

PAUL PUBLIC CHARTER SCHOOL, INC.

**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 - 19
REPORTS AND SCHEDULES REQUIRED BY THE UNIFORM GUIDANCE	
Independent Auditor's Report on Internal Controls 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>	20 - 21
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	22 - 23
Schedule of Expenditures of Federal Awards	24
Notes to the Schedule of Expenditures of Federal Awards	25
Schedule of Findings and Questioned Costs	26 - 27



Independent Auditor's Report

The Board of Trustees
Paul Public Charter School, Inc.
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Paul Public Charter School, Inc., 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 Paul Public Charter School, Inc. 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 XX, 2018 on our consideration of Paul Public Charter School, Inc.'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 Paul Public Charter School, Inc.'s internal control over financial reporting and compliance.

Jane Marice & M. Quade PA

Washington, DC
November 29, 2018

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,141,299	\$ 2,317,821
Cash and cash equivalents restricted by debt agreements	541,636	543,960
Grants and accounts receivable	582,618	466,742
Prepaid expenses	31,223	37,632
Total Current Assets	3,296,776	3,366,155
PROPERTY AND EQUIPMENT, NET	21,287,745	22,062,651
OTHER ASSETS		
Investments	2,578,780	2,441,966
Deferred rental asset	1,055,841	1,108,633
Total Other Assets	3,634,621	3,550,599
TOTAL ASSETS	\$ 28,219,142	\$ 28,979,405
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 460,140	\$ 331,912
Payroll and related liabilities	888,274	1,362,332
Deferred revenue	-	31,110
Capital lease payable, current portion	12,867	12,867
Long-term debt, current portion	346,462	-
Total Current Liabilities	1,707,743	1,738,221
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	26,956	39,823
Long-term debt, net	17,837,614	18,170,860
Total Long-Term Liabilities	17,864,570	18,210,683
TOTAL LIABILITIES	19,572,313	19,948,904
NET ASSETS		
Unrestricted	8,645,829	9,029,501
Temporarily restricted	1,000	1,000
Total Net Assets	8,646,829	9,030,501
TOTAL LIABILITIES AND NET ASSETS	\$ 28,219,142	\$ 28,979,405

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil appropriations	\$ 12,378,190	\$ -	\$ 12,378,190	\$ 11,263,010	\$ -	\$ 11,263,010
Per pupil facility allowance	2,260,451	-	2,260,451	2,277,396	-	2,277,396
Federal entitlements and grants	866,060	-	866,060	538,112	-	538,112
Food services	13,366	-	13,366	14,856	-	14,856
Other grants and contributions	209,245	-	209,245	185,744	-	185,744
In-kind contributions	400	-	400	8,321	-	8,321
Student activity fees	83,695	-	83,695	147,443	-	147,443
Net appreciation in fair value of investments	136,813	-	136,813	197,820	-	197,820
Rental income	38,227	-	38,227	41,603	-	41,603
Interest income	28	-	28	219	-	219
Total Revenue and Support	<u>15,986,475</u>	<u>-</u>	<u>15,986,475</u>	<u>14,674,524</u>	<u>-</u>	<u>14,674,524</u>
EXPENSES						
Educational programs	13,764,582	-	13,764,582	12,474,718	-	12,474,718
General and administrative	2,383,201	-	2,383,201	1,727,592	-	1,727,592
Fundraising	222,364	-	222,364	342,380	-	342,380
Total Expenses	<u>16,370,147</u>	<u>-</u>	<u>16,370,147</u>	<u>14,544,690</u>	<u>-</u>	<u>14,544,690</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(383,672)	-	(383,672)	129,834	-	129,834
Loss on Extinguishment of Debt	-	-	-	(210,780)	-	(210,780)
CHANGE IN NET ASSETS	(383,672)	-	(383,672)	(80,946)	-	(80,946)
NET ASSETS, beginning of year	<u>9,029,501</u>	<u>1,000</u>	<u>9,030,501</u>	<u>9,110,447</u>	<u>1,000</u>	<u>9,111,447</u>
NET ASSETS, end of year	<u>\$ 8,645,829</u>	<u>\$ 1,000</u>	<u>\$ 8,646,829</u>	<u>\$ 9,029,501</u>	<u>\$ 1,000</u>	<u>\$ 9,030,501</u>

