

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.

**REPORT ON FINANCIAL STATEMENTS
(with supplementary information)**

YEARS ENDED JUNE 30, 2017 AND 2016

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

Other Matters

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 24, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Friendship Public Charter School, Inc.'s 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.

Maney Costeiran PC

October 24, 2017

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 32,593,631 | \$ 30,075,821 |
| Grants and accounts receivable | 4,171,525 | 5,442,846 |
| Prepaid expenses | 797,217 | 142,451 |
| TOTAL CURRENT ASSETS | 37,562,373 | 35,661,118 |
| NONCURRENT ASSETS: | | |
| Restricted cash and investments | 19,367,975 | 24,621,681 |
| Property and equipment, net of accumulated depreciation | 107,309,580 | 105,386,573 |
| Deposits | 103,882 | 159,321 |
| TOTAL NONCURRENT ASSETS | 126,781,437 | 130,167,575 |
| TOTAL ASSETS | \$ 164,343,810 | \$ 165,828,693 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 2,266,532 | \$ 1,833,476 |
| Accrued salaries and related | 5,534,811 | 5,355,280 |
| Deferred revenue | 166,573 | 114,538 |
| Current portion of long-term debt | 2,690,000 | 2,635,000 |
| TOTAL CURRENT LIABILITIES | 10,657,916 | 9,938,294 |
| LONG-TERM DEBT - less current portion and loan issuance costs | 115,346,117 | 118,207,829 |
| TOTAL LIABILITIES | 126,004,033 | 128,146,123 |
| NET ASSETS: | | |
| Undesignated - unrestricted | 38,339,777 | 37,682,570 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 164,343,810 | \$ 165,828,693 |

See notes to financial statements.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|--|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Pupil revenue | \$ 74,770,048 | \$ 75,603,886 |
| Federal grants | 7,433,946 | 8,146,324 |
| Other grants and contributions | 3,850,941 | 2,703,426 |
| Other | 135,268 | 202,575 |
| Total operating revenues | 86,190,203 | 86,656,211 |
| OPERATING EXPENSES: | | |
| Program services: | | |
| Educational activities | 69,152,352 | 69,834,245 |
| Extended learning (includes summer school) | 4,238,518 | 4,016,151 |
| Management and general | 11,890,971 | 10,996,790 |
| Fundraising | 199,274 | 68,235 |
| Total operating expenses | 85,481,115 | 84,915,421 |
| NET OPERATING ACTIVITIES | 709,088 | 1,740,790 |
| NONOPERATING ACTIVITIES: | | |
| Interest income | 134,087 | 171,759 |
| Loss on disposal of property and equipment | (185,968) | - |
| Contribution received in assumption of CAPCS | - | 1,555,381 |
| Elimination of unamortized loan issuance costs | - | (2,734,608) |
| Total nonoperating activities | (51,881) | (1,007,468) |
| CHANGE IN NET ASSETS | 657,207 | 733,322 |
| NET ASSETS: | | |
| Beginning of year | 37,682,570 | 36,949,248 |
| End of year | \$ 38,339,777 | \$ 37,682,570 |

See notes to financial statements.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|--|---------------|---------------|
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS: | | |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 657,207 | \$ 733,322 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation expense | 5,102,766 | 4,863,090 |
| Amortization of loan premium and issuance costs - net | (171,712) | 101,944 |
| Loss on disposal of property and equipment | 185,968 | - |
| Elimination of unamortized loan issuance costs | - | 2,734,608 |
| Noncash contribution from assumption of CAPCS | - | (1,555,381) |
| Grants and accounts receivable | 1,271,321 | (1,577,819) |
| Prepaid expenses and deposits | (599,327) | (71,197) |
| Accounts payable and accrued expenses | 612,587 | (220,534) |
| Deferred revenue | 52,035 | (102,754) |
| Total adjustments | 6,453,638 | 4,171,957 |
| Net cash provided by operating activities | 7,110,845 | 4,905,279 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (7,211,741) | (2,607,261) |
| Withdrawals (deposits) of restricted cash and investments - net | 5,253,706 | (10,456,725) |
| Net cash used by investing activities | (1,958,035) | (13,063,986) |
| Cash flows from financing activities: | | |
| Proceeds from District of Columbia notes payable, including premium, net of issuance costs | - | 82,756,357 |
| Payments on principal of notes payable | (2,635,000) | (74,460,000) |
| Net cash provided (used) by financing activities | (2,635,000) | 8,296,357 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 2,517,810 | 137,650 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | 30,075,821 | 29,938,171 |
| End of year | \$ 32,593,631 | \$ 30,075,821 |
| SUPPLEMENTAL DISCLOSURE INFORMATION: | 2017 | 2016 |
| Cash interest paid | \$ 5,359,300 | \$ 5,557,900 |
| Property and equipment acquired under capital lease (Note 6) | \$ - | \$ 2,869,327 |

