

**CAMBRIDGE PREPARATORY ACADEMY DC, INC.
D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC
CHARTER SCHOOL**

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

JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

	<u>Page No</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities, Year Ended June 30, 2018	4
Statement of Activities, Year Ended June 30, 2017	5
Statement of Functional Expenses, Year Ended June 30, 2018	6
Statement of Functional Expenses, Year Ended June 30, 2017	7
Statements of Cash Flows	8
Notes to the Financial Statements	9 - 14
REPORTS AND SCHEDULES REQUIRED BY THE UNIFORM GUIDANCE	
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 <i>Government Auditing Standards</i>	15-16
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	17-18
Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditures of Federal Awards	20
Schedule of Findings and Questioned Costs	21



Independent Auditor's Report

The Board of Directors
Cambridge Preparatory Academy DC, Inc. D/B/A
Somerset Preparatory Academy Public Charter School
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statement of activities, functional expenses, and cash flows for 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 the 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 Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School as of June 30, 2018 and 2017, 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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018, on our consideration of Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy 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 the effectiveness of Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School'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 Cambridge Preparatory Academy DC, Inc. D/B/A Cambridge Preparatory Academy DC, Inc.'s internal control over financial reporting and compliance.

Jane Miller & McQuade PA

Washington, DC
November 14, 2018

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 1,129,039	\$ 461,153
Grants receivable	130,769	44,834
Accounts receivable	31,505	26,074
Prepaid expenses and employee advances	38,093	45,806
Total Current Assets	1,329,406	577,867
PROPERTY AND EQUIPMENT		
Computers and equipment	640,194	424,053
Leasehold improvements	547,500	-
Classroom furnishings	384,358	203,532
	1,572,052	627,585
Less: accumulated depreciation	(571,547)	(434,982)
Property and Equipment, Net	1,000,505	192,603
OTHER ASSETS		
Security deposit	5,000	5,000
Total Other Assets	5,000	5,000
TOTAL ASSETS	\$ 2,334,911	\$ 775,470
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 880,706	\$ 163,636
Accrued salaries and related expenses	448,152	315,389
Deferred revenue	7,249	12,840
Total Current Liabilities	1,336,107	491,865
NET ASSETS		
Unrestricted	998,804	283,605
Total Net Assets	998,804	283,605
TOTAL LIABILITIES AND NET ASSETS	\$ 2,334,911	\$ 775,470

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 6,355,041	\$ -	\$ 6,355,041
Per pupil facilities allowance	1,197,273	-	1,197,273
Federal entitlements and grants	1,139,798	-	1,139,798
Other grants and contributions	319,133	-	319,133
Activity fees	20,727	-	20,727
Other income	89,720	-	89,720
Loss on disposal of property and equipment	(18,035)	-	(18,035)
Net Assets released from restrictions	20,217	(20,217)	-
Total Revenue and Support	9,123,874	(20,217)	9,103,657
EXPENSES			
Programs - educational services	6,646,012	-	6,646,012
General and administrative services	1,742,014	-	1,742,014
Fundraising	432	-	432
Total Expenses	8,388,458	-	8,388,458
CHANGE IN NET ASSETS	735,416	(20,217)	715,199
NET ASSETS, beginning of year	263,388	20,217	283,605
NET ASSETS, end of year	\$ 998,804	\$ -	\$ 998,804

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 5,253,210	-	\$ 5,253,210
Per pupil facilities allowance	1,012,176	-	1,012,176
Federal entitlements and grants	491,290	-	491,290
Other grants and contributions	22,695	20,217	42,912
Activity fees	27,737	-	27,737
Other income	123,931	-	123,931
Total Revenue and Support	<u>6,931,039</u>	<u>20,217</u>	<u>6,951,256</u>
EXPENSES			
Programs - educational services	5,927,596	-	5,927,596
General and administrative services	1,563,649	-	1,563,649
Total Expenses	<u>7,491,245</u>	<u>-</u>	<u>7,491,245</u>
CHANGE IN NET ASSETS	(560,206)	20,217	(539,989)
NET ASSETS, beginning of year	<u>823,594</u>	<u>-</u>	<u>823,594</u>
NET ASSETS, end of year	<u>\$ 263,388</u>	<u>\$ 20,217</u>	<u>\$ 283,605</u>

