

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

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

JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018 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 31-32, as required by D.C. Public Charter School Board ("DCPCSB"), are the responsibility of management, and are presented for the purpose of 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2019, 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.

Jane Marissa & M. Quade PA

Washington, DC
November 20, 2019

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,156,383	\$ 3,743,175
Federal grants receivable	234,436	421,283
State grants receivable	28,277	-
Accounts receivable	166,933	10,400
Prepaid expenses	20,210	62,112
Due from related parties, net	-	4,594
Total Current Assets	5,606,239	4,241,564
PROPERTY AND EQUIPMENT, NET	12,962,868	13,729,529
OTHER ASSETS		
Security deposit	5,380	5,380
TOTAL ASSETS	\$ 18,574,487	\$ 17,976,473
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 375,384	\$ 236,633
Accrued interest	99,619	120,934
Accrued expenses	451,103	457,434
Deferred revenue	40,000	40,892
Capital lease payable, current portion	20,472	19,213
Loans payable, current portion	326,867	311,273
Total Current Liabilities	1,313,445	1,186,379
LONG TERM LIABILITIES		
Capital lease payable, net	10,888	29,732
Loans payable, net	13,047,650	13,294,568
Total Long Term Liabilities	13,058,538	13,324,300
Total Liabilities	14,371,983	14,510,679
NET ASSETS		
Net assets without donor restrictions	4,227,261	3,486,926
Noncontrolling interest	(24,757)	(21,132)
Total Net Assets	4,202,504	3,465,794
TOTAL LIABILITIES AND NET ASSETS	\$ 18,574,487	\$ 17,976,473

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, 2019 AND 2018

	2019	2018
REVENUE AND SUPPORT		
Per pupil appropriations	\$ 8,901,919	\$ 8,230,469
Per pupil facilities allowance	1,771,809	1,644,255
Federal entitlements and grants	1,207,124	1,227,265
State and local grants	227,158	150,201
Contributions - individuals	1,088	1,088
Contributions - foundations	301,575	107,729
Student activities	122,814	101,851
Rental income	160,000	160,000
Other income	21,936	5,018
Total Revenues and Other Support	12,715,423	11,627,876
EXPENSES		
Educational services	8,705,710	8,672,339
Management and general	3,272,924	3,014,719
Fundraising	79	7,770
Total Expenses	11,978,713	11,694,828
CHANGE IN NET ASSETS	736,710	(66,952)
NET ASSETS , beginning of year	3,465,794	3,532,746
NET ASSETS , end of year	\$ 4,202,504	\$ 3,465,794

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
PERSONNEL, SALARIES AND BENEFITS				
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>6,225,849</u>
DIRECT STUDENT COSTS				
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>1,215,127</u>
OCCUPANCY EXPENSE				
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>723,728</u>
OFFICE EXPENSE				
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>140,276</u>
GENERAL EXPENSE				
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>
TOTAL EXPENSES	<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 STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Educational Services	Management and General	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 4,775,822	\$ 397,818	\$ -	\$ 5,173,640
Employee benefits	558,709	46,540	-	605,249
Payroll taxes	392,273	32,676	-	424,949
Professional development	58,341	-	-	58,341
Total Personnel, Salaries and Benefits	5,785,145	477,034	-	6,262,179
DIRECT STUDENT COSTS				
Contracted student services	379,827	-	-	379,827
Curriculum	70,941	-	-	70,941
Supplies and materials	183,220	-	-	183,220
Food service	359,845	-	-	359,845
Uniforms	17,808	-	-	17,808
Student activities	329,583	-	-	329,583
Student transportation	172	-	-	172
Total Direct Student Costs	1,341,396	-	-	1,341,396
OCCUPANCY EXPENSE				
Facility repairs and maintenance	177,607	101,703	-	279,310
Facility utilities	117,265	78,176	-	195,441
Facility Landscaping	11,950	7,966	-	19,916
Facility janitorial	111,529	74,161	-	185,690
Total Occupancy Expense	418,351	262,006	-	680,357
OFFICE EXPENSE				
Office supplies and materials	71,992	20,699	-	92,691
Postage	256	64	-	320
Printing and publications	638	159	-	797
Total Office Expense	72,886	20,922	-	93,808
GENERAL EXPENSE				
Management fees	-	987,472	-	987,472
Authorizer fees	-	114,259	-	114,259
Professional services	104,407	10,860	-	115,267
Insurance	34,049	7,903	-	41,952
Computer and network	72,396	18,099	-	90,495
Telephone	51,266	12,816	-	64,082
Staff travel	15,841	32	-	15,873
Staff recruitment	105,223	13,765	-	118,988
Development	-	-	7,770	7,770
Interest	60,125	760,110	-	820,235
Depreciation and amortization	611,254	329,441	-	940,695
Total General Expense	1,054,561	2,254,757	7,770	3,317,088
TOTAL EXPENSES	\$ 8,672,339	\$ 3,014,719	\$ 7,770	\$ 11,694,828