See notes to financial statements.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
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.

Accounts and grants 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, 2017 and 2016.

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 premiums are added to long-term debt and are amortized into interest expense in proportion to the related interest expense incurred. Loan issuance costs reduce long-term debt and are amortized into interest expense over the life of the loans using the straight-line method.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

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 9 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 receivables is limited due to the nature of the organizations that fund the Charter's 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.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

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 24, 2017, 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.

Reclassification - Certain prior year numbers have been reclassified to be in conformity with the current year presentation.

NOTE 3 - CASH AND INVESTMENTS

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

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Unrestricted: | | |
| Cash and cash equivalents | \$32,593,631 | \$30,075,821 |
| Restricted: | | |
| Repair and replacement reserves - money market funds (2016A) | 1,523,424 | 1,985,024 |
| Debt service reserves - money market funds (2012) | 4,052,108 | 4,351,440 |
| Debt service reserves - Repayment of the District of Columbia Office of Public Charter School Financing and Support note payable - money market funds | 3,000,000 | 3,000,000 |
| Unspent project proceeds - money market funds | 10,536,560 | 15,074,307 |
| Other | 255,883 | 210,910 |
| | <u>19,367,975</u> | <u>24,621,681</u> |
| | <u>\$51,961,606</u> | <u>\$54,697,502</u> |

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

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.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies use for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Charter are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at the price. The mutual funds held by the Charter are deemed to be actively traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Charter believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - FAIR VALUE MEASUREMENTS (Concluded)

As of June 30, 2017 and 2016, 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.

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------------|-------------------|
| Fixed income mutual funds | <u>\$ 255,883</u> | <u>\$ 210,910</u> |

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consists of the following:

| | Years of useful life | <u>2017</u> | <u>2016</u> |
|--|-------------------------|-----------------------|-----------------------|
| Land | | \$ 7,345,512 | \$ 7,345,512 |
| Buildings and leasehold improvements | 20 - 40 | 124,849,054 | 120,969,512 |
| Software and computer equipment | 3 - 5 | 6,486,912 | 5,853,716 |
| Furniture and office equipment | 15 - 20 | 2,666,419 | 2,673,066 |
| Curriculum | 5 | 2,090,760 | 3,114,877 |
| Construction in progress | | <u>2,696,956</u> | <u>673,197</u> |
| | | 146,135,613 | 140,629,880 |
| Less accumulated depreciation and amortization | | <u>38,826,033</u> | <u>35,243,307</u> |
| | | <u>\$ 107,309,580</u> | <u>\$ 105,386,573</u> |
| Depreciation expense | | <u>\$ 5,102,766</u> | <u>\$ 4,863,090</u> |

The Charter leases the Collegiate Academy building and improvements under a capital lease (see Note 6). The property include above subject to a capital lease at June 30 is as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------------|---------------------|---------------------|
| Property and equipment | <u>\$ 2,869,327</u> | <u>\$ 2,869,327</u> |
| Accumulated depreciation | <u>\$ 176,610</u> | <u>\$ 58,870</u> |
| Depreciation expense | <u>\$ 117,740</u> | <u>\$ 58,870</u> |

