

**KINGSMAN ACADEMY
PUBLIC CHARTER SCHOOL**

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

JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses, Year Ended June 30, 2018	5
Statement of Functional Expenses, Year Ended June 30, 2017	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 15
SUPPLEMENTAL INFORMATION	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16 - 17



Independent Auditor's Report

To the Board of Trustees of
Kingsman Academy Public Charter School
Washington, DC

We have audited the accompanying financial statements of Kingsman Academy Public Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kingsman Academy Public Charter School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018, on our consideration of Kingsman Academy Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kingsman Academy Public Charter School's internal control over financial reporting and compliance.

Jane Marcus & McQuade PA

Washington, DC
November 8, 2018

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,353,823	\$ 1,358,448
Cash and cash equivalents restricted by debt agreements	322,837	321,808
Grants and accounts receivable	173,087	240,737
Prepaid expenses	37,614	17,927
Total Current Assets	2,887,361	1,938,920
OTHER ASSETS		
Property and equipment, net	9,344,985	9,471,316
Deposits	40,000	40,000
Total Other Assets	9,384,985	9,511,316
TOTAL ASSETS	\$ 12,272,346	\$ 11,450,236
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 161,033	\$ 134,959
Accrued salaries and related expenses	320,685	259,331
Accrued interest	29,233	36,458
Unearned revenue	6,328	59,065
Capital lease obligation, current portion	16,750	15,449
Current portion of OPSCFS loan	48,676	46,546
Current portion of Series 2011 bonds	327,252	314,267
Total Current Liabilities	909,957	866,075
NON-CURRENT LIABILITIES		
Capital lease obligation, net of current portion	880	17,629
OPSCFS loan, net of current portion	728,504	777,180
Series 2011 bonds, net	8,249,290	8,566,051
Total Non-Current Liabilities	8,978,674	9,360,860
TOTAL LIABILITIES	9,888,631	10,226,935
NET ASSETS		
Unrestricted	2,383,715	1,223,301
TOTAL LIABILITIES AND NET ASSETS	\$ 12,272,346	\$ 11,450,236

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

**KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
UNRESTRICTED		
REVENUE AND SUPPORT		
Per pupil appropriations	\$ 6,820,342	\$ 5,761,563
Per pupil facilities allowance	794,989	674,785
Federal entitlements and grants	496,696	495,696
Other public grants	40,160	14,255
Contributions	474	7,758
Public sales	-	680
Other revenue	609,605	34,821
Interest income	2,798	1,702
Total Revenue and Support	8,765,064	6,991,260
EXPENSES		
Educational programs	6,806,029	6,111,612
Management and general	798,621	478,624
Total Expenses	7,604,650	6,590,236
CHANGE IN NET ASSETS	1,160,414	401,024
NET ASSETS, beginning of year	1,223,301	822,277
NET ASSETS, end of year	\$ 2,383,715	\$ 1,223,301

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

**KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Educational Programs	Management and General	Total
PERSONNEL, SALARIES AND BENEFITS			
Salaries	\$ 3,255,700	\$ 443,959	\$ 3,699,659
Employee benefits	294,989	40,226	335,215
Payroll taxes	251,617	34,311	285,928
Professional development	99,436	13,560	112,996
Total Personnel, Salaries and Benefits	<u>3,901,742</u>	<u>532,056</u>	<u>4,433,798</u>
DIRECT STUDENT COSTS			
Supplies and materials	144,814	-	144,814
Contracted instruction fees	155,319	-	155,319
Textbooks	25,984	-	25,984
Food service/catering	92,870	-	92,870
Transportation	233,002	-	233,002
Student assessments	52,641	-	52,641
Other student costs	244,865	-	244,865
Total Direct Student Costs	<u>949,495</u>	<u>-</u>	<u>949,495</u>
OCCUPANCY EXPENSES			
Rent	1,808	247	2,055
Utilities	138,483	18,884	157,367
Maintenance and repairs	140,114	19,107	159,221
Janitorial services	5,240	714	5,954
Contracted building services	264,902	36,123	301,025
Total Occupancy Expenses	<u>550,547</u>	<u>75,075</u>	<u>625,622</u>
OFFICE EXPENSES			
Office supplies and materials	42,574	5,806	48,380
Computer support	91,345	12,456	103,801
Telecommunications	70,878	9,665	80,543
Professional fees	323,523	44,117	367,640
Dues and subscriptions	10,571	1,442	12,013
Postage and shipping	1,272	174	1,446
Total Office Expenses	<u>540,163</u>	<u>73,660</u>	<u>613,823</u>
GENERAL EXPENSES			
Insurance	69,504	9,478	78,982
Interest	360,200	49,118	409,318
Depreciation and amortization	350,862	47,845	398,707
Authorizer fees	67,735	9,237	76,972
Other general expense	15,781	2,152	17,933
Total General Expenses	<u>864,082</u>	<u>117,830</u>	<u>981,912</u>
TOTAL EXPENSES	<u><u>\$ 6,806,029</u></u>	<u><u>\$ 798,621</u></u>	<u><u>\$ 7,604,650</u></u>

