning and exploration. The summer school programs are both credit recovery and academic enrichment programs offered to Charter students during the summer months.

The Charter has been granted tax-exempt status under the provisions of Section 501(c)(3) of the Internal Revenue Code and, as such, is not subject to federal income taxes other than those arising from unrelated business income.

The Charter is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments that potentially subject the Charter to concentrations of credit risk consist principally of temporary cash investments and receivables. The Charter places its temporary cash investments with FDIC insured financial institutions. Although such investments and cash balances exceeded the federally insured limits at certain times during the year and at year-end they are, in the opinion of management, subject to minimal risk. Concentrations of credit risk with respect to grants receivable is limited due to the nature of the organizations that fund the Charter's grant activities.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - NATURE OF ORGANIZATION, RISKS, AND UNCERTAINTIES (Concluded)

The Charter evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through October 18, 2016, which is the date the financial statements were available to be issued.

In preparation of tax returns, tax positions are taken based on interpretation of federal, state and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain tax positions. Federal, state and local tax returns generally remain open for examination by the various taxing authorities for a period of three to four years.

Under the terms of the grant agreements, the final determination of allowable expenses is subject to interpretation and adjustments by grantor agencies.

NOTE 3 - CASH AND INVESTMENTS

Restrictions have been placed on cash and investments primarily under the terms of loan and bond documents as follows:

	2016	2015
Unrestricted:		
Cash and cash equivalents	$ 28,699,767	$ 11,050,408
Unrestricted liquid asset fund - money market fund	-	17,820,681
Curriculum and furniture reserve - money market funds	1,376,054	1,067,082
	30,075,821	29,938,171
Restricted:		
Technology reserve - money market funds	-	1,276,662
Facilities reserve - money market funds	-	264,084
Repair and replacement reserves - money market funds	1,985,024	-
Debt service reserves - money market funds	4,351,440	5,149,575
Debt service reserves - Repayment of the District of Columbia Office of Public Charter School Financing and Support note payable (money market funds for 2016, gauranteed investment contract for 2015)	3,000,000	3,000,000
Unspent project proceeds - money market funds	15,074,307	4,287,092
Other	210,910	187,543
	24,621,681	14,164,956
	$ 54,697,502	$ 44,103,127

NOTE 3 - CASH AND INVESTMENTS (Concluded)

The unrestricted liquid asset fund (ULA) is not considered to be a restricted asset for financial reporting purposes. These funds may be used by the Charter for certain operating shortfalls, debt service payments and capital expenditures as defined by the loan documents. The Charter is funding the ULA based on projections to reach amounts required by the terms of the loan and bond documents. The requirement to fund the ULA was removed with the extinguishment of the 2003, 2006, and 2007 debt.

As part of the Charter's debt refinancing (Note 7), the technology and facilities reserves have been replaced with a repair and replacement reserve. The repair and replacement reserve is required under the 2016 loan agreement. The reserve is to be funded at 2% of operating expenses.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Charter's investments are classified using a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements) when market prices are not readily available or reliable.

The three levels of the hierarchy are described below:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Charter's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

From time to time, changes in valuation techniques may result in reclassification of an investment's assigned level within the hierarchy.

As of June 30, 2016 and 2015, the fair value of investments is determined using Level 1 inputs. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

	2016	2015
Fixed income mutual funds	$ 210,910	$ 187,543

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consists of the following:

	Years of useful life	2016	2015
Land		$ 7,345,512	$ 7,345,512
Buildings and leasehold improvements	20 - 40	120,969,512	116,952,247
Software and computer equipment	3 - 5	5,853,716	5,011,272
Furniture and office equipment	15 - 20	2,673,066	2,554,880
Curriculum	5	3,114,877	2,885,380
Construction in progress		673,197	404,000
		140,629,880	135,153,291
Less accumulated depreciation and amortization		35,243,307	30,380,216
		$ 105,386,573	$ 104,773,075
Depreciation expense		$ 4,863,090	$ 4,280,268

The Charter purchased the building and improvements, land, and certain furniture and equipment previously held under a capital lease for the Southeast Academy in February 2015. The purchase resulted in a reduction of the carrying value of these assets of $2,215,804 and eliminated the related capital lease obligations of $6,267,226 and other related assets and liabilities.