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program - Educational Services	General and Administrative Services	Fundraising	Total
Personnel Costs				
Salaries	\$ 3,666,141	\$ 840,884	\$ -	\$ 4,507,025
Employee benefits	166,132	38,104	-	204,236
Payroll taxes	315,351	72,330	-	387,681
Professional development	214,972	28,411	-	243,383
Total Personnel and Related Costs	4,362,596	979,729	-	5,342,325
Direct Student Costs				
Supplies and materials	105,144	-	-	105,144
Assessment materials	63,149	-	-	63,149
Student textbooks	115,858	-	-	115,858
Food service	166,140	-	-	166,140
Contracted instruction fees	279,511	-	-	279,511
Student uniforms	28,272	-	-	28,272
Other student costs	91,644	-	-	91,644
Total Direct Student Costs	849,718	-	-	849,718
Occupancy Expenses				
Rent	957,818	239,455	-	1,197,273
Repairs and maintenance	8,131	2,033	-	10,164
Total Occupancy Expenses	965,949	241,488	-	1,207,437
Office Expenses				
Office supplies and materials	50,951	12,738	-	63,689
Equipment rental	23,022	5,756	-	28,778
Telecommunications	35,796	8,949	-	44,745
Printing and copying	602	150	-	752
Postage and shipping	1,442	360	-	1,802
Total Office Expenses	111,813	27,953	-	139,766
General Expenses				
Accounting	-	30,573	-	30,573
Affiliation fee	-	30,000	-	30,000
Authorizer fee	-	82,083	-	82,083
Bad debt	-	1,620	-	1,620
Computer support fees	41,384	10,346	-	51,730
Depreciation	144,782	36,195	-	180,977
Fundraising fees	-	-	432	432
Insurance	28,501	7,125	-	35,626
Legal	-	34,584	-	34,584
Memberships and subscriptions	8,735	2,184	-	10,919
Other professional fees	132,534	33,134	-	165,668
Support service fees	-	225,000	-	225,000
Total General Expenses	355,936	492,844	432	849,212
Total Expenses	\$ 6,646,012	\$ 1,742,014	\$ 432	\$ 8,388,458

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Program - Educational Services	General and Administrative Services	Total
Personnel Costs			
Salaries	\$ 3,241,921	\$ 804,871	\$ 4,046,792
Employee benefits	150,166	37,394	187,560
Payroll taxes	270,817	67,438	338,255
Professional development	120,934	15,552	136,486
Total Personnel and Related Costs	<u>3,783,838</u>	<u>925,255</u>	<u>4,709,093</u>
Direct Student Costs			
Supplies and materials	143,619	-	143,619
Assessment materials	81,688	-	81,688
Food service	157,119	-	157,119
Contracted instruction fees	407,671	-	407,671
Student uniforms	123,534	-	123,534
Other student costs	74,450	-	74,450
Total Direct Student Costs	<u>988,081</u>	<u>-</u>	<u>988,081</u>
Occupancy Expenses			
Rent	809,741	202,435	1,012,176
Repairs and maintenance	24,326	6,081	30,407
Total Occupancy Expenses	<u>834,067</u>	<u>208,516</u>	<u>1,042,583</u>
Office Expenses			
Office supplies and materials	93,670	23,418	117,088
Equipment rental	20,910	5,227	26,137
Telecommunications	33,010	8,253	41,263
Printing and copying	3,185	796	3,981
Postage and shipping	1,650	412	2,062
Total Office Expenses	<u>152,425</u>	<u>38,106</u>	<u>190,531</u>
General Expenses			
Accounting	-	20,565	20,565
Affiliation fee	-	30,000	30,000
Authorizer fee	-	69,300	69,300
Computer support fees	4,687	1,172	5,859
Depreciation	108,671	27,168	135,839
Insurance	17,603	4,401	22,004
Legal	-	35,209	35,209
Memberships and subscriptions	6,820	1,705	8,525
Other professional fees	31,404	7,852	39,256
Support service fees	-	194,400	194,400
Total General Expenses	<u>169,185</u>	<u>391,772</u>	<u>560,957</u>
Total Expenses	<u>\$ 5,927,596</u>	<u>\$ 1,563,649</u>	<u>\$ 7,491,245</u>

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 715,199	\$ (539,989)
Adjustments to reconcile change in net assets to cash provided by (used for) operating activities:		
Depreciation	180,977	135,839
Loss on disposal of property and equipment	18,035	-
(Increase) decrease in assets:		
Grants receivable	(85,935)	105,285
Accounts receivable	(5,431)	(1,836)
Prepaid expenses and employee advances	7,713	989
Increase (decrease) in liabilities:		
Accounts payable	717,070	(50,654)
Accrued salaries and related expenses	132,763	37,922
Deferred revenue	(5,591)	6,341
Cash Provided by (Used for) Operating Activities	1,674,800	(306,103)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,006,914)	(91,081)
Cash Used for Investing Activities	(1,006,914)	(91,081)
NET INCREASE (DECREASE) IN CASH	667,886	(397,184)
CASH, beginning of year	461,153	858,337
CASH, end of year	\$ 1,129,039	\$ 461,153

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE A – ORGANIZATION AND PURPOSE

Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School (the “School”) is a not-for-profit organization, incorporated in the District of Columbia in 2011. The School is an affiliate of the Somerset Academy Inc., a Florida based charter school organization. The School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The charter agreement, dated July 1, 2013, shall continue for a term of 15 years unless renewed, revoked, or terminated in accordance with Sections 38-1802.12 and 1802.13 of the Act and Section 9 as outlined in the agreement.

