

**DC SCHOLARS PUBLIC CHARTER  
SCHOOL, INC. AND SUBSIDIARY**

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

**JUNE 30, 2020 AND 2019**

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## Independent Auditor's Report

To the Board of Trustees  
DC Scholars Public Charter School, Inc. and Subsidiary  
Washington, DC

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of DC Scholars Public Charter School, Inc. and its subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of DC Scholars Public Charter School, Inc. and its subsidiary as of June 30, 2020 and 2019 and the changes in their net assets and their 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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of financial position and consolidating schedule of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules on pages 32-33, as required by D.C. Public Charter School Board ("DCPCSB"), are the responsibility of management, and are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on these schedules.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2020, on our consideration of DC Scholars Public Charter School, Inc. and its subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DC Scholars Public Charter School, Inc. and its subsidiary'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 DC Scholars Public Charter School, Inc. and its subsidiary's internal control over financial reporting and compliance.

***Emphasis of Matter***

As discussed in Note B to the financial statements, in fiscal year 2020, DC Scholars Public Charter School, Inc. and its Subsidiary adopted new accounting guidance, Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, and ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

*Jane Mauer & M<sup>a</sup>Quade PA*

Washington, DC  
November 18, 2020

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 AND 2019**

	2020	2019
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,610,961	\$ 5,156,383
Federal grants receivable	108,935	234,436
State grants receivable	118,740	28,277
Accounts receivable	10,995	166,933
Prepaid expenses	75,336	20,210
Total Current Assets	4,924,967	5,606,239
<b>PROPERTY AND EQUIPMENT, NET</b>	12,170,413	12,962,868
<b>OTHER ASSETS</b>		
Security deposit	-	5,380
<b>TOTAL ASSETS</b>	\$ 17,095,380	\$ 18,574,487
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 249,927	\$ 375,384
Accrued expenses	589,012	451,103
Accrued interest	-	99,619
Equity distribution payable to CSII	100,000	-
Deferred revenue	-	40,000
Note payable, current portion	464,990	326,867
Capital lease payable, current portion	11,589	20,472
Total Current Liabilities	1,415,518	1,313,445
<b>LONG TERM LIABILITIES</b>		
PPP loan	1,092,199	-
Note payable	8,602,282	13,047,650
Capital lease payable, net of current portion	-	10,888
Total Long Term Liabilities	9,694,481	13,058,538
<b>TOTAL LIABILITIES</b>	11,109,999	14,371,983
<b>NET ASSETS</b>		
Net assets without donor restrictions	5,985,381	4,227,261
Noncontrolling interest	-	(24,757)
Total Net Assets	5,985,381	4,202,504
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 17,095,380	\$ 18,574,487

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>REVENUE AND SUPPORT</b>		
Per pupil appropriations	\$ 9,282,608	\$ 8,901,919
Per pupil facilities allowance	1,847,590	1,771,809
Federal entitlements and grants	952,199	1,207,124
State and local grants	221,087	227,158
Contributions - individuals	57,614	1,088
Contributions - foundations	957,686	301,575
In-Kind Contributions	15,937	-
Student activities	106,273	122,814
Rental income	24,618	160,000
Other income	49,566	21,936
Total Revenues and Other Support	13,515,178	12,715,423
<b>EXPENSES</b>		
Educational services	8,667,754	8,705,710
Management and general	2,964,480	3,272,924
Fundraising	67	79
Total Expenses	11,632,301	11,978,713
<b>CHANGES IN NET ASSETS FROM OPERATIONS</b>	1,882,877	736,710
<b>OTHER CHANGES</b>		
Distribution of CSII equity	100,000	-
Total Other Changes	100,000	-
<b>CHANGE IN NET ASSETS AND MEMBER'S EQUITY</b>	1,782,877	736,710
<b>NET ASSETS</b> , beginning of year	4,202,504	3,465,794
<b>NET ASSETS</b> , end of year	\$ 5,985,381	\$ 4,202,504

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2020**

	Educational Services	Management and General	Fundraising	Total
<b>PERSONNEL, SALARIES AND BENEFITS</b>				
Salaries	\$ 4,968,294	\$ 781,378	\$ -	\$ 5,749,672
Employee benefits	490,929	74,208	-	565,137
Payroll taxes	403,574	61,832	-	465,406
Professional development	25,089	3,615	-	28,704
Total Personnel, Salaries and Benefits	<u>5,887,886</u>	<u>921,033</u>	<u>-</u>	<u>6,808,919</u>
<b>DIRECT STUDENT COSTS</b>				
Contracted student services	260,705	-	-	260,705
Curriculum	83,114	-	-	83,114
Supplies and materials	144,564	-	-	144,564
Food service	252,065	-	-	252,065
Uniforms	7,496	-	-	7,496
Student activities	80,926	-	-	80,926
Student transportation	132	-	-	132
Total Direct Student Costs	<u>829,002</u>	<u>-</u>	<u>-</u>	<u>829,002</u>
<b>OCCUPANCY EXPENSE</b>				
Facility repairs and maintenance	173,581	85,850	-	259,431
Facility utilities	108,861	72,574	-	181,435
Facility janitorial	101,564	67,574	-	169,138
Total Occupancy Expense	<u>384,006</u>	<u>225,998</u>	<u>-</u>	<u>610,004</u>
<b>OFFICE EXPENSE</b>				
Office supplies and materials	82,887	42,605	-	125,492
Postage	2,414	369	-	2,783
Printing and publications	12,938	1,982	-	14,920
Total Office Expense	<u>98,239</u>	<u>44,956</u>	<u>-</u>	<u>143,195</u>
<b>GENERAL EXPENSE</b>				
Authorizer fees	96,785	14,829	-	111,614
Donated services and tangibles	7,573	15,937	-	23,510
Professional services	388,169	619,305	-	1,007,474
Insurance	19,183	28,883	-	48,066
Computer and network	89,841	13,764	-	103,605
Telephone	74,597	11,429	-	86,026
Staff travel	2,440	374	-	2,814
Staff recruitment	76,743	8,095	-	84,838
Development	-	-	67	67
Interest	59,652	742,075	-	801,727
Depreciation and amortization	653,638	317,802	-	971,440
Total General Expense	<u>1,468,621</u>	<u>1,772,493</u>	<u>67</u>	<u>3,241,181</u>
<b>TOTAL EXPENSES</b>	<u>\$ 8,667,754</u>	<u>\$ 2,964,480</u>	<u>\$ 67</u>	<u>\$ 11,632,301</u>