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Educational Programs	General and Administrative	Fundraising	Total
Personnel Expenses				
Salaries	\$ 6,791,182	\$ 1,161,026	\$ 96,151	\$ 8,048,359
Employee benefits	1,014,214	18,104	5,634	1,037,952
Payroll taxes	549,961	83,010	7,094	640,065
Professional development	230,548	30,015	2,453	263,016
Staff travel	125,358	23,433	1,775	150,566
Total Personnel Expenses	<u>8,711,263</u>	<u>1,315,588</u>	<u>113,107</u>	<u>10,139,958</u>
Direct Student Costs				
Supplies and materials	154,225	-	-	154,225
Transportation	173,692	-	-	173,692
Contracted instruction fees	609,382	-	-	609,382
Textbooks	37,608	-	-	37,608
Food service	406,586	-	-	406,586
Student assessments	62,613	-	-	62,613
Other student costs	320,388	-	-	320,388
Total Direct Student Costs	<u>1,764,494</u>	<u>-</u>	<u>-</u>	<u>1,764,494</u>
Occupancy Expenses				
Rent	99,726	18,451	3,110	121,287
Maintenance and repairs	77,032	149,717	2,403	229,152
Utilities	243,590	86,234	7,597	337,421
Contracted building services	306,348	37,779	9,555	353,682
Total Occupancy Expenses	<u>726,696</u>	<u>292,181</u>	<u>22,665</u>	<u>1,041,542</u>
Office Expenses				
Office supplies and materials	120,501	75,081	1,706	197,288
Telecommunications	68,993	9,837	2,152	80,982
Professional fees	430,832	92,341	13,437	536,610
Postage and shipping	14,517	4,056	206	18,779
Marketing and recruitment	1,009	165	3,428	4,602
Computer and related	56,570	8,429	1,764	66,763
Total Office Expenses	<u>692,422</u>	<u>189,909</u>	<u>22,693</u>	<u>905,024</u>
General Expenses				
Insurance	75,621	16,838	2,359	94,818
Interest	584,962	89,553	21,869	696,384
Authorizer fee	-	138,665	-	138,665
Depreciation and amortization	1,174,347	165,158	36,627	1,376,132
Fees and licenses	34,777	165,303	2,644	202,724
Travel and meetings	-	10,006	-	10,006
Other general expense	-	-	400	400
Total General Expenses	<u>1,869,707</u>	<u>585,523</u>	<u>63,899</u>	<u>2,519,129</u>
TOTAL EXPENSES	<u><u>\$ 13,764,582</u></u>	<u><u>\$ 2,383,201</u></u>	<u><u>\$ 222,364</u></u>	<u><u>\$ 16,370,147</u></u>