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

**KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Educational Programs	Management and General	Total
PERSONNEL, SALARIES AND BENEFITS			
Salaries	\$ 3,194,006	\$ 277,740	\$ 3,471,746
Employee benefits	327,333	28,464	355,797
Payroll taxes	250,833	21,812	272,645
Professional development	25,874	2,250	28,124
Total Personnel, Salaries and Benefits	<u>3,798,046</u>	<u>330,266</u>	<u>4,128,312</u>
DIRECT STUDENT COSTS			
Supplies and materials	94,009	-	94,009
Contracted instruction fees	188,876	-	188,876
Textbooks	22,280	-	22,280
Food service/catering	43,606	-	43,606
Transportation	164,221	-	164,221
Student assessments	5,620	-	5,620
Other student costs	88,859	-	88,859
Total Direct Student Costs	<u>607,471</u>	<u>-</u>	<u>607,471</u>
OCCUPANCY EXPENSES			
Rent	1,817	158	1,975
Utilities	148,108	12,879	160,987
Maintenance and repairs	70,340	6,117	76,457
Janitorial services	4,043	352	4,395
Contracted building services	118,057	10,266	128,323
Total Occupancy Expenses	<u>342,365</u>	<u>29,772</u>	<u>372,137</u>
OFFICE EXPENSES			
Office supplies and materials	20,615	1,793	22,408
Computer support	87,540	7,612	95,152
Telecommunications	64,385	5,599	69,984
Professional fees	328,963	28,606	357,569
Dues and subscriptions	22,913	1,992	24,905
Postage and shipping	1,320	115	1,435
Total Office Expenses	<u>525,736</u>	<u>45,717</u>	<u>571,453</u>
GENERAL EXPENSES			
Insurance	53,105	4,618	57,723
Interest	390,662	33,971	424,633
Depreciation and amortization	312,353	27,161	339,514
Authorizer fees	63,335	5,507	68,842
Other general expense	18,539	1,612	20,151
Total General Expenses	<u>837,994</u>	<u>72,869</u>	<u>910,863</u>
TOTAL EXPENSES	<u><u>\$ 6,111,612</u></u>	<u><u>\$ 478,624</u></u>	<u><u>\$ 6,590,236</u></u>

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

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,160,414	\$ 401,024
Adjustments to reconcile change in net assets provided by operating activities:		
Depreciation and amortization	398,707	339,514
Amortization of debt issuance costs	-	10,492
(Increase) decrease in assets:		
Cash and cash equivalents restricted by debt agreements	(1,029)	(1,014)
Grants and accounts receivable	67,650	(17,295)
Prepaid expenses	(19,687)	11,061
Deposits	-	(40,000)
(Decrease) increase in liabilities:		
Accounts payable	26,074	(138,540)
Accrued salaries and related expenses	61,354	(139,831)
Accrued interest	(7,225)	(1,340)
Unearned revenue	(52,737)	59,065
Net Cash Provided by Operating Activities	1,633,521	483,136
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(272,376)	(105,408)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on Series 2011 bonds	(303,776)	(301,797)
Principal payments on OPSCFS loan	(46,546)	(44,509)
Capital lease payments	(15,448)	(14,697)
Net Cash Used for Financing Activities	(365,770)	(361,003)
NET CHANGE IN CASH AND CASH EQUIVALENTS	995,375	16,725
CASH AND CASH EQUIVALENTS, beginning of year	1,358,448	1,341,723
CASH AND CASH EQUIVALENTS, end of year	\$ 2,353,823	\$ 1,358,448
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 464,517	\$ 488,397

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

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE A – ORGANIZATION AND PURPOSE

Kingsman Academy Public Charter School (the “School”) was incorporated in March 2015 as a not-for-profit school located in Washington, DC. The School has been approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The contract was dated June 29, 2015, and remains in effect for 15 years unless terminated sooner in accordance with the contract. The School is an open-enrollment, tuition-free, public school that opened its doors in August 2015. The School serves approximately 250 students in grades six through twelve who may be at risk of dropping out of school. Many of these students are over-age and under-credit for their grade level, have attendance problems, and have behavioral or emotional challenges.

The School’s mission is to provide an individualized and rigorous education in a supportive environment to prepare scholars for post-secondary success and responsible citizenship. The School offers individualized instruction and additional resources for all students, rich special education services, a strong multi-tiered system of support, a school-wide positive behavioral intervention and support, and numerous co-curricular and extracurricular programs.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

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

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

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

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by the School. There were no temporarily or permanently restricted net assets as of June 30, 2018 and 2017.