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



**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2019**

	Educational Services	Management and General	Fundraising	Total
<b>PERSONNEL, SALARIES AND BENEFITS</b>				
Salaries	\$ 4,649,015	\$ 517,582	\$ -	\$ 5,166,597
Employee benefits	541,487	59,536	-	601,023
Payroll taxes	382,635	42,599	-	425,234
Professional development	29,839	3,156	-	32,995
Total Personnel, Salaries and Benefits	<u>5,602,976</u>	<u>622,873</u>	<u>-</u>	<u>6,225,849</u>
<b>DIRECT STUDENT COSTS</b>				
Contracted student services	405,646	-	-	405,646
Curriculum	79,326	-	-	79,326
Supplies and materials	178,819	-	-	178,819
Food service	393,693	-	-	393,693
Uniforms	12,033	-	-	12,033
Student activities	145,610	-	-	145,610
Total Direct Student Costs	<u>1,215,127</u>	<u>-</u>	<u>-</u>	<u>1,215,127</u>
<b>OCCUPANCY EXPENSE</b>				
Facility repairs and maintenance	212,244	108,244	-	320,488
Facility utilities	120,028	80,018	-	200,046
Facility Landscaping	12,041	8,027	-	20,068
Facility janitorial	110,066	73,060	-	183,126
Total Occupancy Expense	<u>454,379</u>	<u>269,349</u>	<u>-</u>	<u>723,728</u>
<b>OFFICE EXPENSE</b>				
Office supplies and materials	89,017	43,451	-	132,468
Postage	566	63	-	629
Printing and publications	6,460	719	-	7,179
Total Office Expense	<u>96,043</u>	<u>44,233</u>	<u>-</u>	<u>140,276</u>
<b>GENERAL EXPENSE</b>				
Management fees	99,034	968,339	-	1,067,373
Authorizer fees	-	110,060	-	110,060
Professional services	40,232	92,260	-	132,492
Insurance	18,358	23,936	-	42,294
Computer and network	80,363	8,947	-	89,310
Telephone	67,452	7,510	-	74,962
Staff travel	8,377	932	-	9,309
Staff recruitment	301,840	5,417	-	307,257
Development	-	-	79	79
Interest	60,391	810,052	-	870,443
Depreciation and amortization	661,138	309,016	-	970,154
Total General Expense	<u>1,337,185</u>	<u>2,336,469</u>	<u>79</u>	<u>3,673,733</u>
<b>TOTAL EXPENSES</b>	<u>\$ 8,705,710</u>	<u>\$ 3,272,924</u>	<u>\$ 79</u>	<u>\$ 11,978,713</u>

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,782,877	\$ 736,710
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	971,440	970,154
Amortization of debt issuance costs	86,341	79,701
(Increase) decrease in assets		
Federal grants receivable	125,501	186,847
State grants receivable	(90,463)	(28,277)
Accounts receivable	155,938	(156,533)
Prepaid expenses	(55,126)	41,902
Due from related parties	-	4,594
Security deposit	5,380	-
Increase (decrease) in liabilities		
Accounts payable	(125,457)	138,751
Accrued expenses	137,909	(6,331)
Accrued interest	(99,619)	(21,315)
Equity distribution payable to CSII	100,000	-
Deferred revenue	(40,000)	(892)
Net Cash Provided by Operating Activities	2,954,721	1,945,311
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(178,985)	(203,493)
Net Cash Used for Investing Activities	(178,985)	(203,493)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on loans payable	(4,393,586)	(311,025)
Proceeds from PPP Loan	1,092,199	-
Payments on capital lease payable	(19,771)	(17,585)
Net Cash Used for Financing Activities	(3,321,158)	(328,610)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(545,422)	1,413,208
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	5,156,383	3,743,175
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 4,610,961	\$ 5,156,383
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 815,005	\$ 812,057

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE A – ORGANIZATION AND PURPOSE**

DC Scholars Public Charter School, Inc. (the “School”) is a non-profit organization that was organized on June 8, 2011. The School was established as a charter school located in the District of Columbia under provisions enacted by the District of Columbia Public Charter School Board (“PCSB”).