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Educational Programs	General and Administrative	Fundraising	Total
Personnel Expenses				
Salaries	\$ 5,878,942	\$ 915,122	\$ 183,358	\$ 6,977,422
Employee benefits	684,929	125,920	5,390	816,239
Payroll taxes	485,542	67,591	13,543	566,676
Professional development	245,995	20,136	4,035	270,166
Total Personnel Expenses	<u>7,295,408</u>	<u>1,128,769</u>	<u>206,326</u>	<u>8,630,503</u>
Direct Student Costs				
Supplies and materials	111,489	-	-	111,489
Transportation	207,593	-	-	207,593
Contracted instruction fees	539,078	-	-	539,078
Textbooks	32,608	-	-	32,608
Food service	349,540	-	-	349,540
Student assessments	83,321	-	-	83,321
Other student costs	206,650	-	-	206,650
Total Direct Student Costs	<u>1,530,279</u>	<u>-</u>	<u>-</u>	<u>1,530,279</u>
Occupancy Expenses				
Rent	99,726	15,523	3,110	118,359
Maintenance and repairs	77,032	11,990	2,403	91,425
Utilities	243,590	37,918	7,597	289,105
Contracted building services	306,348	47,686	9,555	363,589
Total Occupancy Expenses	<u>726,696</u>	<u>113,117</u>	<u>22,665</u>	<u>862,478</u>
Office Expenses				
Office supplies and materials	162,276	569	5,061	167,906
Telecommunications	68,993	10,740	2,152	81,885
Professional fees	430,832	90,803	13,437	535,072
Postage and shipping	25,570	15,081	797	41,448
Marketing and recruitment	2,307	360	18,407	21,074
Computer and related	56,570	8,806	1,764	67,140
Total Office Expenses	<u>746,548</u>	<u>126,359</u>	<u>41,618</u>	<u>914,525</u>
General Expenses				
Insurance	75,621	11,770	2,359	89,750
Interest	701,181	110,074	21,869	833,124
Authorizer fee	124,098	19,318	3,870	147,286
Depreciation and amortization	1,174,347	194,782	36,627	1,405,756
Fees and licenses	34,777	13,197	2,644	50,618
Travel and meetings	65,763	10,206	2,081	78,050
Other general expense	-	-	2,321	2,321
Total General Expenses	<u>2,175,787</u>	<u>359,347</u>	<u>71,771</u>	<u>2,606,905</u>
TOTAL EXPENSES	<u>\$ 12,474,718</u>	<u>\$ 1,727,592</u>	<u>\$ 342,380</u>	<u>\$ 14,544,690</u>

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (383,672)	\$ (80,946)
Adjustments to reconcile change in net assets provided by (used for) operating activities:		
Depreciation and amortization of property and equipment	1,376,132	1,405,756
Amortization of debt issuance costs	13,216	1,101
Loss on extinguishment of debt	-	210,780
Net appreciation in fair value of investments	(136,813)	(197,820)
(Increase) decrease in assets		
Cash and cash equivalents restricted by debt agreements	2,324	(541,641)
Grants and accounts receivable	(115,876)	(246,809)
Prepaid expenses	6,409	(29,225)
Deferred rental asset	52,792	52,792
Increase (decrease) in current liabilities		
Accounts payable and accrued expenses	128,228	(107,382)
Payroll and related liabilities	(474,058)	444,040
Deferred revenue	(31,110)	(2,924)
Net Cash Provided by Operating Activities	437,572	907,722
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(601,226)	(277,875)
Proceeds from sale of investments	-	181,397
Net Cash Used for Investing Activities	(601,226)	(96,478)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	-	18,566,251
Principal payments on long-term debt	-	(17,949,272)
Principal payments on capital lease	(12,868)	(28,232)
Debt issuance costs incurred	-	(396,492)
Net Cash (Used for) Provided by Financing Activities	(12,868)	192,255
NET CHANGE IN CASH AND CASH EQUIVALENTS	(176,522)	1,003,499
CASH AND CASH EQUIVALENTS, beginning of year	2,317,821	1,314,322
CASH AND CASH EQUIVALENTS, end of year	\$ 2,141,299	\$ 2,317,821
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 683,168	\$ 832,023

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

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE A – ORGANIZATION AND PURPOSE

Paul Public Charter School, Inc. (the “School”) was incorporated as a non-stock and not-for-profit organization on July 1, 2000 under the laws of the District of Columbia. The School is an urban public charter school primarily serving minority students from the local neighborhood in sixth through twelfth grade. It is intended to be a twenty-first century learning center and a center in its community where all students experience a demanding academic program. The School is organized around the premise that society has changed dramatically during the past quarter-century and that public schools must change in order to meet new needs.