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

Notes payable consists of the following at June 30:

| | 2017 | 2016 |
|---|----------------|----------------|
| 2012 Note payable - District of Columbia payable quarterly in annual totals ranging from \$750,000 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. | \$ 33,620,000 | \$ 34,355,000 |
| 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 | 57,895,000 |
| 2016B Note payable - District of Columbia payable quarterly in annual totals ranging from \$1,940,000 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. | 18,950,000 | 20,850,000 |
| 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 |
| Total notes payable before loan issuance costs and bond premium | 113,465,000 | 116,100,000 |
| Less unamortized loan issuance costs | (3,314,919) | (3,468,113) |
| Plus unamortized bond premium on 2012 note payable | 814,709 | 866,599 |
| Plus unamortized bond premium on 2016A note payable | 5,759,954 | 6,032,970 |
| Total notes payable | 116,724,744 | 119,531,456 |
| Less current portion | 2,690,000 | 2,635,000 |
| | \$ 114,034,744 | \$ 116,896,456 |

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Continued)

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, 2017, \$33,620,000 of the 2012 bonds remained outstanding.

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, 2017, \$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, 2017, \$18,950,000 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.

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Maturities of notes payable are as follows:

| Year ending June 30, | |
|-------------------------|----------------|
| 2018 | \$ 2,690,000 |
| 2019 | 2,760,000 |
| 2020 | 2,820,000 |
| 2021 | 2,895,000 |
| 2022 | 2,965,000 |
| 2023 - 2027 | 15,550,000 |
| 2028 - 2032 | 16,465,000 |
| 2033 - 2037 | 21,020,000 |
| 2038 - 2042 | 26,825,000 |
| 2043 - 2046 | 19,475,000 |
| | \$ 113,465,000 |

As part of the 2016 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 \$472,000 to \$728,000 which are reduced by available rent credits subject to an annual minimum payment of \$63,000.

| | 2017 | 2016 |
|--|--------------|--------------|
| 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 | \$ 1,311,373 |

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Concluded)

Future payments on the capital lease obligation are as follows:

| Year ending June 30, | | |
|-------------------------|----|-----------|
| 2018 | \$ | 63,000 |
| 2019 | | 63,000 |
| 2020 | | 63,000 |
| 2021 | | 63,000 |
| 2022 | | 63,000 |
| 2023 - 2027 | | 315,000 |
| 2028 - 2032 | | 315,000 |
| 2033 - 2037 | | 317,986 |
| 2038 - 2040 | | 1,538,376 |
| | | 2,801,362 |
| Less interest | | 1,489,989 |
| | \$ | 1,311,373 |

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 \$10.8 million of the total rent credits remain available for use at June 30, 2017. 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:

| | 2017 | 2016 |
|--|----------------|----------------|
| Current portion of long-term debt: | | |
| Notes payable | \$ 2,690,000 | \$ 2,635,000 |
| Long-term debt - less current portion: | | |
| Notes payable | \$ 114,034,744 | \$ 116,896,456 |
| Capital lease obligation | 1,311,373 | 1,311,373 |
| | \$ 115,346,117 | \$ 118,207,829 |

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

| | 2017 | 2016 |
|--------------------------|--------------|--------------|
| Accounts payable - trade | \$ 1,807,482 | \$ 1,087,730 |
| Accrued interest payable | 431,394 | 690,283 |
| Due to student groups | 27,656 | 55,463 |
| | \$ 2,266,532 | \$ 1,833,476 |

NOTE 8 - OPERATING LEASES

The Charter leases Friendship Online Academy school facilities from the District of Columbia Public Schools (a governmental entity) under an operating lease expiring through 2021.

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

| Year ending June 30, | District of Columbia Public Schools |
|----------------------|---|
| 2018 | \$ 27,492 |
| 2019 | 27,492 |
| 2020 | 27,492 |
| 2021 | 18,328 |

Rent expense, including short term leases, for the years ended June 30, 2017 and 2016, was \$706,815 and \$1,049,237, respectively, of which \$594,884 and \$779,026, related to an office lease terminated in March 2017.