On May 31, 2012, the School entered into a charter school agreement with the PCSB for a 15-year term beginning on July 1, 2012. As part of this agreement, the School, in its first year, provided instructional and support services for students ranging from preschool through grade three. In each subsequent academic year, the School has added a grade each year through grade eight, resulting in the maximum enrollment at the School of 556.

On August 31, 2015, the School entered into a limited liability company agreement ("LLC agreement") with the Charter School Incubator Initiative ("CSII"), a District of Columbia not-for-profit corporation, resulting in the formation of 5601 East Capitol, LLC (“the LLC”). The School is a member of the LLC and has a 99% interest in it, based on an initial capital contribution of approximately \$1.8 million. The other 1% interest is held by the Charter School Incubator Initiative, the managing member, based on an initial capital contribution of approximately \$18,000.

On September 3, 2015, the newly formed LLC committed \$17.5 million to the renovation of 5601 East Capitol Street, Lot 820 (“the Shadd property”).

Prior to the year ended June 30, 2015, the School expended approximately \$760,000 on building renovations associated with the Shadd property. These costs have been classified as leasehold improvements as of June 30, 2015, and were subsequently reclassified as part of the School’s \$1.8 million investment in the LLC when the LLC agreement was signed on September 3, 2015.

On and effective June 30, 2020, the School and CSII executed an amendment to the LLC agreement, whereby CSII assigned its entire interest in the LLC to the School. As a result of this event, the School assumed 100% interest in the LLC, and owed CSII an equity distribution in the amount of \$100,000, as of June 30, 2020.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The School and the LLC (collectively, “DC Scholars”) consolidated 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.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Principles of Consolidation

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic Consolidations, these consolidated financial statements include the accounts of the School and the LLC. All material inter-organization transactions and balances have been eliminated in consolidation.

Adoption of New Accounting Pronouncement

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. DC Scholars has implemented Topic 606 and has adjusted the presentation in the consolidated financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effects on net assets.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. DC Scholars has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Financial Statement Presentation

Consolidated financial statement presentation follows FASB Accounting Standards Codification (“ASC”) Financial Statements of Not-For-Profit organizations. In accordance with the topic, net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of DC Scholars and changes therein are classified and reported as follows:

*Net Assets without Donor Restrictions* - Net assets that are not subject to donor-imposed stipulations.

*Net Assets with Donor Restrictions* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of DC Scholars and/or the passage of time or that must be maintained permanently by DC Scholars. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Financial Statement Presentation (continued)

There were no net assets with donor restrictions as of June 30, 2020 and 2019.

Cash and Cash Equivalents

For purposes of reporting cash flows, DC Scholars considers all highly liquid debt instruments purchased with an original maturity of less than three months and money markets to be cash equivalents.

Federal and State Grants and Accounts Receivable

Federal and state grants receivable primarily consist of amounts due from the District of Columbia Office of Public Charter School Financing and Support for state and federal grant programs. Accounts receivable are related to program service fees and are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Receivables are stated at the amount management expects to collect from outstanding balances. 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.

Property and Equipment

It is DC Scholars' policy to capitalize equipment over \$5,000. However, consideration is also given to lesser amounts based on the nature of the purchase. Donated property and equipment are recorded at their estimated fair value on the date of the donation. Property and equipment is recorded at cost. Leasehold improvements are recorded at cost and amortized over the life of the lease. Depreciation and amortization are recorded using the straight-line method over the estimated lives of the respective assets:

Leasehold Improvements	20 Years
Furniture and fixtures	7 Years
Computer and network equipment	3 Years
Capital leased equipment	5 Years

Debt Issuance Costs

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

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Deferred Revenue

Deferred revenues results from government and other funding received in advance of services to be provided.

Revenue Recognition

*Grants and Contributions*

The School recognize grants and contributions when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions received with donor stipulations are recorded as contributions with donor restrictions based on the donor's intent. Unless otherwise stated by the donor, individual donations are recorded as contributions without donor restrictions. Contributions with donor restrictions that are met in the same reporting period as the contribution is received are reported as contributions without donor restrictions support.

*Per Pupil Appropriations, Facilities Allowance, and Federal Entitlements, and Other Government Grants*

Revenues are received primarily from state and federal government agencies, including the District of Columbia Office of the State Superintendent of Education, District of Columbia Public Charter School Board, the U.S. Department of Education, Medicaid, and other agencies. These revenues are considered conditional grants with a measurable performance or other barrier and a right of return and are not recognized until the conditions on which they depend have been substantially met. These grants are also subject to audit by the grantor agencies, which could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

DC Scholars receives a student allocation on a per pupil basis form the District Columbia to cover the cost of academic expenses. Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriation revenue includes \$2,466,114 and \$2,409,279 for the years ended June 30, 2020 and 2019, respectively, for enhancements, such as special education and at-risk students. Before and after school care is recognized when the service is provided.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Revenue Recognition (continued)

*Other Revenue* (continued)

Student activity fees are revenue primarily derived from before and after-care programs, camp programs, and various student activities (e.g., fieldtrips, intramural sports, special events, etc.), which is recognized when the services are provided.

Rental income is recognized during the related facility usage. During the year, the School leased out its third floor space to another charter school for a few months.