During 2015, the Charter recorded buildings and land for $26.5 million and $1.0 million, respectively, as a result of the assumption of the CAPCS Armstrong property (Note 11). The District of Columbia has a reversionary interest in the property which gives it the right to reacquire the property in the event the property is not used for public education purposes by a public charter school as defined by the D.C. Official Code. The District of Columbia would have the right to reacquire the property for the price it originally paid, plus any approved loan amounts secured by the property. As of June 30, 2016, the District of Columbia would have the right to reacquire the property for $22.8 million if the restrictions on use were not maintained.

The Charter leases the Collegiate Academy building and improvements under a capital lease (see Note 7). The property include above subject to a capital lease at June 30 is as follows:

	2016	2015
Property and equipment	$ 2,869,327	$ -
Accumulated depreciation	$ 58,870	$ -
Depreciation expense	$ 58,870	$ -

NOTE 6 - NOTE PAYABLE

On June 30, 2015, the Charter borrowed from a bank $4,500,000, carrying interest at the 30 day LIBOR rate plus 1.75% payable in full on October 28, 2015. The note was issued to finance the purchase of the building and improvements, land, and certain furniture and equipment previously held under a capital lease for the Southeast Academy. The note was paid off in March 2016 with the proceeds of the 2016A note payable.

NOTE 7 - LONG-TERM DEBT

Notes payable consists of the following at June 30:

	2016	2015
2003 note payable - District of Columbia payable quarterly in annual totals ranging from $1,195,000 to $2,850,000 through 2033, plus interest at 5.0% to 5.75%. Secured by the per pupil revenue received from the District of Columbia and mortgages on the related properties. Note was refinanced during 2016.	$ -	$ 34,520,000
2006 note payable - District of Columbia payable quarterly in annual totals ranging from $385,000 to $970,000 through 2035, plus interest at 4% to 5%. Secured by the same assets as the 2003 note payable plus the Southeast Academy building, improvements and certain personal property. Note was refinanced during 2016.	-	12,675,000
Note payable - District of Columbia Office of Public Charter School Financing and Support (OPCSFS), with interest only payments until maturity in 2046. Interest earnings of the Credit Enhancement Account (see Note 3) to be remitted quarterly to OPCSFS.	3,000,000	3,000,000
2007 note payable - District of Columbia payable quarterly in annual totals ranging from $575,000 to $1,585,000 through 2037, plus interest at 4.751% to 5.126%. Secured by revenues from the Armstrong and Nicholson campuses plus real estate of the Armstrong campus, and the 2007 debt service reserve funds. Note was refinanced during 2016.	-	21,980,000

NOTE 7 - LONG-TERM DEBT (Continued)

	2016	2015
2012 note payable - District of Columbia payable quarterly in annual totals ranging from $735,000 to $2,260,000 through 2042, plus interest at 4.78% to 5.00%. Secured by revenues from all related campuses, on parity with the 2016A and 2016B notes payable plus real estate of the Tech Prep campus, and the 2012 debt service reserve funds.	$ 34,355,000	$ 35,075,000
2016A note payable - District of Columbia payable quarterly in annual totals ranging from $1,750,000 to $4,420,000 through 2046, plus interest at 5.00%. Secured by revenues from all related campuses, on parity with the 2012 and 2016B notes payable, and the 2016A debt service reserve funds	57,895,000	-
2016B note payable - District of Columbia payable quarterly in annual totals ranging from $1,900,000 to $2,285,000 through 2026, plus interest at 2.1%. Secured by revenues from all related campuses, on parity with the 2012 and 2016A notes payable.	20,850,000	-
Total notes payable before premiums and discounts	116,100,000	107,250,000
Less: unamortized bond discount on 2003 note payable	-	(223,953)
Plus: unamortized bond premium on 2006 note payable	-	274,924
Plus: unamortized bond premium on 2012 note payable	866,599	919,008
Plus: unamortized bond premium on 2016A note payable	6,032,970	-
Total notes payable	122,999,569	108,219,979
Less current portion	2,635,000	2,875,000
	$ 120,364,569	$ 105,344,979

NOTE 7 - LONG-TERM DEBT (Continued)

2003, 2006, and 2007 notes payable:

The 2003 and 2006 notes payable were repaid in March and June 2016, respectively, from the proceeds of the 2016A note payable. The 2007 note payable was repaid in March 2016 from the proceeds of the 2016B note payable.