The School’s mission is to promote a culture that maximizes student achievement and fosters the development of responsible, self-directed life-long learners in a safe and enriching environment. This is achieved by a rigorous academic environment focused on the fundamentals of leadership development, enhanced personal responsibility, and community involvement. For school years 2017-2018 and 2016-2017, the School served grades 6-12 and 6-11, respectively.

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 Accounting Standards 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:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations

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. Temporarily restricted net assets for the year ending June 30, 2017, totaled \$20,216 for the broadcasting program at the School. There were no temporarily restricted net assets for the year ending June 30, 2018.

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, 2018 and 2017.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash

Cash reported on the statement of financial position includes \$30,000 of compensating balances required by the School's financial institution in accordance with the School's credit card terms.

Grants and Accounts Receivable

Grants and accounts receivable consist of unsecured amounts due from public funding sources whose ability to pay are subject to appropriation. The School performs ongoing credit evaluations of its funding sources and generally does not require collateral. Accounts receivable are reported net of the allowance for doubtful accounts, if any. The allowance, 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. Due to the nature of funding from the federal government and the District of Columbia, management believes that all receivables will be collected. Therefore, no allowance for doubtful accounts has been recorded.

Employee Advances

The School provides employee advances to staff that are approved by management. The advances are deducted from the employees' future salary payments per pay period until paid in full or at date of termination, if terminated before advance is paid in full.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The School capitalizes all expenditures for property and equipment over \$1,000. Depreciation is computed, using the straight-line method over the useful lives of the assets which range from three to seven years. When assets are sold or otherwise disposed of the asset and related accumulated depreciation are removed from the accounts and any remaining gain or loss is included in operations. Repairs and maintenance are expensed as incurred. Depreciation expense for the years ended June 30, 2018 and 2017, totaled \$180,977 and \$135,839, respectively.

Contributions and Grants

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When restrictions are met within the same year as restricted funds are contributed, they are classified as unrestricted contributions.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Contributions and Grants (continued)

Grant 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.

Revenue Recognition

The School receives a student allocation on a per pupil basis from the District of Columbia to cover the cost of academic expenses. Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations include \$1,956,839 and \$1,706,693 for enhancements, such as special education, at-risk students, and English language learners, for the years ended June 30, 2018 and 2017, respectively.

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

Deferred Revenue

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

Allocation of 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.

Use of Estimates

The preparation of the financial statements in accordance 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.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Reclassifications

Certain amounts for the year ended June 30, 2017 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 exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. In addition, the School is classified as an entity that is not a private foundation under Section 509(a)(1).

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 for a period of three years from the date they were filed, except under certain circumstances. The School's Form 990 returns for the years 2014 through 2016 are open for examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

NOTE D – LEASE COMMITMENTS

On November 30, 2016, the School entered into a new lease agreement with the Charter School Incubator Initiative, effective July 1, 2016, for use of the School's facility located at 3301 Wheeler Road, S.E. The terms of the agreement will continue until June 30, 2021 and may be extended for up to three additional terms of five years each. This use agreement is subject to and subordinate to the terms of the prime lease between the District of Columbia and with the Charter School Incubator Initiative. In accordance with the lease agreement, the School granted a first priority lien on, and security interest in, the School's revenue from federal, state, and local government sources. The agreement is a full service use agreement, thereby covers utilities, building engineering, maintenance and repairs, and related services. The School is to pay with the Charter School Incubator Initiative a usage fee equal to the number of students enrolled with the School multiplied by the per pupil facility allowance, as determined annually, payable in equal quarterly installments on August 1, November 1, February 1, and May 1. Accordingly, the School cannot reasonably estimate its future minimum payments under the terms of this agreement. For the years ended June 30, 2018 and 2017 the rent expense totaled \$1,197,273 and \$1,012,176, respectively. The School will be reimbursed by the Charter School Incubator Initiative for certain janitorial expenses. For the years ended June 30, 2018 and 2017, the School recognized approximately \$84,273 and \$92,000, respectively, for reimbursement of these qualifying expenses as other income in the statement of activities.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)**

NOTE E – 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 of these inspections and audits 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 inspection or 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.