Method Used for Allocation of Expenses from Management and General Activities

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, office, and occupancy, which are allocated on the basis of salaries and related costs determined by the estimated time and effort expended.

Use of Estimates

The preparation of consolidated 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 consolidated 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 consolidated financial statements.

Reclassifications

For comparative purposes, certain amounts for the year ended June 30, 2019, 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 qualifies as a tax-exempt organization 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 LLC is a District of Columbia limited liability company that has not elected to be taxed as a corporation for income tax reporting purposes, and therefore, is a



**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE C – INCOME TAXES - continued**

disregarded entity for tax purpose. Revenues and expenses are reported on the School’s information returns.

The School has adopted the accounting of uncertainty in income taxes as required by the *Income Taxes* topic of the FASB ASC. The topic requires the School to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position.

The School has analyzed its tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years ended June 2017 through 2019. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

**NOTE D – AVAILABLE RESOURCES AND LIQUIDITY**

DC Scholars regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to prudently invest available funds. DC Scholars’ sources of liquidity at its disposal include cash and cash equivalents, federal grants receivable, state grants receivable, and accounts receivable.

In addition to financial assets available to meet general expenditures over the next 12 months, the School anticipates collecting sufficient revenue to cover general expenditures. The following reflects the School’s financial assets as of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,610,961	\$ 5,156,383
Federal grants receivable	108,935	234,436
State grants receivable	118,740	28,277
Accounts receivable	<u>10,995</u>	<u>166,933</u>
Total Financial Assets Available to meet Cash Needs for General Expenditures Within One Year	<u>\$ 4,849,631</u>	<u>\$ 5,586,029</u>

**NOTE E – GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAM**

The School participates in federal grant reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the School



**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE E – GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAM - continued**

has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2020 and 2019, respectively, may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying consolidated financial statements for such contingencies.

**NOTE F – PROPERTY AND EQUIPMENT**

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

	2020	2019
Leasehold improvements	\$ 16,039,001	\$ 16,039,001
Computer and network equipment	843,373	727,637
Furniture and fixtures	486,780	470,710
Capital leased equipment	91,508	91,508
	17,460,662	17,328,856
Less: accumulated depreciation and amortization	(5,290,249)	(4,365,988)
Property and equipment, net	\$ 12,170,413	\$ 12,962,868

Depreciation and amortization expense totaled \$971,440 and \$970,154 for the years ended June 30, 2020 and 2019, respectively. During the year, the School disposed of fully depreciated property and equipment with a cost of \$47,179.

**NOTE G – RELATED PARTY TRANSACTIONS**

Effective July 1, 2016, the School entered into an Academic and Business Services Agreement with DC Scholars Community Schools (“Community Schools”) for the provision of management services, including executive, operational, academic, and strategic services. The School and Community Schools had shared board members. The initial agreement was scheduled to terminate on June 30, 2021; however, on May 9, 2018, the Board of Trustees passed a resolution to terminate its management agreement with Community Schools effective June 30, 2019.

The management service fee was equal to 10% of per pupil charter payments authorized to be paid under its contract with the District of Columbia, including any increases therein. For the years ended June 30, 2020 and 2019, management fees totaled \$0 and \$1,067,373, respectively.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE H – CHARTER SCHOOL AGREEMENT**

On July 1, 2012, the School entered into a Charter School Agreement with the PCSB, which expires on June 30, 2027. As part of this agreement, the PCSB may charge an authorizer fee, which is not to exceed .9 percent of the total revenues within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the PCSB. The PCSB performs a reconciliation of the fee in the summer following each fiscal year based on the School's Form 990 for that year, and adjusts the fee invoice in the following fiscal year to reflect any difference between budgeted and actual revenues. For the years ended June 30, 2020 and 2019, the School incurred \$111,614 and \$110,060 in authorizer fees, respectively.

**NOTE I – LICENSING AND USAGE AGREEMENTS**

On June 19, 2015, the LLC had entered into a Ground Lease agreement with the District of Columbia to provide a Public Charter School on the ground floor of the Shadd School. The terms of this agreement was for 20 years, commencing on June 19, 2015, and expiring on June 30, 2035. The annual base rent for the first year's rent was \$685,000, payable in equal and consecutive monthly installments of \$57,083. On the first anniversary of the rent commencement date and each anniversary thereafter, the annual base rent shall increase by two percent. During the term of this agreement, the LLC shall be entitled to a rent abatement credit against the annual base rent in an amount equal to the construction costs incurred in connection with the LLC's work for the renovation of the Shadd property, based on the rent abatement criteria stated in the lease agreement. The total cost of the renovations exceeded \$10 million, and therefore, in accordance with the lease agreement, the LLC is not obligated to make any rental payments for the remaining lease term. For the years ended June 30, 2020 and 2019, the LLC did not incur any lease expense due to the rent abatement.

On September 3, 2015, the School entered into a usage fee agreement with the LLC that shall continue until June 30, 2020. In addition, the usage fee agreement has three subsequent five-year terms to extend the term of the agreement, as stated by the requirements in the agreement. The usage fee is equal to the number of students enrolled in the School, multiplied by the per pupil facilities allowance ("facilities allowance") received by the School from the District of Columbia for each such pupil, less principal and interest payments due to the District of Columbia of Public Charter School Financing and Support. The total annual usage fee for each twelve month period throughout the term shall be payable in advance, in quarterly installments due on August 1, November 1, February 1 and May 1 of each usage year.