Payments made on the 2003 note payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, as amended, for the benefit of the bond holders for the full payment of the $44,880,000 District of Columbia Revenue Bonds (Friendship Public Charter School, Inc. Issue - Series 2003) issued in November 2003. The 2003 bonds were issued to refinance existing debt related to the prior purchase of three school buildings and leasehold improvement at a fourth leased school building as well as renovate and provide for technology upgrades for these facilities.

Payments made on the 2006 notes payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, as amended, for the benefit of the bond holders for the full payment of the $15,000,000 District of Columbia Revenue Bonds (Friendship Public Charter School, Inc. Issue - Series 2006) issued in December 2006. The 2006 bonds were issued to finance a portion of the costs of the expansion, construction, renovation, furnishing and equipping of Southeast Academy.

Payments of the bonds are guaranteed by a bond insurance policy, the loan payable between the Charter and the District of Columbia, the related per pupil revenue of all six campuses, mortgages on the related properties and certain debt service reserve funds.

Payments made on the 2007 note payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, for the benefit of the bond holders for the full payment of the $25,000,000 District of Columbia Revenue Bonds (Community Academy Public Charter School, Inc. Issue) issued in May 2007. The 2007 bonds were issued to finance the acquisition and renovation of the historic Armstrong, Nicholson, and certain other school buildings.

2012 note payable:

Payments made on the 2012 note payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, for the benefit of the bond holders for the full payment of the $35,780,000 District of Columbia Revenue Bonds (Friendship Public Charter School, Inc. Issue - Series 2012A) issued in October 2012. The 2012 bonds were issued primarily to finance construction, renovation, and acquisition of furniture, fixtures, and equipment, the repayment of existing debt and reimbursement of pre-construction expenditures for the Tech Prep School. As of June 30, 2016, $34,355,000 of the 2012 bonds remained outstanding.

NOTE 7 - LONG-TERM DEBT (Continued)

2016A note payable:

Payments made on the 2016A note payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, for the benefit of the bond holders for the full payment of the $57,895,000 District of Columbia Revenue Bonds (Friendship Public Charter School, Inc. Issue - Series 2016A) issued in March 2016. The 2016A bonds were issued primarily to finance the current refundings of the 2003 and 2006 notes payable, fund the cost of certain capital projects, refinance a $4,500,000 loan issued to acquire one of its previously lease campuses, fund a portion of the 2016A debt service reserve fund, and to pay certain costs related to the issuance of the 2016A bonds. As of June 30, 2016, $57,895,000 of the 2016A bonds remained outstanding.

2016B note payable:

Payments made on the 2016B note payable to the District of Columbia have been assigned by the District of Columbia under a trust agreement, for the benefit of the bond holders for the full payment of the $20,915,000 District of Columbia Revenue Bonds (Friendship Public Charter School, Inc. Issue - Series 2016B) issued in March 2016. The 2016B bonds were issued primarily to finance the current refunding of the 2007 note payable and to fund certain costs related to the issuance of the 2016B bonds. As of June 30, 2016, $20,850,000 of the 2016B bonds remained outstanding.

The interest rate is subject to change if the maximum corporate tax rate changes, the Charter does not maintain at least $12,500,000 with the bond purchaser and the Charter does not maintain a credit rating of at least BBB-/Baa3.

The Charter is subject to certain financial covenants under the terms of the 2012, 2016A, and 2016B notes payable to the District of Columbia for which the Charter is in compliance.

Maturities of notes payable are as follows:

Year ending June 30,	
2017	$ 2,635,000
2018	2,690,000
2019	2,760,000
2020	2,820,000
2021	2,895,000
2022 - 2026	15,675,000
2027 - 2031	15,680,000
2032 - 2036	20,020,000
2037 - 2041	25,550,000
2042 - 2046	25,375,000
	$ 116,100,000

NOTE 7 - LONG-TERM DEBT (Continued)

As part of the current year refinancing activity the Charter eliminated approximately $2.7 million of unamortized loan issue costs and related premium/discount of the 2003 and 2006 debt.