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with an original maturity of fewer than three months and money market funds to be cash equivalents.

Cash and Cash Equivalents Restricted by Debt Agreements

Cash and cash equivalents restricted by debt agreements are comprised of cash and cash equivalents held by a trustee or the authority to fund the current portion of debt service.

Grants and Accounts Receivable

The School's grants receivable consist of unsecured amounts due from public funding sources whose ability to pay is subject to appropriations. 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. Management determines if an allowance for doubtful accounts is necessary based upon review of outstanding receivables, historical collection experience and existing economic conditions. Accounts deemed uncollectible are charged off based on this review. Management believes that all receivables will be collected within one year or less. Therefore, no allowance for doubtful accounts has been established.

Property and Equipment

Purchases of property and equipment over \$1,000 are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment are depreciated using the straight line method over the estimated useful lives of the underlying assets, which range from 3 to 40 years. Building improvements are amortized over the lesser of their useful life or the lease term. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are expensed when incurred.

Debt Issuance Costs

Cost incurred in the issuance of debt have been capitalized and are reported on the statements 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.

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Per Pupil Appropriations

Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriation revenue includes \$3,765,498 and \$3,241,338 for enhancements such as special education and at-risk students for the years ended June 30, 2018 and 2017, respectively.

Federal Entitlements

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

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Restricted revenue received that is expended in the year of receipt is treated as unrestricted for financial statements purposes.

Public Sales

Public sales are amounts collected from the sale of merchandise purchased at the School's store. Revenue is recognized at the time of purchase.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Functional Expenses

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

Reclassifications

Certain amounts for the year ended June 30, 2017 have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

NOTE C – INCOME TAXES

The School 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 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 tax benefits to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized upon an 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 (2015-2017), or expected to be taken in its 2018 tax return. 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.

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE D – PROPERTY AND EQUIPMENT

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

	2018	2017
Land	\$ 2,259,174	\$ 2,259,174
Building improvements	7,642,635	7,526,088
Furnishings and equipment	329,384	210,714
Computers and materials	134,158	96,998
	10,365,351	10,092,974
Less accumulated depreciation and amortization	(1,020,366)	(621,658)
Property and Equipment, Net	\$ 9,344,985	\$ 9,471,316

Depreciation and amortization expense for the years ended June 30, 2018 and 2017, totaled \$398,707 and \$339,514, respectively.

NOTE E – ASSET PURCHASE AGREEMENT

Options Public Charter School (“Options”) operated as a public charter school in Washington, DC offering instruction to students in grades seven through twelve. On June 25, 2015, the School entered into an Amended and Restated Asset Purchase Agreement (the “Agreement”) with Options to serve those students in sixth through twelfth grades. This Agreement is a result of Options’ succession plan, which is to give its students the best chance of receiving a high quality education, and a Consent Order with Appointment of Receiver and Asset Freeze issued by the Superior Court for the District of Columbia. For the School to service these students, Options transferred certain assets and liabilities to the School. These assets included the facility’s land, building and improvements and title thereto, licenses and permits, records, and all tangible personal property, such as books, supplies, and furniture. In addition, the School assumed the District of Columbia Revenue Bonds, Series 2011, as described in Note G. In accordance with the Agreement, during 2016, the School transferred \$150,000 as the purchase price for certain transferred assets and funded a debt service account in the amount of \$290,903. The transfer of the assets and assumption of the liability were recorded at cost to the School, which approximates fair value.

As stipulated in the Agreement, the School rented the facility from Options for the month of July 2015. Rent expense in accordance with the Agreement totaled \$2,055 and \$1,975 for the years ended June 30, 2018 and 2017, respectively.

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE F – NOTES PAYABLE

Revenue Bonds

In accordance with the Agreement, the School assumed Options' District of Columbia Revenue Bonds, Series 2011, issued for \$10,642,000 ("Series 2011 Bonds"). The proceeds of the Series 2011 Bonds at the time of issuance were used to construct and renovate Options' facility. As of the date of assumption by the School, the Series 2011 Bonds' outstanding principal balance was \$9,650,472. The Series 2011 Bonds are collateralized by the School's Deed of Trust dated November 1, 2011 from Options, encumbering the real property and improvements thereto at 1375 E Street, NE, Washington, DC. The Series 2011 Bonds are scheduled to mature on November 1, 2036. Payments under the Series 2011 Bonds are payable monthly and comprised of principal plus interest. The Series 2011 Bonds bear interest at the greater of the following and reevaluated every five year period (i) the five year average monthly Treasury Constant plus 3% multiplied by one minus 38% (the Bank Tax Rate), or (ii) 4.00% per annum. As of June 30, 2018 and 2017, interest accrued at a rate of 4.00% per annum. Prepayment of the Series 2011 Bonds, in whole or in part, is subject to a redemption percentage and additional fees and expenses. As of June 30, 2018 and 2017, the outstanding principal balance of the Series 2011 Bonds totaled \$8,769,766 and \$9,084,033 respectively.