The August 1 and November 1 usage fee payments of each usage year will be calculated based on an estimate of enrollment as of the census date for such usage year, as provided by the School to the District of Columbia. The February 1 and May 1 usage payments will be calculated based on audited figures provided by the District of Columbia for the School's enrollment as of the census date and will "true up" the payments of usage fee made on August 1 and November 1.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE I – LICENSING AND USAGE AGREEMENTS - continued**

Accordingly, the School cannot reasonably estimate its future minimum payments under the terms of the usage fee agreement. For the years ended June 30, 2020 and 2019, the total student enrollment was 542 and 512 students, respectively.

The facilities allowance for the years ended June 30, 2020 and 2019, totaled \$1,847,590 and \$1,771,809, respectively. Out of the total facilities allowance, \$103,841 and \$103,841 was allocated for debt service payments to be paid for the loan agreement with the District of Columbia Office of Public Charter School Financing and Support, for the years ended June 30, 2020 and 2019, respectively. Refer to Note J for a description of the loan agreement.

For the years ended June 30, 2020 and 2019, the usage fee expense for the School and the rental income of \$1,747,084 and \$1,667,968 for the LLC were respectively eliminated from the consolidated financial statements.

On February 3, 2016, the LLC entered into a usage agreement with The University of the District of Columbia (“UDC”), an independent instrumentality of the District of Columbia Government, to use a portion of the space within the Shadd School. The usage agreement commenced on October 1, 2015 and continued until September 30, 2016. The usage agreement permits the option to extend the agreement for one year terms until it expired as of June 30, 2019. There were no amendments or extensions made to the original agreement during 2020. The annual usage fee of \$230,000 for the initial year was partially payable in advance while the remaining portion is payable monthly in installments of \$7,273. The annual usage fee for periods of renewal are \$160,000, payable annually. For the years ended June 30, 2020, and 2019, usage fees earned totaled \$0 and \$160,000, respectively.

**NOTE J – LOANS PAYABLE**

*OPCSFS Loan*

On September 3, 2015, the School entered into a loan agreement with the District of Columbia Office of Public Charter School Financing and Support (“OPCSFS”) in the amount of \$1,553,690 (“OPCSFS Loan”). The OPCSFS Loan required quarterly interest only payments through May 2016 and quarterly principal and interest payments of \$25,960, based on a 25-year amortization schedule, beginning in August 2016. The OPCSFS Loan was scheduled to mature on September 3, 2020. The interest rate of the loan is fixed at 4.5% per annum. During June 2020, DC Scholars, Inc. and the LLC entered into a refinancing agreement that effectively resulted in the OPCSFS loan being paid in full as of June 30, 2020. As of June 30, 2020 and 2019, the outstanding principal balance totaled \$0 and \$1,445,377, respectively.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE J – LOANS PAYABLE** - continued

*Bank of America and Building Hope Loans*

In addition, on September 3, 2015, the LLC obtained a construction loan from the Bank of America in the amount of up to \$14,144,140 (“BOA Loan”), for the improvement construction of the Shadd property. During the years ended June 30, 2020 and 2019, the LLC had borrowed \$0 and \$0, respectively against the BOA Loan. Quarterly repayments of principal and interest began on November 1, 2016, based on a 25-year amortization schedule and matured on September 3, 2020. The interest rate is variable and equal to the LIBOR Daily Floating Rate plus 375 basis points (6.15% and 5.84% as of June 30, 2020 and 2019, respectively). The BOA Loan was secured by a lien on the land and improvements of the facility. During June 2020, DC Scholars, Inc. and the LLC entered into a refinancing agreement that effectively resulted in the BOA Loan being paid in full as of June 30, 2020. As of June 30, 2020 and 2019, the outstanding principal balance totaled \$0 and \$12,015,481, respectively.

The School secured a \$1,054,000 promissory note with Building Hope. A Charter School Facilities Fund (“Building Hope”) that bears interest at a fixed rate of 6% per annum. The School had not drawn from this loan and had no outstanding balance as of June 30, 2020 and 2019. During June 2020, DC Scholars, Inc. and the LLC entered into a refinancing agreement that effectively resulted in closing the arrangement relating to the promissory note with Building Hope.

Per the terms of the BOA Loan, America’s Charter School Finance Corporation (an affiliate of Building Hope) and OPCSFS issued credit enhancements of \$500,000 each to secure the loans. The BOA Loan is collateralized by the real and personal property of the LLC and the loan is guaranteed by the School. The collateral for the Building Hope Loan and OPCSFS Loan is a second lien on the real and personal property attributable to the facility.

The BOA Loan was senior to the Building Hope and OPCSFS Loan.