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 736,710	\$ (66,952)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	970,154	940,695
Amortization of debt issuance costs	79,701	79,701
(Increase) decrease in assets		
Federal grants receivable	186,847	(142,406)
State grants receivable	(28,277)	-
Accounts receivable	(156,533)	(4,200)
Prepaid expenses	41,902	(20,125)
Due from related parties	4,594	-
Increase (decrease) in liabilities		
Accounts payable	138,751	(58,808)
Accrued interest	(21,315)	16,620
Accrued expenses	(6,331)	126,897
Deferred revenues	(892)	(36,435)
Net Cash Provided by Operating Activities	1,945,311	834,987
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(203,493)	(129,634)
Net Cash Used for Investing Activities	(203,493)	(129,634)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loans payable	(311,025)	(292,858)
Payments on capital lease payable	(17,585)	(18,672)
Net Cash Used for Financing Activities	(328,610)	(311,530)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,413,208	393,823
CASH AND CASH EQUIVALENTS, beginning of year	3,743,175	3,349,352
CASH AND CASH EQUIVALENTS, end of year	\$ 5,156,383	\$ 3,743,175
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 812,057	\$ 723,914

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, 2019 AND 2018

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 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 with the Charter School Incubator Initiative, 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.

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.

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.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Adoption of New Accounting Pronouncement

For the year ended June 30, 2019, DC Scholars adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-4 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented.

A key change required by ASU 2016-14 is the change to the net assets classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Basis of Presentation

Consolidated financial statement presentation follows Financial Accounting Standards Board ("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.

There were no net assets with donor restrictions as of June 30, 2019 and 2018.

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.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 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 estimate 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.

Deferred Revenue

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

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition

Contributions received are recorded as increases to 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated 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 contributions without donor restrictions.

Federal entitlements and grants are received primarily from the District of Columbia government. Revenue is recognized when allowable expenditures in accordance with the grant terms have been incurred. 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 consolidated financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the consolidated financial statements.

DC Scholars 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 educational services are provided. Per pupil appropriation revenue includes \$2,409,279 and \$2,285,103 for the years ended June 30, 2019 and 2018, respectively, for enhancements, such as special education and at-risk students. Before and after school care is recognized when the service is provided.

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

Rental income is recognized during the related facility usage.

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 expended.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2018, 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 disregarded entity for tax purpose. Revenues and expenses are reported on the School's information returns.

The School has adopted the accounting for uncertainty in income taxes as required by the Income Taxes topic of the FASB ASC. This 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 tax benefits to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement which could result in the School recording a tax liability that would reduce its net assets.

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 2016 through 2018. 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.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

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 operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The following reflects the School’s financial assets as of June 30:

	2019	2018
Cash and cash equivalents	\$ 5,156,383	\$ 3,743,175
Federal grants receivable	234,436	421,283
State grants receivable	28,277	-
Accounts receivable	166,933	10,400
Total Financial Assets Available to meet Cash Needs for General Expenditures Within One Year	\$ 5,586,029	\$ 4,174,858

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 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, 2019 and 2018 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.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE F – PROPERTY AND EQUIPMENT

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

	2019	2018
Leasehold improvements	\$ 16,039,001	\$ 16,039,001
Computer and network equipment	727,637	610,208
Furniture and fixtures	470,710	386,157
Capital leased equipment	91,508	91,508
	17,328,856	17,126,874
Less: accumulated depreciation and amortization	(4,365,988)	(3,397,345)
Property and equipment, net	\$ 12,962,868	\$ 13,729,529

Depreciation and amortization expense totaled \$970,154 and \$940,695 for the years ended June 30, 2019 and 2018, respectively.

