

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017 AND 2016

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Independent Auditor's Report

The Board of Trustees
Perry Street Preparatory Public Charter School
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Perry Street Preparatory Public Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses 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 Perry Street Preparatory Public Charter School as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of Perry Street Preparatory Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Perry Street Preparatory Public Charter School's internal control over financial reporting and compliance.

Jane Marston & M^A Quade PA

Washington, DC
October 31, 2017

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,594,341	\$ 1,532,647
Investments	371,088	371,282
Grants receivable	187,248	92,656
Accounts receivable	235,731	288,354
Prepaid expenses	52,063	152,767
Total Current Assets	2,440,471	2,437,706
PROPERTY AND EQUIPMENT, NET	12,744,846	13,689,276
NON CURRENT ASSETS		
Investments, restricted	6,381,577	5,907,307
Security deposit	5,275	5,275
Total Non Current Assets	6,386,852	5,912,582
TOTAL ASSETS	\$ 21,572,169	\$ 22,039,564
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 141,623	\$ 187,077
Accrued expenses	132,558	139,162
Deposits	48,140	-
Deferred revenue	6,469	44,383
Capital lease payable, current portion	55,089	53,487
Deferred rent, current portion	291,593	291,593
Total Current Liabilities	675,472	715,702
LONG TERM LIABILITIES		
Capital lease payable, net	4,201	59,894
Deferred rent, net	2,326,212	2,034,619
Bonds payable	11,582,714	11,514,541
Total Long Term Liabilities	13,913,127	13,609,054
Total Liabilities	14,588,599	14,324,756
NET ASSETS		
Unrestricted		
Operating	(45,646)	1,131,818
Board designated - facilities fund	6,752,665	6,278,589
	6,707,019	7,410,407
Temporarily restricted	276,551	304,401
Total Net Assets	6,983,570	7,714,808
TOTAL LIABILITIES AND NET ASSETS	\$ 21,572,169	\$ 22,039,564

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 4,619,718	\$ -	\$ 4,619,718
Per pupil facility allowance	955,944	-	955,944
Federal entitlements and grants	706,944	-	706,944
Other grants and contributions	45,183	-	45,183
In-kind contributions	29,706	-	29,706
Activity fees	7,683	-	7,683
Investment income, net	16,681	-	16,681
Rental income	412,533	-	412,533
Insurance reimbursements	91,433	-	91,433
Other income	14,855	-	14,855
Net assets released from restriction	27,850	(27,850)	-
Total Revenue and Support	6,928,530	(27,850)	6,900,680
EXPENSES			
Educational programs	6,403,074	-	6,403,074
Management and general	1,224,172	-	1,224,172
Fundraising	4,672	-	4,672
Total Expenses	7,631,918	-	7,631,918
CHANGE IN NET ASSETS	(703,388)	(27,850)	(731,238)
NET ASSETS , beginning of year	7,410,407	304,401	7,714,808
NET ASSETS , end of year	\$ 6,707,019	\$ 276,551	\$ 6,983,570

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

**PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 4,659,552	\$ -	\$ 4,659,552
Per pupil facility allowance	1,063,691	-	1,063,691
Federal entitlements and grants	652,755	-	652,755
Other grants and contributions	19,479	-	19,479
In-kind contributions	38,748	-	38,748
Activity fees	21,709	-	21,709
Investment income, net	25,987	-	25,987
Loss on disposal of property and equipment	(12,566)	-	(12,566)
Other income	574,445	-	574,445
Net assets released from restriction	27,850	(27,850)	-
Total Revenue and Support	7,071,650	(27,850)	7,043,800
EXPENSES			
Educational programs	6,445,607	-	6,445,607
Management and general	1,546,517	-	1,546,517
Fundraising	4,643	-	4,643
Total Expenses	7,996,767	-	7,996,767
CHANGE IN NET ASSETS	(925,117)	(27,850)	(952,967)
NET ASSETS , beginning of year	8,335,524	332,251	8,667,775
NET ASSETS , end of year	\$ 7,410,407	\$ 304,401	\$ 7,714,808