The School is designed to serve children and adults as integral members of the community; hence, the School is designed to be far more than a traditional service provider. The goal of the School is to provide intellectually challenging experiences required to develop independent, productive, and responsible individuals, who will learn to love learning, will be taught to think critically, and who will demonstrate that they understand the importance of taking active roles in community life. On May 25, 2000 the School entered into a 15-year Charter School Agreement with the District of Columbia Public Charter School Board. On July 1, 2015, that agreement was renewed for an additional 15 years. The School’s primary sources of support are local appropriations for Charter Schools from the District of Columbia Government, federal entitlements and grants from private foundations.

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 the 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:

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

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

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation (continued)

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. The School had no permanently restricted net assets as of June 30, 2018 and 2017.

Use of Estimates

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

Cash and Cash Equivalents

The term cash and cash equivalents as used in the accompanying financial statements include currency on hand, demand deposits, and highly liquid investments purchased from financial institutions with a maturity of three months or less.

Cash and Cash Equivalents Restricted by Debt Agreements

Cash and cash equivalents restricted by debt agreements is comprised of cash and cash equivalents held by a trustee to fund a portion of debt service related to the Series 2017 Bonds (see Note F).

Accounts and Grants Receivable

Accounts receivable related to program service fees are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Grants receivable consist of unsecured amounts due from public funding sources whose ability to pay are subject to appropriations. Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management believes that all accounts and grants receivable balances will be collected within one year or less; therefore, no allowance for doubtful accounts has been recorded.

Investments

Investments are stated at fair value. Dividends are recorded on the ex-dividend date. Interest is recognized when earned. Purchases and sales of investments are reflected on a trade-date basis. Net appreciation (depreciation) in fair value of investments is recognized in the statements of activities in the period in which the changes occur.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment

Property and equipment are stated at cost, or at fair market value if donated. Expenditures for maintenance and repairs which do not improve or extend the life of the respective asset and are less than \$1,000 are charged to expense when incurred. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, which range from 2 to 39 years. Leasehold improvements are amortized over the lesser of their useful life or the lease term.

Debt Issuance Costs

Costs 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 straight-line method over the remaining period of the debt, which approximates the effective interest method.

Deferred Revenue

Deferred revenue results from income received in the current fiscal year and deferred until the next fiscal year in which the service is performed.

Revenue Recognition

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 statement of activities as net assets released from restrictions.

Grant revenues are received primarily from the District of Columbia Government, and are recognized in the period in which the work is performed.

The School receives a student allocation on a per pupil basis from the District of Columbia to cover the cost of academic expenses. Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations includes \$3,846,006 and \$2,980,059 for the years ended June 30, 2018 and 2017, respectively for enhancements, such as special education, English language learners, and at-risk students.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition (continued)

Student activity fees are funds received from students for school related activities such as fieldtrips, events, etc. Student activity fees are recognized at the time the event is held.

Donated Goods and Services

Donated goods and services are recorded at fair value at the date of donation. The School recognizes donated services that create or enhance non-financial assets or require specialized skills and are provided by individuals who possess those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2018, the School received \$400 in donated services. During the year ended June 30, 2017, the School received \$8,321 in donated services from a human resources outsourcing firm.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs 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 is a 501(c)(3) tax-exempt organization under Section 501(a) of the Internal Revenue Code. The School is, however, subject to tax on business income unrelated to its exempt purpose. The School is also exempt from the District of Columbia sales and property taxes. The School files information returns as required.

The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status.

There are no unrecognized tax benefits or liabilities that need to be recorded.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE C – INCOME TAXES - continued

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

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price.

The guidance on fair value measurement accounting requires that the School make assumptions market participants would use in pricing an asset or liability based on the best information available. The School considers factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity.

Fair value, where available, is based on observable quoted market prices. Where observable prices or inputs are not available, several valuation models and techniques are applied. These models and techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The process involves varying levels of management judgment, the degree of which is dependent on the price transparency of the instruments or market and the instruments' complexity. Fair values of these investment funds are based on net asset value and provided by the fund investment managers.