NOTE F – SUPPORT SERVICES

In accordance with the support service agreement, the School pays Academica DC, LLC a fee for support services of \$600 per student full time equivalent student per annum. The School also has an affiliation cooperation agreement with Somerset Academy, Inc. which the agreement will be automatically renewed for additional one-year term. The affiliation agreement allows the School to use the licensed marks of Somerset Academy, Inc. and as its member, comply with all standards of the Somerset Network of schools. For the years ended June 30, 2018 and 2017, the School's support services expense totaled \$255,000 and \$224,400, respectively, that included \$30,000, per year, in affiliation fee.

NOTE G – CONCENTRATIONS OF RISK

The School places its cash with a financial institution which at times, may exceed the Federal Deposit Insurance Corporation's insurance limit of \$250,000. As of June 30, 2018 and 2017, the School had approximately \$854,000 and \$237,000, respectively, of bank balances that exceeded the federally insured limit. The School has neither experienced, nor does it anticipate any loss of funds.

The School is supported primarily by local and federal appropriations and grants. For the years ended June 30, 2018 and 2017, 95% and 90%, 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 Ward 8 of the District of Columbia.

NOTE H – RELATED PARTY TRANSACTION

The School subleases facilities from the Charter School Incubator Initiative, a District of Columbia nonprofit corporation, whose director and president is a Board member of the School. The School's corporate policies include a conflict of interest policy that is reviewed and signed annually by the Board members.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)**

NOTE I – RETIREMENT PLAN

The Somerset Prep 401(K) Savings and Profit Sharing Plan (the “Plan”) was effective January 1, 2017. All employees who are at least 21 years of age and completed three month of employment are eligible to participate in the Plan. Employees may make elective deferral from their eligible earnings, up to the amount allowed by the Internal Revenue Code. The School’s match is discretionary. For the years ended June 30, 2018 and 2017, total discretionary contributions by the School and the retirement plan expense totaled \$50,860 and \$0, respectively.

NOTE J – SUBSEQUENT EVENTS

In preparing these financial statements, the School’s management has evaluated events and transaction for potential recognition or disclosure through November 14, 2018, 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 or 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
Cambridge Preparatory Academy DC, Inc. D/B/A
Somerset Preparatory Academy 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 Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School, (a nonprofit organization), (the "School"), which comprise the statement of financial position as of June 30, 2018, 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 November 14, 2018.

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 Morrison & McQuade PA

Washington, DC
November 14, 2018



**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance
Required by the Uniform Guidance**

The Board of Trustees of
Cambridge Preparatory Academy DC, Inc. D/B/A
Somerset Preparatory Academy Public Charter School
Washington, DC

Report on Compliance for Each Major Federal Program

We have audited Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2018. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the 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 the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* 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 the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be 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.

Jane Marice & M. Quade PA

Washington, DC
November 14, 2018

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U. S. Department of Education			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Grants to Local Educational Agencies	84.010	82010A	\$ 254,506
Special Education Grants to States	84.027	82027A	83,546
Supporting Effective Instruction State Grants	84.367		56,063
DC School Choice Incentive Program	84.370	CHOICE	547,500
Student Support and Academic Enrichment Program	84.424		9,562
Total U.S. Department of Education			<u>951,177</u>
U.S. Department of Agriculture - Food and Nutrition Service			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Child Nutrition Cluster			
School Breakfast Program	10.553		20,173
National School Lunch Program	10.555		162,233
Total Child Nutrition Cluster			<u>182,406</u>
Total U.S. Department of Agriculture			<u>182,406</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,133,583</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the School under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Therefore some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in 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 expenses are not allowable or are limited as to reimbursement. The School elected not to use the 10 percent de minimis indirect cost rate. Pass through programs, agencies, and entity identifying numbers are presented where available.

NOTE C – RECONCILIATION TO THE FINANCIAL STATEMENTS

Expenditures per the Schedule exclude \$6,215 of federal awards provided under the Federal Communications Commission E-Rate program, which are reported as federal entitlements and grant revenue in the statement of activities. Funding under the E-Rate program is considered to be federal funds, however, does not qualify as direct financial support, and therefore, is exempt from Uniform Guidance requirements.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report issued on the financial statements	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weakness?	None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Major program

Name of Federal Program:	DC School Choice Incentive Program
CFDA Number	84.370
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

SECTION II – FINANCIAL STATEMENTS FINDINGS
None

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
None

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
None