Capital lease obligation

During 2016 the Charter renegotiated its lease for the Collegiate Academy campus, to extend the term to 2040 which results in the lease being reclassified as a capital lease. Payments on the Collegiate Academy capital lease are subject to a base rent which increases at 2% annually until 2020. The lease is subject to a fair market value adjustment in base rent in 2020 and continue at a 2% annual increase through end of the lease term in 2040. The fair market value adjustment is unknown and therefore not included in the capital lease obligation. Annual rent payments range from approximately $453,000 to $728,000 which are reduced by available rent credits subject to an annual minimum payment of $63,000.

Capital lease obligation due for Collegiate Academy High School with interest imputed at 5.0%. Payments of principal and interest are due monthly and increase annually at 2%.	$ 1,311,373

Future payments on the capital lease obligation are as follows:

Year ending June 30,	
2017	$ 63,000
2018	63,000
2019	63,000
2020	63,000
2021	63,000
2022 - 2026	315,000
2027 - 2031	315,000
2032 - 2036	315,000
2037 - 2040	1,606,833
	2,866,833
Less interest	1,555,460
	$ 1,311,373

NOTE 7 - LONG-TERM DEBT (Concluded)

The initial operating lease for Collegiate allowed for rent credits for leasehold improvements made to the property by the Charter totaling approximately $13.5 million. These rent credits are netted against the capitalized assets and capital lease obligation because they related to the leasehold improvements previously capitalized by the Charter. An additional $2.7 million of lease credits related to the CAPCS assumption of debt (Note 11) were granted in the capital lease.

Approximately $11.2 million of the total rent credits remain available for use at June 30, 2016. Based on current estimates, the rent credits are expected to be fully utilized by the fiscal year 2038. Due to the existence of the rent credits, payments on the capital lease are effectively interest only until fiscal year 2038.

The following is a reconciliation of long-term debt balances as presented in the statements of financial position at June 30:

	2016	2015
Current portion of long-term debt		
Notes payable	$ 2,635,000	$ 2,875,000
Long-term debt - less current portion		
Notes payable	$ 120,364,569	$ 105,344,979
Capital lease obligation	1,311,373	-
	$ 121,675,942	$ 105,344,979

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at June 30:

	2016	2015
Accounts payable - trade	$ 1,087,730	$ 1,969,827
Accrued interest payable	690,283	763,599
Due to student groups	55,463	79,156
	$ 1,833,476	$ 2,812,582

NOTE 9 - OPERATING LEASES

The Charter leases Friendship Online Academy school facilities from the District of Columbia Public Schools (a governmental entity) and administrative offices from BMC Q Street (a limited liability corporation) under operating leases expiring through 2021.

Future minimum operating lease payments required over the remaining lease terms are as follows:

Year ending June 30,	BMC Q Street, LLC	District of Columbia Public Schools	Total
2017	$ 594,884	$ 27,492	$ 622,376
2018	-	27,492	27,492
2019	-	27,492	27,492
2020	-	27,492	27,492
2021	-	18,328	18,328

Rent expense for the years ended June 30, 2016 and 2015, was $1,049,177 and $1,000,874, respectively.

NOTE 10 - RETIREMENT PLAN

Substantially all employees may participate in a 403(b) plan established by the Charter in July 2007. Under the plan, employee contributions are matched at the discretion of the Charter. For the years ended June 30, 2016 and 2015, the Charter matched employee contributions by 50% up to 4% of the employee's compensation. The Charter contributed approximately $221,000 and $189,000 to the plan in 2016 and 2015, respectively.

NOTE 11 - ASSUMPTION OF ASSETS, DEBT AND OPERATIONS OF CAPCS

Effective June 30, 2015, the Charter assumed the assets and related debt of two charter school campuses previously operated by Dorothy I. Height Community Academy Public Charter School, Inc. (CAPCS). The Charter was authorized by the DCPCSB to become the replacement operator at the former campuses starting in the academic year 2015-2016.

The Charter assumed $2.7 million of debt related to assets not assumed in the CAPCS transaction. In December 2015, the Charter negotiated $2.7 million of rent credits within the Collegiate Academy capital lease (Note 7). The fair value of these credits made available to the Charter are estimated at $1,555,381 and are regarded as contribution revenue in 2016.