*Refinanced Existing Loans*

On June 30, 2020, The School entered into an agreement with City First Bank of D.C., N.A ("City First Bank") to refinance the OPCSFS, Building Hope, and the BOA Loans (collectively referred to as "Existing Loans"). As a result of the refinancing, the OPCSFS and BOA Loans were paid off. Moreover, a new loan in the amount of \$9,400,000 was made by City First Bank to the School. The loan bears a fixed rate of 4.00% and requires monthly principal and interest payments made in arrears with the accrual date starting on July 1, 2020, and the first payment due on August 1, 2020. The monthly principal amount is set at \$69,908 based on a 60-month amortization schedule. The loan has a mandatory repayment of principal due on July 1, 2025, which is also the maturity date. As of June 30, 2020 and 2019, the outstanding balance due on the refinanced loan totaled \$9,400,000 and \$0, respectively.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE J – LOANS PAYABLE - continued**

PPP Loan

On April 24, 2020, DC Scholars secured \$1,092,199 with Bank of America, N.A. under the Small Business Administration’s Paycheck Protection Program (“PPP”) that authorized forgivable loans to small businesses. This loan can be used to cover certain expenses during the COVID-19 crisis. The loan amounts will be forgiven as long as the loan proceeds are used to cover payroll costs, rent, certain mortgage interest and utility costs over a period specified in the loan document after the loan is made. If not used for the described purpose, the loan is due on April 24, 2022, along with interest calculated at the rate of 1% per annum. As of June 30, 2020 and 2019, the PPP loan outstanding balance totaled \$1,092,199 and \$0, respectively.

The aforementioned loan agreements contain certain restricted, financial, and nonfinancial covenants. In the opinion of management, DC Scholars has complied with the required covenants.

Interest expense for the years ended June 30, 2020 and 2019 totaled \$801,727 and \$870,443, and includes the amortization of debt issuance costs of \$86,341 and \$79,700, respectively.

Long-term debt as of June 30 consisted of the following:

	2020	2019
Senior secured note, 4.5%, due through 2020	\$ -	\$ 1,445,377
Construction loan, 4.98%, due through 2020	-	12,015,481
Construction loan, 4.00%, due through 2025	9,400,000	-
PPP loan, 1.00%, due through 2022	1,092,199	-
	10,492,199	13,460,858
Less: Current portion	(464,990)	(326,867)
Less: Debt issuance costs, net of accumulated amortization	(332,728)	(86,341)
	\$ 9,694,481	\$ 13,047,650

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE J – LOANS PAYABLE - continued**

Aggregate annual maturities of the debt are as follows for the years ending June 30:

2021	\$ 464,990
2022	1,576,402
2023	504,209
2024	524,181
2025	7,422,417
Total	\$ 10,492,199

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

	2020	2019
Debt issuance costs	\$ 332,728	\$ 398,500
Less accumulated amortization	-	(312,159)
Debt Issuance Costs, Net	\$ 332,728	\$ 86,341

The 2019 debt issuance costs were fully amortized in 2020 and were taken off the books in conjunction with the debt refinancing.

A non-cash transaction occurred as a result of the debt refinancing affecting the Consolidated Statements of Cash Flows. The following table is a supplemental disclosure of the non-cash transaction that took place for the year ended June 30:

	2020
Debt issued - City First Bank	\$ 9,400,000
Debt issuance costs	(332,728)
Debt repaid - Bank of America	(11,801,890)
Debt repaid - DC Office of the State Superintendent of Education	(1,414,003)

**NOTE K – CAPITAL LEASE**

DC Scholars leases three copiers under a capital lease that expires in March 2021. As of June 30, 2020, the leased copiers are reflected at a cost of \$91,508 and the related accumulated depreciation of \$79,307. The lease requires monthly payments of principal and interest in the amount of \$1,706 at a rate of 3.13% per annum. DC Scholars intends to return the copiers upon expiration of the lease. Capital lease payable for the years ended June 30, 2020 and 2019, totaled \$11,589 and \$31,360, respectively.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**  
(continued)

**NOTE L – RETIREMENT PLAN**

DC Scholars established a defined contribution plan under Section 403(b) of the Internal Revenue Code. For an employee with less than three years of service, DC Scholars will match up to 2% of the qualified employee's compensation. For employees with more than three years of service the School will match up to 4% of the qualified employee's compensation. Qualifying employees may contribute an amount as determined by the Internal Revenue Code of their compensation to the plan. Retirement expense for the years ended June 30, 2020 and 2019, totaled \$82,743 and \$77,815, respectively.

**NOTE M – CONCENTRATIONS**

DC Scholars receives the majority of its revenues, 85% and 84% in the years ended June 30, 2020 and 2019, respectively, based on per pupil funding from the PCSB. DC Scholars also receives various federal grants, which are subject to audit by the overseeing agency.

As of June 30, 2020 and 2019, DC Scholars held cash that exceeded the \$250,000 federally insured limit. DC Scholars has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash held by the financial institution.

DC Scholars is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the School must adhere to the terms of its Charter Agreement. Uniform Per Student Funding received from the District of Columbia is based upon actual student enrollment determined by an annual enrollment audit. As a result, actual revenue may vary materially from budgeted revenue if under-enrollment were to occur.

**NOTE N – SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, DC Scholars' management has evaluated events and transactions for potential recognition or disclosure through November 18, 2020, the date the consolidated financial statements were available to be issued. During September 2020, the School distributed the \$100,000 owed to CSII as per the terms of the amendment to the LLC agreement mentioned in Note A. As of the report date, the dissolution of the LLC is expected to be completed prior to the end of the 2020 calendar year. There were no other events or transactions discovered during the evaluation that required recognition or further disclosure.