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Supporting Services			Total
	Educational Programs	Management and General	Fundraising	
PERSONNEL COSTS				
Salaries	\$ 2,158,953	\$ 470,819	\$ 2,021	\$ 2,631,793
Employee benefits	189,294	37,613	156	227,063
Payroll taxes	206,042	40,942	170	247,154
Staff development	20,224	3,656	15	23,895
Total Personnel Costs	2,574,513	553,030	2,362	3,129,905
DIRECT STUDENT COSTS				
Supplies and materials	73,721	-	-	73,721
Contracted student services	643,776	-	-	643,776
Transportation and field trips	23,040	-	-	23,040
Food service	195,025	-	-	195,025
Student assessments	42,425	-	-	42,425
Other direct student costs	79,888	-	-	79,888
Total Direct Student Costs	1,057,875	-	-	1,057,875
OCCUPANCY EXPENSES				
Rent	243,090	48,303	200	291,593
Repairs and maintenance	131,192	26,068	108	157,368
Utilities	93,752	19,188	14	112,954
Janitorial supplies	14,518	2,885	12	17,415
Contracted building services	53,172	10,566	44	63,782
Total Occupancy Expenses	535,724	107,010	378	643,112
OFFICE EXPENSES				
Office supplies and materials	17,270	3,432	14	20,716
Office equipment lease	19,884	3,951	16	23,851
Postage and shipping	588	178	8	774
Professional fees	21,381	124,222	100	145,703
Telecommunications	12,842	2,552	11	15,405
Other office expenses	34,637	6,883	29	41,549
Total Office Expenses	106,602	141,218	178	247,998
GENERAL EXPENSES				
Insurance	83,513	16,594	69	100,176
Interest	81,256	16,146	67	97,469
In-kind legal	24,765	4,921	20	29,706
Authorizer fee	55,420	11,012	46	66,478
Management fees	1,001,711	199,044	825	1,201,580
Depreciation and amortization	844,254	167,757	695	1,012,706
Technology	34,285	6,813	29	41,127
Other general expenses	3,156	627	3	3,786
Total General Expenses	2,128,360	422,914	1,754	2,553,028
Total Expenses	\$ 6,403,074	\$ 1,224,172	\$ 4,672	\$ 7,631,918

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

**PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

	Supporting Services			Total
	Educational Programs	Management and General	Fundraising	
PERSONNEL COSTS				
Salaries	\$ 1,931,317	\$ 618,234	\$ 2,691	\$ 2,552,242
Employee benefits	264,434	67,128	142	331,704
Payroll taxes	184,738	46,897	99	231,734
Staff development	37,966	9,626	20	47,612
Total Personnel Costs	2,418,455	741,885	2,952	3,163,292
DIRECT STUDENT COSTS				
Supplies and materials	19,906	-	-	19,906
Contracted student services	590,680	-	-	590,680
Transportation and field trips	14,548	-	-	14,548
Food service	168,680	-	-	168,680
Student assessments	46,001	-	-	46,001
Other direct student expenses	30,027	-	-	30,027
Total Direct Student Costs	869,842	-	-	869,842
OCCUPANCY EXPENSES				
Rent	232,458	59,010	125	291,593
Repairs and maintenance	84,329	21,408	45	105,782
Utilities	293,635	74,541	158	368,334
Janitorial supplies	13,927	3,536	7	17,470
Contracted building services	41,763	10,602	22	52,387
Total Occupancy Expenses	666,112	169,097	357	835,566
OFFICE EXPENSES				
Office supplies and materials	12,667	3,216	7	15,890
Office equipment lease	20,796	5,279	11	26,086
Postage and shipping	3,013	764	2	3,779
Professional fees	237,205	60,216	127	297,548
Telecommunications	76,505	19,421	41	95,967
Other office expenses	2,527	642	1	3,170
Total Office Expenses	352,713	89,538	189	442,440
GENERAL EXPENSES				
Insurance	80,553	20,449	43	101,045
Interest	69,875	17,469	-	87,344
In-kind legal	30,998	7,750	-	38,748
Authorizer fee	51,214	13,002	27	64,243
Management fees	916,277	232,601	492	1,149,370
Depreciation and amortization	918,702	233,426	522	1,152,650
Technology	67,418	17,115	36	84,569
Other general expenses	3,448	4,185	25	7,658
Total General Expenses	2,138,485	545,997	1,145	2,685,627
Total Expenses	\$ 6,445,607	\$ 1,546,517	\$ 4,643	\$ 7,996,767