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 have 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 is 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, 2019 and 2018, management fees totaled \$1,067,373 and \$987,472, respectively.

Related Party Charter Schools

The School and DC Scholars Stanton Elementary School, a District of Columbia public school, are considered related parties as a result of a common management of the schools through DC Scholars Community Schools.

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

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE H – CHARTER SCHOOL AGREEMENT - continued

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, 2019 and 2018, the School incurred \$110,060 and \$114,259 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, 2019 and 2018, 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 by 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. Accordingly, the School cannot reasonably estimate its future minimum payments under the terms of the usage fee agreement. For the years ended June 30, 2019 and 2018, the total student enrollment was 542 and 512 students, respectively.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE I – LICENSING AND USAGE AGREEMENTS - continued

The facilities allowance for the years ended June 30, 2019 and 2018, totaled \$1,771,809 and \$1,644,255, 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, 2019 and 2018, respectively. Refer to Note J for a description of the loan agreement.

For the years ended June 30, 2019 and 2018, the usage fee expense for the School and the rental income of \$1,667,968 and \$1,540,414 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 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. 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, 2019 and 2018, the usage fee earned under the agreement totaled \$160,000 and \$160,000, respectively.

NOTE J – LOANS PAYABLE

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 is scheduled to mature on September 3, 2020. The interest rate of the loan is fixed at 4.5% per annum. As of June 30, 2019 and 2018, the outstanding principal balance totaled \$1,445,377 and \$1,483,108, respectively.

Also 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, 2019 and 2018, 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 maturing 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, 2019 and 2018, respectively). The BOA Loan is secured by a lien on the land and improvements of the facility. As of June 30, 2019 and 2018, the outstanding principal balance totaled \$12,015,481 and \$12,288,774, respectively. The School secured a \$1,054,000 promissory note with Building Hope A Charter School Facilities

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE J – LOANS PAYABLE - continued

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, 2019 and 2018. The BOA Loan is senior to the Building Hope and OPCSFS Loan.

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 aforementioned loan agreements contain certain restricted, financial, and nonfinancial covenants. In the opinion of management, the School and the LLC have complied with the required covenants.

Interest expense for the years ended June 30, 2019 and 2018 totaled \$870,443 and \$820,235, including amortization of debt issuance costs of \$79,700 and \$79,700, respectively.

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

	2019	2018
Senior secured note, 4.5%, due through 2020	\$ 1,445,377	\$ 1,483,108
Construction loan, 4.98%, due through 2020	12,015,481	12,288,774
	13,460,858	13,771,882
Less: Current portion	(326,867)	(311,273)
Less: Debt issuance costs, net of accumulated amortization	(86,341)	(166,041)
	\$ 13,047,650	\$ 13,294,568

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

2020	\$ 326,867
2021	13,133,991
Total	\$ 13,460,858

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE J – LOANS PAYABLE - continued

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

	2019	2018
Debt issuance costs	\$ 398,500	\$ 398,500
Less accumulated amortization	(312,159)	(232,459)
Debt Issuance Costs, Net	\$ 86,341	\$ 166,041

NOTE K – CAPITAL LEASE

The School leases three copiers under a capital lease that expires in March 2021. As of June 30, 2019, the leased copiers are reflected at a cost of \$91,508 and the related accumulated depreciation of \$61,006. The lease requires monthly payments of principal and interest in the amount of \$1,706 at a rate of 3.13% per annum.

Future minimum payments under the capital lease are as follows for the years ending June 30:

2020	\$ 20,472
2021	11,256
	31,728
Less: interest	(368)
Total	\$ 31,360

NOTE L – RETIREMENT PLAN

The School established a defined contribution plan under Section 403(b) of the Internal Revenue Code. For an employee with less than three years of service, the School 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, 2019 and 2018, totaled 77,815 and 89,140, respectively.