NOTE 11 - ASSUMPTION OF ASSETS, DEBT AND OPERATIONS OF CAPCS (Concluded)

The fair value of assets and liabilities assumed, and contribution received from CAPCS was determined as follows:

	2016	2015
Fair value of property assumed	$ -	$ 27,519,884
Unrestricted cash received	-	2,250,000
Restricted (for debt service) cash and investments received	-	1,004,815
DC CAPCS 2007 debt assumed	-	(21,980,000)
Interest accrued on debt	-	(183,861)
Expenses incurred with CAPCS assumption	-	(202,293)
Fair value of rent credits	1,555,381	-
Contribution received in assumption of CAPCS	$ 1,555,381	$ 8,408,545

Management has measured the fair value of the property assumed utilizing the income approach and rent credits received using a 5% discount rate to calculate net present value.

NOTE 12 - SUPPLEMENTAL CASH FLOW DISCLOSURES

	2016	2015
Cash interest paid	$ 5,659,844	$ 4,783,448
Noncash contribution of property and equipment (Note 11)	$ -	$ 27,519,884
Noncash assumption of debt (Note 11)	$ -	$ 21,980,000
Property and equipment acquired under capital lease (Note 7)	$ 2,869,327	$ -

SUPPLEMENTARY INFORMATION

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR 2015

	Program services		Support services		Total expenses	
	Educational activities	Extended learning	Management and general	Fundraising	2016	2015
EXPENSES:						
Personnel, salaries, and benefits						
Salaries	$37,319,117	$ 2,337,764	$ 4,265,753	$ -	$ 43,922,634	$ 38,870,751
Employee benefits	6,533,804	349,596	736,347	-	7,619,747	6,401,034
Other staff-related expenses	408,726	638	159,917	-	569,281	862,477
Total personnel, salaries and benefits	44,261,647	2,687,998	5,162,017	-	52,111,662	46,134,262
Direct student costs						
Supplies and materials	2,273,059	50,393	13,625	-	2,337,077	2,198,237
Professional development	573,165	5,482	26,871	-	605,518	812,789
Contracted student services	1,683,778	36,455	-	-	1,720,233	211,417
Textbooks	42,087	-	-	-	42,087	79,519
Student assessments	72,172	-	-	-	72,172	57,738
Student food service program	2,240,638	1,278	-	-	2,241,916	1,951,803
Other student costs	903,769	127,437	4,468	-	1,035,674	740,224
Total direct student costs	7,788,668	221,045	44,964	-	8,054,677	6,051,727

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR 2015

	Program services		Support services		Total expenses	
	Educational activities	Extended learning	Management and general	Fundraising	2016	2015
Occupancy						
Rent	$ 58,992	$ -	$ 990,245	$ -	$ 1,049,237	$ 1,000,874
Maintenance and repairs	1,861,282	-	-	-	1,861,282	2,144,271
Utilities and garbage removal	1,859,341	-	48,914	-	1,908,255	1,803,256
Contracted building services	2,550,007	-	171,427	-	2,721,434	1,664,901
Equipment rental and maintenance	442,150	-	31,063	-	473,213	384,740
Total occupancy expense	6,771,772	-	1,241,649	-	8,013,421	6,998,042
Office						
Office supplies and materials	470,304	56,805	207,301	180	734,590	634,962
Telecommunications	396,293	-	53	-	396,346	125,527
Legal, accounting and payroll services	250,782	-	1,389,295	-	1,640,077	1,682,348
Postage	903	-	55,007	-	55,910	58,345
Printing and copying	55,790	7,205	202,903	7,586	273,484	442,658
Other office expenses	421,992	24,792	228,341	45,605	720,730	810,117
Total office expense	1,596,064	88,802	2,082,900	53,371	3,821,137	3,753,957

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR 2015

	Program services		Support services		Total expenses	
	Educational activities	Extended learning	Management and general	Fundraising	2016	2015
General						
Insurance	$ 409,353	$ 26,252	$ 22,927	$ -	$ 458,532	$ 482,676
Authorizer fees	-	-	871,189	-	871,189	753,426
Transportation	33,558	6,082	70,805	520	110,965	99,485
Other general expense	32,018	-	977,858	14,344	1,024,220	788,543
Interest	4,983,989	319,628	279,138	-	5,582,755	4,759,310
Total general expense	5,458,918	351,962	2,221,917	14,864	8,047,661	6,883,440
Depreciation	4,344,879	278,641	243,343	-	4,866,863	4,280,268
TOTAL EXPENSES	$70,221,948	$ 3,628,448	$10,996,790	$ 68,235	$ 84,915,421	$ 74,101,696