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

**PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (731,238)	\$ (952,967)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	1,012,707	1,152,650
Amortization of debt issuance costs	68,173	68,172
Deferred rent	291,593	291,593
Net appreciation in fair value of investments	194	(12,225)
Loss on disposal of property and equipment	-	12,566
(Increase) decrease in assets:		
Grants receivable	(94,592)	(22,160)
Accounts receivable	52,623	186,800
Prepaid expenses	100,704	(19,180)
Security deposit	-	200
Increase (decrease) in liabilities:		
Accounts payable	(45,454)	(237,726)
Accrued expenses	(6,604)	(184,328)
Deposits held	48,140	-
Deferred revenue	(37,914)	(468,830)
Net Cash Provided by (Used for) Operating Activities	658,332	(185,435)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(68,277)	(68,165)
Purchase of investments	(474,270)	(829,566)
Net Cash Used for Investing Activities	(542,547)	(897,731)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease payable	(54,091)	(54,193)
Net Cash Used for Financing Activities	(54,091)	(54,193)
NET CHANGE IN CASH AND CASH EQUIVALENTS	61,694	(1,137,359)
CASH AND CASH EQUIVALENTS, beginning of year	1,532,647	2,670,006
CASH AND CASH EQUIVALENTS, end of year	\$ 1,594,341	\$ 1,532,647
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	\$ 29,296	\$ 19,172

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE A – ORGANIZATION AND PURPOSE

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

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

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit-Entities*. In accordance with the topic, the School is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - continued

Basis of Presentation (continued)

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. The Board of Trustees has designated a portion of the funds and established a Facilities Fund, which will be utilized toward the acquisition of a School facility and approved leasehold improvements of the facilities currently under lease. It is the Board’s goal to use the Facilities Fund for capital improvements and to liquidate debt incurred in capital improvements.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the School and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by the School. There were no permanently restricted net assets as of June 30, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less and money market account. The School maintains its cash in bank deposit accounts which may, at times, exceed federally insured limits. The School believes it is not exposed to any significant credit risk on cash or cash equivalents

Restricted Investments

Restricted investments are comprised of investments required to be maintained in separate accounts in accordance with debt agreements.

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment acquired are recorded at cost or, if donated, at the approximate fair value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

Leasehold improvements are amortized over the term of the lease or useful life of the asset, whichever is shorter. Maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense when incurred.

Investments

The School reports its investments at fair value, and any net appreciation and depreciation in fair value and investment income are recorded in the statement of activities as a change in unrestricted net assets, unless their use is restricted by explicit donor-imposed stipulations or by law.

Debt Issuance Costs

Costs incurred for the issuance of debt have been capitalized and are reported in the statement of financial position as a direct deduction from the related debt liability. Debt issuance costs are amortized as interest expense over the remaining period of the debt using the straight-line method, which approximates the effective interest method.

Accounts and Grants Receivable

Accounts and grants receivable consist of unsecured amounts from public funding sources whose ability to pay are subject to appropriations. Accounts and grants receivable are reported net of the allowance for doubtful accounts, if any. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, the age of outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. As of June 30, 2017 and 2016, a significant portion of the receivables are due from governmental agencies. Due to the nature of funding from the federal government and the District of Columbia, management believes that all receivables will be collected within one year or less. Therefore, no allowance for doubtful accounts has been recorded.

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Per Pupil Appropriations

Deferred revenue result from per pupil appropriated revenue and other income received in the current fiscal year and deferred until the next fiscal year in which the service is provided. Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriated revenue includes \$1,259,677 and \$1,206,739 for the years ended June 30, 2017 and 2016, respectively, for enhancements, such as special education, English language learners, and at risk students.

Activity Fees

Activity fees are recognized at the time of the activity. This revenue is amounts collected from students from, but not restricted to, field trips, camps and other school related activities.

Federal Entitlements and Grants

Federal entitlements and grants revenues are received primarily from the District of Columbia Government. The grants are subject to audit by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

Functional Expenses

The costs of providing the School's various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs, fundraising and supporting services benefited.

Donated Services and Materials

Donated materials are recorded at fair market value at the date of donation. Donated services are recognized at their fair value if the service requires specialized skills and the services would typically need to be purchased, if not donated. Contributed services and promises to give services that do not meet the above criteria are not recognized. The School received donated legal services in the amount of \$29,706 and \$38,748 for the years ended June 30, 2017 and 2016, respectively.

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred Rent

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

Deferred Revenue

Deferred revenue represents amounts received during the current fiscal year and deferred until the following fiscal year for recognition.

Insurance Reimbursements

During 2017, the School received \$91,433 from insurance claims due to water damage to the property. As of June 30, 2017, the property damage claims have been settled in full.