NOTE 9 - 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, 2017 and 2016, the Charter matched employee contributions by 50% up to 4% of the employee's compensation. The Charter contributed approximately \$260,000 and \$221,000 to the plan in 2017 and 2016, respectively.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - PUPIL REVENUE

The allocation of the per pupil revenue for the year ended June 30, are as follows:

| | 2017 | 2016 |
|---------------------------|---------------|---------------|
| General education | \$ 46,345,798 | \$ 45,681,389 |
| Categorical enhancements: | | |
| Special education | 9,559,312 | 10,558,559 |
| At-risk | 5,404,759 | 5,403,321 |
| English language learners | 289,395 | 320,925 |
| DC facilities allowance | 13,170,784 | 13,639,692 |
| | \$ 74,770,048 | \$ 75,603,886 |

NOTE 11 - ASSUMPTION 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 6). The fair value of these credits made available to the Charter are estimated at \$1,555,381 and are recorded as contribution revenue in 2016. 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 - CONTINGENCIES

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. 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, 2017, the District of Columbia would have the right to reacquire the property for \$22.8 million if the restrictions on use were not maintained.

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 13 - NEW ACCOUNTING STANDARD

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of the debt liability. The Charter adopted ASU No. 2015-03 for the year ending June 30, 2017. The June 30, 2016 comparative information has been reclassified to conform with the current year presentation. As a result, \$3,314,919 and \$3,468,113 of unamortized loan issuance costs are reflected in the statements of financial position at June 30, 2017 and 2016, respectively, as a component of long-term debt (see Note 6).

NOTE 14 - SUBSEQUENT EVENT

In September 2017, a new Washington Teacher’s Union (WTU) contract backdated to October 1, 2016 was approved by the WTU. Subsequently, in October 2017, the DC Council approved legislation to provide additional funding to both DC Public Schools (DCPS) and DC Public Charter Schools (DC PCS) through an increase in the Uniform Per Student Funding Formula (UPSFF). The additional funding to DCPS will cover the increased salary and benefit expenses associated with the contract. Charter schools will receive a one-time payment based on fiscal year 2017 enrollment figures. The approximate amount of the one-time payment to be received by Friendship is \$1,270,000 and will be reflected as fiscal year 2018 revenue as the events leading to the supplemental funding did not occur until the subsequent period.

SUPPLEMENTARY INFORMATION

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR 2016

| | Program services | | Support services | | Total expenses | |
|--|---------------------------|----------------------|---------------------------|-------------|-------------------|-------------------|
| | Educational activities | Extended learning | Management and general | Fundraising | 2017 | 2016 |
| EXPENSES: | | | | | | |
| Personnel, salaries, and benefits: | | | | | | |
| Salaries | \$36,016,098 | \$ 2,555,139 | \$ 5,707,166 | \$ - | \$ 44,278,403 | \$ 43,922,634 |
| Employee benefits | 6,467,302 | 207,093 | 1,081,985 | - | 7,756,380 | 7,619,747 |
| Other staff-related expenses | 867,822 | 94,090 | 20,612 | - | 982,524 | 569,281 |
| Total personnel, salaries and benefits | <u>43,351,222</u> | <u>2,856,322</u> | <u>6,809,763</u> | <u>-</u> | <u>53,017,307</u> | <u>52,111,662</u> |
| Direct student costs: | | | | | | |
| Supplies and materials | 2,429,851 | 83,807 | 66,270 | - | 2,579,928 | 2,337,077 |
| Professional development | 539,308 | 3,552 | 23,107 | - | 565,967 | 605,518 |
| Contracted student services | 1,874,051 | 13,172 | - | - | 1,887,223 | 1,720,233 |
| Textbooks | 16,383 | - | - | - | 16,383 | 42,087 |
| Student assessments | 108,193 | - | - | - | 108,193 | 72,172 |
| Student food service program | 2,263,832 | 4,548 | - | - | 2,268,380 | 2,241,916 |
| Other student costs | 818,373 | 132,287 | 18,393 | - | 969,053 | 1,035,674 |
| Total direct student costs | <u>8,049,991</u> | <u>237,366</u> | <u>107,770</u> | <u>-</u> | <u>8,395,127</u> | <u>8,054,677</u> |