## **SUPPLEMENTAL INFORMATION**



**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**JUNE 30, 2020**

	DC Scholars Public Charter Schools, Inc.	5601 East Capitol, LLC	Eliminations	Total
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 4,241,981	\$ 368,980	\$ -	\$ 4,610,961
Federal grants receivable	108,935	-	-	108,935
State grants receivable	118,740	-	-	118,740
Accounts receivable	995	10,000	-	10,995
Prepaid expenses	75,336	-	-	75,336
Total Current Assets	<u>4,545,987</u>	<u>378,980</u>	<u>-</u>	<u>4,924,967</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	12,170,413	-	-	12,170,413
<b>OTHER ASSETS</b>				
Investment in 5601 East Capitol, LLC	1,555,380	-	(1,555,380)	-
Advance on Equity Distribution	-	1,325,000	(1,325,000)	-
Total Other Assets	<u>1,555,380</u>	<u>1,325,000</u>	<u>(2,880,380)</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 18,271,780</u>	<u>\$ 1,703,980</u>	<u>\$ (2,880,380)</u>	<u>\$ 17,095,380</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 201,327	\$ 48,600	\$ -	\$ 249,927
Equity distribution payable to CSII	-	100,000	-	100,000
Accrued expenses	589,012	-	-	589,012
Due to subsidiary, net	1,325,000	-	(1,325,000)	-
Note payable, current portion	464,990	-	-	464,990
Capital lease payable, current portion	11,589	-	-	11,589
Total Current Liabilities	<u>2,591,918</u>	<u>148,600</u>	<u>(1,325,000)</u>	<u>1,415,518</u>
<b>LONG TERM LIABILITIES</b>				
PPP loan	1,092,199	-	-	1,092,199
Note payable, net of current portion	8,602,282	-	-	8,602,282
Total Long Term Liabilities	<u>9,694,481</u>	<u>-</u>	<u>-</u>	<u>9,694,481</u>
<b>TOTAL LIABILITIES</b>	12,286,399	148,600	(1,325,000)	11,109,999
<b>NET ASSETS AND MEMBERS' EQUITY</b>				
Net assets without donor restrictions	5,985,381	-	-	5,985,381
Members' equity	-	1,555,380	(1,555,380)	-
Total Net Assets and Members' Equity	<u>5,985,381</u>	<u>1,555,380</u>	<u>(1,555,380)</u>	<u>5,985,381</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 18,271,780</u>	<u>\$ 1,703,980</u>	<u>\$ (2,880,380)</u>	<u>\$ 17,095,380</u>

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2020**

	DC Scholars Public Charter Schools, Inc.	5601 East Capitol, LLC	Eliminations	Total
<b>REVENUE AND SUPPORT</b>				
Per pupil appropriations	\$ 9,282,608	\$ -	\$ -	\$ 9,282,608
Per pupil facility allowance	1,847,590	-	-	1,847,590
Federal entitlements and grants	952,199	-	-	952,199
State and local grants	221,087	-	-	221,087
Contributions - individuals	57,614	-	-	57,614
Contributions - foundations	957,686	-	-	957,686
In-Kind Contributions	15,937	-	-	15,937
Student activities	106,273	-	-	106,273
Investment loss	(356,979)	-	356,979	-
Rental income	-	1,771,700	(1,747,082)	24,618
Gain / (Loss) on Extinguishment of Debt	-	11,801,890	(11,801,890)	-
Gain / (Loss) on Disposal	-	(10,632,930)	10,632,930	-
Other income	9,566	40,000	-	49,566
Total Revenues and Other Support	<u>13,093,581</u>	<u>2,980,660</u>	<u>(2,559,063)</u>	<u>13,515,178</u>
<b>EXPENSES</b>				
Program	9,387,668	795,060	(1,514,974)	8,667,754
General and administrative	1,947,726	1,248,864	(232,110)	2,964,480
Fundraising	67	-	-	67
Total Expenses	<u>11,335,461</u>	<u>2,043,924</u>	<u>(1,747,084)</u>	<u>11,632,301</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	1,758,120	936,736	(811,979)	1,882,877
<b>OTHER CHANGES</b>				
Distribution of equity	-	100,000	-	100,000
Total Other Changes	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
<b>CHANGE IN NET ASSETS AND MEMBERS' EQUITY</b>	1,758,120	836,736	(811,979)	1,782,877
<b>NET ASSETS</b> , beginning of year	<u>4,227,261</u>	<u>718,644</u>	<u>(743,401)</u>	<u>4,202,504</u>
<b>NET ASSETS</b> , end of year	<u>\$ 5,985,381</u>	<u>\$ 1,555,380</u>	<u>\$ (1,555,380)</u>	<u>\$ 5,985,381</u>

**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 *Government Auditing Standards***

To the Board of Trustees  
DC Scholars Public Charter School, Inc.  
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 *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of DC Scholars Public Charter School, Inc. and Subsidiary ("DC Scholars") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 18, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered DC Scholars' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DC Scholars' internal control. Accordingly, we do not express an opinion on the effectiveness of the DC Scholars' 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 DC Scholars' consolidated 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 consolidated 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Jane Maruca & McQuade PA*

Washington, DC  
November 18, 2020



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

To the Board of Trustees  
DC Scholars Public Charter School, Inc.  
Washington, DC

**Report on Compliance for Each Major Federal Program**

We have audited DC Scholars Public Charter School, Inc.'s (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, 2020. 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 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, the 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, 2020.