Reclassifications

Certain amounts for the year ended June 30, 2016 have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

NOTE C – INCOME TAXES

The School is a 501(c)(3) tax exempt organization under Section 501(a) of the Internal Revenue Code. The School is, however, subject to tax on business income unrelated to its exempt purpose. The School is also exempt from the District of Columbia sales and property taxes. The School files information returns as required.

The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

The School's information tax returns are subject to examination by the Internal Revenue Service ("IRS") for a period of three years from the date they were filed, except under certain circumstances. The Form 990 information returns for the year 2013 through 2015 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE D – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment as of June 30:

	2017	2016
Leasehold improvements	\$ 17,031,830	\$ 17,004,679
Leased equipment	107,897	107,897
Computers	2,750,139	2,719,178
Resource materials	1,478,583	1,468,418
Furniture and fixtures	835,268	835,268
	22,203,717	22,135,440
Less accumulated depreciation	(9,458,871)	(8,446,164)
Property and Equipment, Net	\$ 12,744,846	\$ 13,689,276

Depreciation expense totaled \$1,012,706 and \$1,152,650, for the years ended June 30, 2017 and 2016, respectively.

NOTE E – INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS

Current accounting standards establish a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are described as follows:

- Level 1* Inputs are based on unadjusted quoted prices for identical assets traded in active markets that the School has the ability to access.

- Level 2* Inputs are based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data.

- Level 3* Inputs are unobservable and significant to the fair value measurement. There were no Level 3 inputs for any assets held by the School at June 30, 2017 and 2016.

The School's money market funds are publicly traded on the New York Stock Exchange and are considered Level 1 items. The U.S. treasury obligations, reported at cost, are restricted and held by the Trustee for the bonds. These securities are State and Local Government Series

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE E – INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS – continued

Securities, issued specifically to be held privately and therefore not traded in the public market. These are issued as time deposits and are reported at cost. U.S. Treasury obligations, reported at fair value, and federal mortgage-backed securities are priced based on based on their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full term of the instruments and are, therefore, considered Level 2 items.

The following table presents the School’s fair value hierarchy for investments measured at fair value as on a recurring basis of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments at fair value:				
Cash	\$ 354,460	\$ -	\$ -	\$ 354,460
Money market funds	5,402,601	-	-	5,402,601
Federal mortgage-backed securities	-	16,628	-	16,628
Total Investments at Fair Value	<u>\$5,757,061</u>	<u>\$ 16,628</u>	<u>\$ -</u>	<u>\$5,773,689</u>
Investments at cost:				
U.S. treasury obligations				841,667
Cash				137,309
Total Investments				<u>\$6,752,665</u>

The following table presents the School’s fair value hierarchy for investments measured at fair value as on a recurring basis of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments at fair value:				
Cash	\$ 319,258	\$ -	\$ -	\$ 319,258
Money market funds	4,646,006	-	-	4,646,006
Federal mortgage-backed securities	-	52,025	-	52,025
Total Investments at Fair Value	<u>\$4,965,264</u>	<u>\$ 52,025</u>	<u>\$ -</u>	<u>\$5,017,289</u>
Investments at cost:				
U.S. treasury obligations				841,667
Cash				419,633
Total Investments				<u>\$6,278,589</u>

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE E – INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS – continued

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

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

NOTE F – BONDS PAYABLE

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

The Bonds are secured by (1) a first leasehold deed of trust on the property at 1800 Perry Street, NE; (2) the School's \$350,000 deposit account with a financial institution; (3) a \$600,000 guaranty provided by America's Charter School Corporation, a subsidiary of Building Hope; (4) a \$1,000,000 guaranty provided by the Office of the State Superintendent of Education (OSSE) for four years from the date of closing; (5) a first priority Uniform Commercial Code (UCC) lien on all of the School's tangible assets, including all equipment and fixtures located on the real estate collateral; (6) a pledge of all net revenue, including, but not limited to, the School's facilities allowance, the District of Columbia Public Charter School Board's per-pupil-quarterly funding and all future non-designated philanthropic pledges; (7)

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE F – BONDS PAYABLE – continued

construction documents and materials; (8) an assignment of the lease between the School and the District of Columbia Office of Property Management for the property; (9) a pledge of a debt service reserve fund held by Eagle Bank equal to no less than 12 months of senior debt service in the amount of \$841,667, funded by a source acceptable to the bank; and (10) the full balance of the sinking fund. The interest rate is calculated at each put date at the prevailing Five-Year Treasury Constant Maturity Rate plus 4.25% less the tax credit rate.