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR 2016

| | Program services | | Support services | | Total expenses | |
|--|------------------------|-------------------|------------------------|-------------|----------------|--------------|
| | Educational activities | Extended learning | Management and general | Fundraising | 2017 | 2016 |
| Occupancy: | | | | | | |
| Rent | \$ 25,793 | \$ 1,699 | \$ 679,323 | \$ - | \$ 706,815 | \$ 1,049,237 |
| Maintenance and repairs | 1,842,115 | 121,373 | - | - | 1,963,488 | 1,861,282 |
| Utilities and garbage removal | 1,699,333 | 111,965 | 51,744 | - | 1,863,042 | 1,908,255 |
| Contracted building services | 2,733,014 | 180,073 | 250,276 | - | 3,163,363 | 2,721,434 |
| Equipment rental and maintenance | 406,152 | 26,760 | 170,821 | - | 603,733 | 473,213 |
| Total occupancy expense | 6,706,406 | 441,871 | 1,152,164 | - | 8,300,441 | 8,013,421 |
| Office: | | | | | | |
| Office supplies and materials | 572,989 | 6,993 | 286,507 | 63 | 866,552 | 734,590 |
| Telecommunications | 276,241 | - | 78 | - | 276,319 | 396,346 |
| Legal, accounting and payroll services | 328,577 | - | 830,682 | - | 1,159,259 | 1,640,077 |
| Postage | 230 | 603 | 51,871 | - | 52,704 | 55,910 |
| Printing and copying | 61,294 | 8,285 | 132,331 | 17,110 | 219,020 | 273,484 |
| Other office expenses | 233,319 | 27,115 | 243,242 | 175,746 | 679,422 | 720,730 |
| Total office expense | 1,472,650 | 42,996 | 1,544,711 | 192,919 | 3,253,276 | 3,821,137 |

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR 2016

| | <u>Program services</u> | | <u>Support services</u> | | <u>Total expenses</u> | |
|-----------------------|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|------------------------------------|------------------------------------|
| | <u>Educational activities</u> | <u>Extended learning</u> | <u>Management and general</u> | <u>Fundraising</u> | <u>2017</u> | <u>2016</u> |
| General: | | | | | | |
| Insurance | \$ 502,789 | \$ 34,993 | \$ 28,304 | \$ - | \$ 566,086 | \$ 458,532 |
| Authorizer fees | - | - | 830,898 | - | 830,898 | 871,189 |
| Transportation | 155,300 | 4,874 | 47,718 | - | 207,892 | 110,965 |
| Other general expense | 4,198 | - | 868,070 | 6,355 | 878,623 | 1,024,220 |
| Interest | 4,377,596 | 304,668 | 246,435 | - | 4,928,699 | 5,582,755 |
| Total general expense | <u>5,039,883</u> | <u>344,535</u> | <u>2,021,425</u> | <u>6,355</u> | <u>7,412,198</u> | <u>8,047,661</u> |
| Depreciation | <u>4,532,200</u> | <u>315,428</u> | <u>255,138</u> | <u>-</u> | <u>5,102,766</u> | <u>4,866,863</u> |
| TOTAL EXPENSES | <u><u>\$69,152,352</u></u> | <u><u>\$ 4,238,518</u></u> | <u><u>\$11,890,971</u></u> | <u><u>\$ 199,274</u></u> | <u><u>\$ 85,481,115</u></u> | <u><u>\$ 84,915,421</u></u> |

FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Pass-through grantor's number | Federal expenditures |
|---|---------------------------|----------------------------------|-------------------------|
| <u>U.S. Department of Agriculture:</u> | | | |
| Passed through the State Agency for Special Nutrition and Commodity Programs: | | | |
| Child Nutrition Cluster: | | | |
| Non-cash Assistance (commodities): | | | |
| National School Lunch - Entitlement | 10.555 | | \$ 466,764 |
| Cash Assistance: | | | |
| National School Lunch Programs | 10.555 | 31NSL1-16 | 348,375 |
| National School Lunch Programs | 10.555 | 31NSL1-17 | 1,437,429 |
| Total National School Lunch Programs - cash assistance | | | <u>1,785,804</u> |
| Total CFDA #10.555 | | | <u>2,252,568</u> |
| National School Breakfast Programs | 10.553 | 31NSLB1-16 | 169,687 |
| National School Breakfast Programs | 10.553 | 31NSLB1-17 | 677,341 |
| Total CFDA #10.553 | | | <u>847,028</u> |
| Total cash assistance | | | <u>2,632,832</u> |
| Total Child Nutrition Cluster | | | <u>3,099,596</u> |
| Fresh Fruit & Vegetable Program | 10.582 | 31FFV1-16 | 17,995 |
| Fresh Fruit & Vegetable Program | 10.582 | 31FFV1-17 | 90,576 |
| Total CFDA #10.582 | | | <u>108,571</u> |
| Child and Adult Care Food Program | 10.558 | 31CAC1-17 | 8,519 |
| Child and Adult Care Food Program | 10.558 | 31CAF1-16 | 63,415 |
| Child and Adult Care Food Program | 10.558 | 31CAF1-17 | 185,406 |
| Total CFDA #10.558 | | | <u>257,340</u> |
| Total U.S. Department of Agriculture passed through the State Agency for Special Nutrition and Commodity Programs | | | <u>3,465,507</u> |
| <u>U.S. Department of Education</u> | | | |
| Passed through District of Columbia Public Schools: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 62010A-16 | 229,369 |
| Title I Grants to Local Educational Agencies | 84.010 | 72010A-17 | 1,718,211 |
| Total CFDA #84.010 | | | <u>1,947,580</u> |
| Supporting Effective Instruction State Grants | 84.367 | 62367A-16 | 65,366 |
| Supporting Effective Instruction State Grants | 84.367 | 72367A-17 | 403,037 |
| Total CFDA #84.367 | | | <u>468,403</u> |

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, 2017

| Federal grantor/pass-through grantor/program title | Federal CFDA number | Pass-through grantor's number | Federal expenditures |
|--|---------------------------|----------------------------------|----------------------------|
| <u>U.S. Department of Education (Concluded)</u> | | | |
| Passed through District of Columbia Public Schools (Concluded): | | | |
| Education For Homeless Children and Youth | 84.196 | 62196A-16 | \$ 30,742 |
| Education For Homeless Children and Youth | 84.196 | 72196A-17 | 17,494 |
| Total CFDA #84.196 | | | <u>48,236</u> |
| Career and Technical Education | 84.048 | 62048A-16 | 160,772 |
| Career and Technical Education | 84.048 | 72048A-17 | 240,882 |
| Total CFDA #84.048 | | | <u>401,654</u> |
| Special Education Grants to States | 84.027 | 62027A-16 | 389,210 |
| Special Education Grants to States | 84.027 | 72027A-17 | 406,007 |
| Total CFDA #84.027 | | | <u>795,217</u> |
| School Improvement Grants | 84.377 | 52010A-15 | 110,000 |
| School Improvement Grants | 84.377 | 72010A-17 | 60,000 |
| School Improvement Grants | 84.377 | 52377A-15 | 62,880 |
| School Improvement Grants | 84.377 | 62377A-16 | 74,469 |
| Total CFDA #84.377 | | | <u>307,349</u> |
| Total U.S. Department of Education passed through District of Columbia Public Schools | | | <u>3,968,439</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u><u>\$ 7,433,946</u></u> |

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, 2017

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, 2017. 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, 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.

**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, 2017, 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 24, 2017.

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.

Manes Costeiran PC

October 24, 2017

**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, 2017. 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 unmodified opinion on compliance for major federal programs. 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, 2017.

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 a 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.

Maney Costeiran PC

October 24, 2017

**FRIENDSHIP PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section I - Summary of Auditor's Results

Financial Statements

| | | | |
|--|-----------------------|--------------------------------|--|
| Type of auditor's report issued: | <i>Unmodified</i> | | |
| Internal control over financial reporting: | | | |
| ➤ Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No | |
| ➤ Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported | |
| Noncompliance material to financial statements | <u> </u> Yes | <u> X </u> No | |

Federal Awards

| | | | |
|---|-----------------------|--------------------------------|--|
| Internal control over major programs: | | | |
| ➤ Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No | |
| ➤ Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> 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 | <u> </u> Yes | <u> X </u> No | |
|--|-----------------------|---------------------|--|

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|--------------------------|---|
| 10.553, 10.555 84.027 | Child Nutrition Cluster Special Education Grants to States |

| | |
|--|------------------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u> \$ 750,000 </u> |
|--|------------------------------|

| | |
|--|---|
| Auditee qualified as low-risk auditee? | <u> X </u> Yes <u> </u> 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, 2017**

There were no findings reported for the year ended June 30, 2016.