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through the State Agency for Special Nutrition and Commodity Programs:			
Child Nutrition Cluster:			
Non-cash Assistance (commodities):			
National School Lunch - Entitlement	10.555		$ 372,089
Cash Assistance:			
National School Lunch Programs - Section 11	10.555	31NSL1-15	350,301
National School Lunch Programs - Section 11	10.555	31NSL1-16	1,403,606
			1,753,907
Total CFDA# 10.555			2,125,996
National School Breakfast Programs - Section 11	10.553	31NSLB1-15	167,325
National School Breakfast Programs - Section 11	10.553	31NSLB1-16	641,981
			809,306
Total cash assistance			2,563,213
Total Child Nutrition Cluster			2,935,302
Fresh Fruit & Vegetable Program	10.582	31FFV1-15	11,753
Fresh Fruit & Vegetable Program	10.582	31FFV1-16	128,924
			140,677
Child and Adult Care - Cash for Commodity	10.558	31CAC1-15	1,783
Child and Adult Care - Cash for Commodity	10.558	31CAC1-16	11,607
Child and Adult Care - Food Program	10.558	31CAF1-15	23,050
Child and Adult Care - Food Program	10.558	31CAF1-16	150,037
			186,477
Total U.S. Department of Agriculture			3,262,456
U.S. Department of Education			
Passed through District of Columbia Public Schools:			
Title I - School Improvement	84.010	52010A-15	21,410
Title I - Regular	84.010	52010A-15	167,941
Title I - Regular	84.010	62010A-16	2,356,273
			2,545,624
Title II, (A)	84.367	52367A-15	41,985
Title II, (A)	84.367	62367A-16	589,068
			631,053

The accompanying notes are an integral part of this schedule.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Education (Continued)			
Passed through District of Columbia Public Schools (Concluded):			
Educating Homeless Children and Youth	84.196	62196A-16	$ 17,258
Career and Technical Education	84.048	52048A-15	134,295
Career and Technical Education	84.048	62048A-16	239,228
			373,523
IDEA, Part B - Special Ed	84.027	52027A-15	210,278
IDEA, Part B - Special Ed	84.027	62027A-16	635,922
			846,200
21st Century Community Learning Centers	84.287	52287C-16-0506	41,982
SOAR Academic Achievement - 13 (PL 111-8)	84.370	UC370C130001	428,228
Total passed through District of Columbia Public Schools			4,883,868
Total U.S. Department of Education			4,883,868
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 8,146,324

The accompanying notes are an integral part of this schedule.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Friendship Public Charter School, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Friendship Public Charter School, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Friendship Public Charter School, Inc..

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Friendship Public Charter School, Inc. has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - PASS-THROUGH FUNDS

The Charter did not pass through any federal funds to subrecipients.

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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*

To the Board of Trustees
Friendship Public Charter School, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Friendship Public Charter School, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Friendship Public Charter School, Inc.'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 Friendship Public Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Friendship Public Charter School, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Friendship Public Charter School, Inc. 's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maner Costerisan PC

October 18, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
Friendship Public Charter School, Inc.

Report on Compliance for Each Major Federal Program

We have audited Friendship Public Charter School, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Friendship Public Charter School, Inc.'s major federal programs for the year ended June 30, 2016. Friendship Public Charter School, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Friendship Public Charter School, Inc.'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Friendship Public Charter School, Inc.'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 Friendship Public Charter School, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Friendship Public Charter School, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Friendship Public Charter School, Inc. 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 Friendship Public Charter School, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Friendship Public Charter School, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Maner Costerisan PC

October 18, 2016

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*Unmodified*			
Internal control over financial reporting:				
➢ Material weakness(es) identified?	______	Yes	X	No
➢ Significant deficiency(ies) identified?	______	Yes	X	None reported
Noncompliance material to financial statements noted?	______	Yes	X	No

Federal Awards

Internal control over major programs:				
➢ Material weakness(es) identified?	______	Yes	X	No
➢ Significant deficiency(ies) identified?	______	Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	*Unmodified*			
Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)?	______	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I
84.367	Title II(A)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	X	Yes	______	No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

There were no findings reported for the year ended June 30, 2015.