On June 30, 2015, the Bond agreement was modified and extended and the interest rate reset as of the put date on May 1, 2015 to 0.21% per annum until the next put date. In addition, the debt payable to Building Hope and OSSE by the School were paid in full on June 30, 2015 and related guarantees released. As of June 30, 2017 and 2016, the rate was 0.21% and 0.21%, respectively. Interest is due monthly. The outstanding balance on the Bonds as of June 30, 2017 and 2016 is \$12,114,656, respectively. The maturity date of the Bonds is May 1, 2026.

The bonds have various covenants. The School must maintain a minimum debt service coverage ratio of 1.20 to 1:00 on an annual basis to be in good standing with the jurisdiction in which it is domiciled. As of June 30, 2017, the School did not meet the debt service coverage ratio minimum. The School obtained a written waiver of covenant default from Eagle Bank regarding the debt service coverage ratio for the year ended June 30, 2017.

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

2018	\$	810,160
2019		810,160
2020		810,160
2021		810,160
2022		810,160
Thereafter		3,240,640
		\$ 7,291,440

In prior years, the School reported debt issuance costs as a deferred charge in the statement of financial position and amortization of such costs in the statement of activities as depreciation and amortization. To comply with new GAAP presentation requirements, in 2017 the School began reporting such costs as a direct deduction from the carrying amount of the related debt and reclassified prior year amounts, resulting in a reduction of total June 30, 2016 assets by \$600,115. The change did not affect net assets.

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE F – BONDS PAYABLE – continued

Similarly, the School now reports amortization of debt issuance costs as interest expense and reclassified 2016 amounts accordingly. As a result, reported interest expense in 2016 was increased (and depreciation and amortization decreased) by \$68,172 with no effect on the change in net assets. The amortization of debt issuance costs as interest expense for the year ended June 30, 2017, was \$68,173.

Debt issuance costs and accumulated amortization are as follows as of June 30:

	2017	2016
Debt issuance costs	\$ 1,142,978	\$ 1,142,978
Less accumulated amortization	(611,036)	(542,863)
Debt Issuance Costs, Net	\$ 531,942	\$ 600,115

NOTE G – LEASE COMMITMENTS

On May 13, 2010, the School entered into a non-cancelable operating lease agreement for its school space with the District of Columbia. The lease term is 25 years, subject to one extension of another 25 years, and has a monthly rental obligation of \$95,833, subject to adjustment and credit thereafter, as provided by the lease. The School is entitled to rent abatements equivalent to tenant improvements to the School facility on a dollar-for-dollar basis against the full amount of the base rent through the 15th year of the lease. The balance of the improvements abatement is amortized over the remaining life of the lease agreement. As of June 30, 2017 and 2016, the School incurred \$16,925,637 in improvements to the facility.

Rent expense totaled \$291,593 and \$291,593 for the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, future minimum annual rental obligations of \$1,150,000 required under this lease for fiscal years 2018-2025 have been abated and future minimum rental payments thereafter total \$6,678,069.

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
 (continued)

NOTE G – LEASE COMMITMENTS - continued

On August 17, 2016, the School entered into a sublease agreement for a term of 3 years, expiring on August 31, 2019, for a portion of the School's building space. At any time after March 1, 2017, the sub-lessee may cancel the lease with ninety days written notice. Annual base rent is \$66,000. The sub-lessee defaulted on their payments during the year ended June 30, 2017 and was evicted with \$33,000 due to the School. The School deemed this amount as uncollectible. The School recognized \$20,700 as rental income from this sub-lease during the year ended June 30, 2017.

On June 17, 2016, the School entered into a sublease agreement for a term of 12 years, expiring on June 30, 2018, for a portion of the School's building space. At any time after June 30, 2018, the sub-lessee may cancel the lease with one year written notice. Annual base rent is \$288,840, paid quarterly. During 2017, the sub-lessee requested the termination of this lease as of June 30, 2018. The School has recognized \$391,833 as rental income, including utilities, from this lessor during the year ended June 30, 2017.