Other Financing

In conjunction with the assumption of the Series 2011 Bonds, the School secured financing with the District of Columbia's Office of Public Charter School Financing and Support for \$900,000 (the "OPCSFS Loan"). The OPCSFS Loan was obtained to finance closing costs associated with the assumption of Options' debt obligations, funding of a debt service reserve, and purchase of Options' property and equipment. The OPCSFS Loan is secured by the deed of trust of the School's property. The OPCSFS Loan is payable in quarterly principal and interest payments based on a 15 year amortization schedule. Interest accrues at a fixed rate of 4.50% per annum. The OPCSFS Loan is scheduled to mature on August 1, 2020, at which time, a balloon payment of \$677,600 is due. As of June 30, 2018 and 2017, the outstanding principal balance of the OPCSFS Loan totaled \$777,180 and \$823,726, respectively.

The above described debt agreements contain certain restrictive, financial, and nonfinancial covenants. In the opinion of management, the School has complied with the required covenants for 2018 and 2017. Interest expensed under the debt, excluding amortization of debt issuance costs, for the years ended June 30, 2018 and 2017, totaled \$409,318 and \$424,633, respectively.

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE F – NOTES PAYABLE - continued

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

	<u>2018</u>	<u>2017</u>
Senior secured note, 4.0%, due through 2036	\$ 8,769,766	\$ 9,084,033
OPCSFS loan, 4.5%, due through 2020	<u>777,180</u>	<u>823,726</u>
	9,546,946	9,907,759
Less: Current installments	(375,928)	(360,813)
Less: Deferred financing costs, net of accumulated amortization	<u>(193,224)</u>	<u>(203,715)</u>
	<u>\$ 8,977,794</u>	<u>\$ 9,343,231</u>

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

	<u>OPSCFS</u>	Series 2011 <u>Bonds</u>	<u>Total</u>
2019	\$ 48,676	\$ 327,252	\$ 375,928
2020	50,904	339,851	390,755
2021	677,600	354,815	1,032,415
2022	-	369,476	369,476
2023	-	384,742	384,742
2024 and thereafter	-	6,993,630	6,993,630
Total	<u>\$ 777,180</u>	<u>\$ 8,769,766</u>	<u>\$ 9,546,946</u>

The amortization of debt issuance costs as interest expense for the year ended June 30, 2018 and 2017, totaled \$10,492 and \$10,492, respectively.

The following is a summary of debt issuance costs as of June 30:

	<u>2018</u>	<u>2017</u>
Debt issuance costs	\$ 223,825	\$ 223,825
Less accumulated amortization	<u>(30,601)</u>	<u>(20,110)</u>
Debt Issuance Costs, Net	<u>\$ 193,224</u>	<u>\$ 203,715</u>

KINGSMAN ACADEMY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE G – CAPITAL LEASE

In July 2015, the School entered into a lease for copier equipment which meets the accounting treatment criteria as a capital lease. The interest rate implicit in the lease is 5% per annum. The monthly payment is \$1,396 and the lease expires on July 22, 2019. As of June 30, 2018 and 2017, the capitalized cost of the equipment lease totaled \$60,618. Accumulated amortization on the equipment totaled \$34,350 and \$22,227, as of June 30, 2018 and 2017, respectively.

Minimum future lease payments under the capital lease are as follows for the years ending June 30:

2019		\$	16,750
2020			1,398
			18,148
Less interest			(518)
Total			\$ 17,630

NOTE H – CONCENTRATIONS OF RISK

The School is dependent on funding from the District of Columbia, as authorized by the District of Columbia Public Charter Board. During the years ended June 30, 2018 and 2017, approximately 87% and 92% , respectively, of total support was received from the District of Columbia.

The School 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.

The School maintains its cash in several financial institutions. The cash balances are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. The School’s cash routinely exceeds the FDIC limit. Management does not believe the School is exposed to any significant credit risk on its cash and cash equivalents.

NOTE I – SUBSEQUENT EVENTS

In preparing these financial statements, the School’s management has evaluated events and transactions for potential recognition or disclosure through November 8, 2018, the date the financial statements were available to be issued. There were no events or transactions discovered during the evaluation that required recognition or further disclosure.



**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards***

To the Board of Trustees of
Kingsman Academy Public Charter School
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kingsman Academy Public Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees of

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Jane Warner & McQuade PA

Washington, DC
November 8, 2018