## 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.

*James Maruca & McQuade PA*

Washington, DC  
November 18, 2020

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
<b>U.S. Department of Education</b>			
<b>Pass-through from District of Columbia Office of the State Superintendent of Education (OSSE)</b>			
Title I: Grants to Local Educational Agencies	84.010	84.010A	\$ 329,591
Title II: Supporting Effective Instruction State Grants	84.367	84.367A	68,875
Title IV: Student Support and Academic Enrichment	84.424	92424A, 84.424A	37,481
Special Education Grants to States	84.027	92027A, A2027A	96,960
Special Education Preschool Grants	84.173	A2173A	627
DC Opportunity Scholarship Program	84.370	84.370C	110,240
<b>Total U.S. Department of Education</b>			<u>643,774</u>
<b>U.S. Department of Agriculture</b>			
<b>Pass-through from District of Columbia Office of the State Superintendent of Education (OSSE)</b>			
Child Nutrition Cluster:			
National School Lunch Program	10.555		157,489
Federal Commodities Food Grant (donated)	10.555		21,669
School Breakfast Program	10.553		88,873
<b>Total U.S. Department of Agriculture</b>			<u>268,031</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 911,805</u></u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.



**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2020**

**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, 2020. The information in the Schedule is presented in accordance with the requirements of the 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 has elected not to use the 10 percent minimums indirect cost rate. Pass-through entity identifying numbers are presented where available.

**NOTE C – RECONCILIATION TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Expenditures per the Schedule exclude \$40,394 of federal funds provided under the Federal Communications Commission E-Rate program, which are reported as federal entitlements and grant revenue in the consolidated 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 Single Audit requirements.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2020**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

- |  |               |
|--|---------------|
| (a) Type of auditor's report issued  | Unmodified    |
| (b) Internal control over financial reporting:                                       |               |
| Material weakness identified?  | No            |
| Significant deficiencies identified that are not considered to be material weakness? | None reported |
| (c) Noncompliance material to financial statements noted?                            | No            |

***Federal Awards***

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

***Major Programs:***

- |  |           |
|--|-----------|
| (d) Name of Federal Programs and CFDA Number:                                |           |
| Title I Grants to Local Educational Agencies                                 | 84.010    |
| (e) Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| (f) Auditee qualified as low-risk auditee?                                   | Yes       |

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2020**  
(continued)

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None noted

**SECTION III – FEDERAL AWARDS FINDING AND QUESTIONED COSTS**

None noted

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

None noted

## **SUPPLEMENTAL SCHEDULES**

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.  
SUPPLEMENTAL SCHEDULE OF VENDORS PAID OVER \$25,000  
YEAR ENDED JUNE 30, 2020**

Vendor Name	Services Provided	Amount Paid
5601 East Capitol LLC	Rent	\$ 1,747,084
DC Treasurer - DC	OSSE loan payments and retirement plan contributions	1,503,699
Carefirst Bluecross Blueshield	Medical insurance coverage	510,209
Growth MindEd Consulting	Contracted head of school	322,400
ACS International Resources, Inc	IT support and technology purchases	277,870
Revolution Foods, Inc. - DC	Contracted food services	232,898
Leonard & Associates	Contracted Executive Director	195,937
ETES End-to-End Solutions - DC	Contracted SpEd instruction	167,755
EdOps - DC	Finance and HR support	164,900
DC Public Charter School Board (DCPCSB)	Authorizer Fee	111,614
BB&T	Fees associated with refinancing	94,000
Amy Helms	ELA Consultant	71,953
Amazon.com	Various office and student supply purchases	65,663
Law Offices of Jerry Levine	Fees associated with refinancing	55,000
City First Bank	Fees associated with refinancing	52,821
Laura Ressler	SpEd consultant	52,093
Guardian - DC	Dental coverage	50,260
Office Depot - DC	Various office and student supply purchases	44,563
SecureMedy Inc	Security services	43,220
Building Hope	Fees associated with refinancing	42,300
Jones, Maresca & McQuade, P.A.	Finance and 403b audit	42,000
Ricoh USA, Inc	Copier lease	40,724
MacDonald Law Firm	Fees associated with refinancing	34,921
Achievement Network	FY20 assessment services	30,740
Swing Education, Inc	Contracted substitutes	30,672
Enriched Schools - DCSPCS	Contracted substitutes	30,326
Payroll Network	Payroll processing fees	27,765

Note: The above schedule includes all vendors/contractors who were paid \$25,000 or more for which either a formal contract was executed or no formal contract was entered into, executed or negotiated during the fiscal year ended June 30, 2020.

**DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.**  
**SUPPLEMENTAL SCHEDULE OF VENDOR CONTRACTS AWARDED OVER \$25,000**  
**YEAR ENDED JUNE 30, 2020**

Vendor Name	Services Provided	Approx. Value
Jessica Turnquest	HR Consultant	\$ 75,000
Selective Insurance Company	Commercial Property Insurance	31,583

This schedule only reflects those unique vendors for which a verbal or written contract was entered into during fiscal year June 30, 2020, that are expected to equal or exceed \$25,000, for which services had not yet begun nor any payment received as of June 30, 2020. Therefore, this schedule does not include any vendors listed on the preceding schedule of vendors paid over \$25,000.