NOTE H - CAPITAL LEASE PAYABLE

In August 2013, the School entered into a 60-month capital lease for copiers with a recorded cost basis of \$267,718 and related accumulated depreciation at June 30, 2017 and 2016, of \$107,897 and \$107,897, respectively. The copiers and capital lease obligation were recorded at the present value of the future payments due under the lease. The related liability under the capital lease at June 30, 2017 and 2016, was \$59,290 and \$113,381, respectively. Interest expense related to the capital lease for the years ended June 30, 2017 and 2016, amounted to \$997 and \$1,602, respectively.

The following is a schedule by years of future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments, as of June 30, 2017:

2018		\$	55,089
2019			4,590
			59,679
Less amount representing interest			(389)
Present value of net minimum lease payments		\$	59,290

NOTE I – MANAGEMENT AGREEMENT

Effective July 1, 2015, the School entered into a management agreement with AppleTree Institute for Education Innovation (“AppleTree”). The agreement contracts AppleTree to fully manage and operate the early education program for pre-school and pre-kindergarten children under the School’s charter. Management of the early education program includes operating,

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE I – MANAGEMENT AGREEMENT - continued

marketing, and staffing the program. The initial term of the agreement is effective for five years, and scheduled to terminate June 30, 2020. If adequate yearly progress has been achieved per evaluations, the term of the agreement may be automatically extended for an additional five-year period, unless either party gives notice of at least 120 days prior to expiration.

The School is responsible for all costs associated with operating the early education program. The School is to compensate AppleTree a management fee equal to the per-pupil funding the School receives for its enrolled pre-K3 and pre-K4 student population and other fees received specific to the early education program, such as special education, English language learners, at-risk population, and summer school revenue received. Management fees incurred under the agreement for the years ended June 30, 2017 and 2016 was \$1,201,580 and \$1,149,370, respectively.

NOTE J – COMMITMENTS AND CONTINGENT LIABILITIES

The School receives revenue from government grants and contracts that are subject to inspection and audit by the appropriate funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The school is of the opinion that disallowance, if any, arising from such audits will not have a material effect on the financial statements. The School has no provisions for the possible disallowance of program costs on its financial statements.

On November 5, 2015, the School executed an amendment to its existing contract with TenSquare, LLC. Under the amended agreement, TenSquare, LLC will provide strategic intervention and support services to the School for a fixed fee of \$2,000,000, payable in monthly installments of \$41,666 beginning in July 2015 and ending in June 2019. For the years ended June 30, 2017 and 2016, the amount expensed under this contract totaled \$497,592, and \$497,592, respectively, and is included in the statements of activities.

NOTE K – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016 were designated as follows:

	<u>2017</u>	<u>2016</u>
Legal counseling services	\$ 250,655	\$ 278,505
Athletic	17,277	17,277
Parent engagement funds	8,619	8,619
Total	<u>\$ 276,551</u>	<u>\$ 304,401</u>

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE L – CONCENTRATION OF RISK

The School is supported primarily by local and federal appropriations and grants. For the years ended June 30, 2017 and 2016, 82% and 81%, respectively, of the total revenue was provided by one local government agency. Reduction of this source of support would have a significant impact on the School's programs and activities. Geographical area of clients served is predominantly Ward 5 of the District of Columbia.

As of June 30, 2017 and 2016, the School had cash that exceeded federally insured limits by approximately \$1,320,000 and \$1,200,000, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

NOTE M – PENSION PLAN

The School participates in the Teachers Insurance and Annuity Association-College Retirement Equities Fund ("TIAA-CREF") and the Supplemental Retirement Annuities ("SRA") plans. Both of these plans qualify as defined contribution retirement plans under Section 403(b) of the Internal Revenue Code ("IRC") and allow eligible employees to participate in these plans.

Employees participating in the TIAA-CREF plan may elect to contribute up to a maximum of 5% of their gross salary. The School provides a dollar-for-dollar match up to the 5% limit. Employees participating in the SRA plan may elect to contribute up to a maximum of 11% of their gross salary (which includes any of the employee's TIAA-CREF contributions). There is no matching contribution associated with this plan.

For the years ended June 30, 2017 and 2016, pension expense totaled \$34,116 and \$36,781, respectively.

NOTE N – SUBSEQUENT EVENTS

In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through October 31, 2017, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further recognition and disclosure.



**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***

The Board of Trustees
Perry Street Preparatory Public Charter School
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Perry Street Preparatory Public Charter School, (a nonprofit organization), (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Jane Marusa & McQuade PA

Washington, DC
October 31, 2017