To increase consistency and enhance disclosure of the fair value of financial instruments, the fair value measurement accounting guidance established a fair value of inputs to the valuation in technique, into a three-level fair value hierarchy. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS - continued

The three levels are defined as follows:

Level 1 – Observable inputs such as quoted prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect certain assumptions by management about the assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

The School's investments include investment funds which are not traded on a national exchange or over-the-counter markets, and therefore quoted market prices are not readily available. These investments are valued at net asset value per share that has been calculated in accordance with, and provided by, the investment company, which reports the underlying investments at fair value. Underlying investments contain, but are not limited to, marketable common stocks, other marketable equity-type investments, and marketable securities of intermediate and longer-term maturities.

The net assets value per share are calculated each business day and are accounted for on a trade date, fully accrued basis. Unit values for deposits and withdrawal are based on the net asset values per share determined as of the close of the last business day of the month. These investment funds were deemed to use level 2 inputs based on the redemption terms of the funds. The investment funds may be redeemed on or within three months of the measurement date at the reported net asset value per share.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS - continued

The following table presents the School’s fair value hierarchy for investments measured on a recurring basis as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Multi-Strategy Equity Funds	\$ -	\$ 1,208,102	\$ -	\$ 1,208,102
Fixed Income				
Multi-Strategy Bond Funds	-	1,115,813	-	1,115,813
Intermediate Term Funds	-	254,865	-	254,865
Total Fixed Income	<u>-</u>	<u>1,370,678</u>	<u>-</u>	<u>1,370,678</u>
Total Investments	<u>\$ -</u>	<u>\$ 2,578,780</u>	<u>\$ -</u>	<u>\$ 2,578,780</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity				
Multi-Strategy Equity Funds	\$ -	\$ 1,078,092	\$ -	\$ 1,078,092
Fixed Income				
Multi-Strategy Bond Funds	-	1,109,891	-	1,109,891
Intermediate Term Funds	-	253,983	-	253,983
Total Fixed Income	<u>-</u>	<u>1,363,874</u>	<u>-</u>	<u>1,363,874</u>
Total Investments	<u>\$ -</u>	<u>\$ 2,441,966</u>	<u>\$ -</u>	<u>\$ 2,441,966</u>

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 2,823,393	\$ 2,717,795
Computer equipment and software	737,414	406,902
Leasehold improvements	24,695,673	24,530,559
	<u>28,256,480</u>	<u>27,655,256</u>
Less accumulated depreciation and amortization	<u>(6,968,735)</u>	<u>(5,592,605)</u>
Property and Equipment, Net	<u>\$ 21,287,745</u>	<u>\$ 22,062,651</u>

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE E – PROPERTY AND EQUIPMENT - continued

The School capitalized interest related to construction activities totaling \$303,277, for the year ended June 30, 2017. The interest capitalized was reported as a component of construction-in-progress until the related asset was put into service. Depreciation and amortization expense for the years ended June 30, 2018 and 2017 totaled \$1,376,132 and \$1,405,456, respectively.

The cost of capital leased equipment totaled \$39,823. Depreciation expense attributed to capital leased assets for the years ended June 30, 2018 and 2017 totaled \$12,687 and \$11,982, respectively. Accumulated depreciation for capital leased assets as of June 30, 2018 and 2017 was \$24,669 and \$11,982, respectively.

NOTE F – LONG-TERM DEBT

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

	2018	2017
District of Columbia Revenue Bonds (Paul Public Charter School, Inc. Project) Series 2017	\$ 18,566,251	\$ 18,566,251
Less: debt issuance costs, net of accumulated amortization	(382,175)	(395,391)
	\$ 18,184,076	\$ 18,170,860

Revenue Bonds

During June 2017, the District of Columbia issued \$19,900,000 maximum principal amount of Revenue Bonds (“Series 2017 Bonds”). The proceeds of the Series 2017 Bonds were loaned to the School on a draw basis to refinance certain indebtedness, and finance the construction, installation and equipping the School’s facility, including but not limited to, the refurbishment of the School’s athletic fields and additional lighting thereto, and the construction of exterior education space. In addition, the proceeds of the Series 2017 Bonds were used to fund a debt service reserve fund and pay allowable debt issuance costs.