NOTE M – CONCENTRATIONS

DC Scholars receives the majority of its revenues, 84% and 85% in the years ended June 30, 2019 and 2018, 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.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(continued)

NOTE M – CONCENTRATIONS - continued

As of June 30, 2019 and 2018, 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.

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 20, 2019, the date the consolidated financial statements were available to be issued. There were no 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, 2019

	DC Scholars Public Charter Schools, Inc.	5601 East Capitol, LLC	Eliminations	Total
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,834,570	\$ 1,321,813	\$ -	\$ 5,156,383
Federal grants receivable	234,436	-	-	234,436
State grants receivable	28,277	-	-	28,277
Accounts receivable	6,933	160,000	-	166,933
Prepaid expenses	16,500	3,710	-	20,210
Total Current Assets	<u>4,120,716</u>	<u>1,485,523</u>	<u>-</u>	<u>5,606,239</u>
PROPERTY AND EQUIPMENT, NET	1,623,427	11,339,441	-	12,962,868
OTHER ASSETS				
Investment in 5601 East Capitol, LLC	743,401	-	(743,401)	-
Security deposit	-	5,380	-	5,380
Total Other Assets	<u>743,401</u>	<u>5,380</u>	<u>(743,401)</u>	<u>5,380</u>
TOTAL ASSETS	<u>\$ 6,487,544</u>	<u>\$ 12,830,344</u>	<u>\$ (743,401)</u>	<u>\$ 18,574,487</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Accounts payable	\$ 332,443	\$ 42,941	\$ -	\$ 375,384
Accrued interest	-	99,619	-	99,619
Accrued expenses	451,103	-	-	451,103
Deferred revenue	-	40,000	-	40,000
Capital lease payable, current portion	20,472	-	-	20,472
Loans payable, current portion	39,458	287,409	-	326,867
Total Current Liabilities	<u>843,476</u>	<u>469,969</u>	<u>-</u>	<u>1,313,445</u>
LONG TERM LIABILITIES				
Capital lease payable, net	10,888	-	-	10,888
Loans payable, net	1,405,919	11,641,731	-	13,047,650
Total Long Term Liabilities	<u>1,416,807</u>	<u>11,641,731</u>	<u>-</u>	<u>13,058,538</u>
Total Liabilities	2,260,283	12,111,700	-	14,371,983
NET ASSETS AND MEMBERS' EQUITY				
Net assets without donor restrictions	4,227,261	-	-	4,227,261
Noncontrolling interest	-	-	(24,757)	(24,757)
Members' equity	-	718,644	(718,644)	-
Total Net Assets and Members' Equity	<u>4,227,261</u>	<u>718,644</u>	<u>(743,401)</u>	<u>4,202,504</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,487,544</u>	<u>\$ 12,830,344</u>	<u>\$ (743,401)</u>	<u>\$ 18,574,487</u>

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	DC Scholars Public Charter Schools, Inc.	5601 East Capitol, LLC	Eliminations	Total
REVENUE AND SUPPORT				
Per pupil appropriations	\$ 8,901,919	\$ -	\$ -	\$ 8,901,919
Per pupil facility allowance	1,771,809	-	-	1,771,809
Federal entitlements and grants	1,207,124	-	-	1,207,124
State and local grants	227,158	-	-	227,158
Contributions - individuals	1,088	-	-	1,088
Contributions - foundations	301,575	-	-	301,575
Student activities	122,814	-	-	122,814
Investment loss	(358,882)	-	358,882	-
Rental income	-	1,827,968	(1,667,968)	160,000
Other income	21,936	-	-	21,936
Total Revenues and Other Support	<u>12,196,541</u>	<u>1,827,968</u>	<u>(1,309,086)</u>	<u>12,715,423</u>
EXPENSES				
Program	9,372,614	833,970	(1,500,874)	8,705,710
General and administrative	2,083,513	1,356,505	(167,094)	3,272,924
Fundraising	79	-	-	79
Total Expenses	<u>11,456,206</u>	<u>2,190,475</u>	<u>(1,667,968)</u>	<u>11,978,713</u>
CHANGE IN NET ASSETS AND MEMBERS' EQUITY	740,335	(362,507)	358,882	736,710
NET ASSETS, beginning of year	<u>3,486,926</u>	<u>1,081,151</u>	<u>(1,102,283)</u>	<u>3,465,794</u>
NET ASSETS, end of year	<u>\$ 4,227,261</u>	<u>\$ 718,644</u>	<u>\$ (743,401)</u>	<u>\$ 4,202,504</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. and Subsidiary
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, 2019, 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 20, 2019.

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 Marusa & McQuade PA

Washington, DC
November 20, 2019



**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, 2019. 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, 2019.

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 Warner & McQuade PA

Washington, DC
November 20, 2019

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

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)			
Title I Grants to Local Educational Agencies	84.010	92010A	\$ 319,079
Supporting Effective Instruction State Grants	84.367	92367A	59,668
Title IV: Student Support and Academic Enrichment	84.424	84424A, 92424A	27,525
Special Education Grants to States	84.027	82027A, 92027A	95,481
Special Education Preschool Grants	84.173	92173A	1,701
Twenty-First Century Community Learning Centers	84.287	82287C	71,626
DC Opportunity Scholarship Program	84.370	84370C	136,444
Total U.S. Department of Education			<u>711,524</u>
U.S. Department of Agriculture			
Pass-through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Child Nutrition Cluster			
National School Lunch Program	10.555		281,922
School Breakfast Program	10.553		127,557
Total Child Nutrition Cluster			<u>409,479</u>
Fresh Fruit and Vegetable Program	10.582		24,952
Total U.S. Department of Agriculture			<u>434,431</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,145,955</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, 2019

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, 2019. 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 \$61,169 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, 2019**

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, 2019
(continued)

SECTION II – FINDING RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	None
SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS	None
SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	None

SUPPLEMENTAL SCHEDULES

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
SUPPLEMENTAL SCHEDULE OF VENDORS PAID OVER \$25,000
YEAR ENDED JUNE 30, 2019

Vendor Name	Services Provided	Amount Paid
5601 East Capitol LLC	Rent	\$ 1,667,968
DC Scholars Community Schools	Management company	1,077,829
OPCSFS - OSSE - DCSPCS	OSSE loan payments	103,665
Carefirst Bluecross Blueshield	Health insurance	529,331
Revolution Foods, Inc. - DC	Contracted food service	369,856
Growth MindEd Consulting	Contracted Head of School	228,183
ACS International Resources, Inc	IT Support and technology purchases	221,783
ETES End-to-End Solutions - DC	Contracted SpED Instructions	190,035
Enriched Schools - DCSPCS	Contracted substitute teachers	159,878
DC Public Charter School Board (DCPCSB)	Authorizer fee	84,943
ASpire Financial Services, LLC - DC	403(b) Match	79,684
Amazon.com	Supplies purchases	62,966
Traditional Expressions - DCSPCS	Drumming instructions	62,340
Office Depot - DC	Supplies purchases	55,458
Guardian - DC	Dental insurance	53,962
LGC Security LLC	Building security	49,214
RICOH	Contracted copier usage and maintenance fees	39,974
Achievement Network	Program assessment and coaching services	37,705
Kay-Twelve.com - DC	Furniture purchases	33,226
Payroll Network	Payroll fees	26,488
Reliance Standard Life Insurance Company	Disability and Life insurance	25,119
Reading Partners	Reading intervention	25,000

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, 2019.

DC SCHOLARS PUBLIC CHARTER SCHOOL, INC.
SUPPLEMENTAL SCHEDULE OF VENDOR CONTRACTS AWARDED OVER \$25,000
YEAR ENDED JUNE 30, 2019

Vendor Name	Services Provided	Approx. Value
Leonard & Associates	Contracted Executive Director	150,000
EdOps	Finance and human resource services	136,780
LGC Security	Security services	65,000
Building Hope	Loan Refinancing services	63,000
Sign with Me	Contracted instruction	60,000
Achievement Network	Program assessment and coaching services	30,740
Verizon	Fiber internet services	27,192

This schedule only reflects those unique vendors for which a verbal or written contract was entered into during fiscal year June 30, 2019, that are expected to equal or exceed \$25,000, for which services had not yet begun nor any payment received as of June 30, 2019. Therefore, this schedule does not include any vendors listed on the preceding schedule of vendors paid over \$25,000.