The Series 2017 Bonds are collateralized by a first leasehold deed of trust on the real property and improvements and all assets and revenue of the School. During June 2017, the District of Columbia’s Office of Public Charter School Financing and Support entered into a guaranty agreement to provide a credit enhancement of up to \$1,000,000 as additional security for the Series 2017 Bonds.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE F – LONG-TERM DEBT - continued

The Series 2017 Bonds are scheduled to mature July 1, 2047 and are paid over a 30 year amortization schedule. Interest accrues at a fixed rate of 3.95% per annum as of June 30, 2017 and is effective through June 30, 2027. Interest is adjusted at each subsequent ten-year period and is to be determined by the greater of the ten-year ICE Swap Rate in effect plus 3.75%, times one minus the corporate income tax rate; or 3.95% per annum. Interest payments are due monthly until maturity. Principal payments are due monthly commencing July 1, 2018.

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

In prior years, the School reported debt issuance costs as a deferred charge in the statement of financial position and amortization of such costs in the statement of activities as depreciation and amortization. To comply with new GAAP presentation requirements, in 2017 the School began reporting such costs as a direct deduction from the carrying amount of the related debt and reclassified prior year amounts, resulting in a reduction of total June 30, 2017 assets by \$308,004. The change did not affect net assets.

The amortization of debt issuance costs as interest expense for the year ended June 30, 2018 and 2017 was \$13,216 and \$1,101 respectively.

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

	2018	2017
Senior secured note, 3.95%, due through 2047	\$ 18,566,251	\$ 18,566,251
Less: Current installments	(346,462)	-
Less: Deferred financing costs, net of accumulated amortization	(382,175)	(395,391)
	\$ 17,837,614	\$ 18,170,860

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

	2018	2017
Debt issuance costs	\$ 395,391	\$ 396,492
Less accumulated amortization	(13,216)	(1,101)
Debt Issuance Costs, Net	\$ 382,175	\$ 395,391

Interest of \$683,168 and \$832,023 was expensed for the year ended June 30, 2018 and 2017, respectively.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE F – LONG-TERM DEBT - continued

Future minimum payments on long-term debt are as follows for years ending June 30:

2019	\$	346,462
2020		358,602
2021		375,223
2022		390,529
2023		416,100
Thereafter		16,679,335
Total	\$	<u>18,566,251</u>

NOTE G – CAPITAL LEASE PAYABLE

The School entered into a capital lease for copying equipment on February 1, 2012, secured by the equipment. The obligation under the capital lease has been recorded at the present value of future minimum lease payments, discounted at an interest rate of 5%. The lease obligation was fully repaid during 2018.

The School entered into a capital lease for copying equipment on July 7, 2016, secured by the equipment. The obligation under the capital lease has been recorded at the present value of future minimum lease payments, discounted at an interest rate of 3.95% per annum.

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

2019	\$	13,596
2020		13,596
2021		13,596
Net minimum lease payments		<u>40,788</u>
Amount representing interest		<u>(965)</u>
Present Value of Net Minimum Lease Payments	\$	<u>39,823</u>

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2018 and 2017 totaled \$1,000 and were restricted for scholarships.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE I – RETIREMENT PLAN

The School maintains a salary reduction plan under Section 403(b) of the Internal Revenue Code (“the Plan”). Employees who are scheduled to work 20 hours or more per week are eligible to participate in the Plan. The School contributes a discretionary percentage of compensation, which is determined by the Board of Trustees. The School is currently making employer matching contributions of 100% up to 3% of annual employee compensation and an additional employer discretionary contribution of 3% of annual employee compensation regardless of the amount the employee deferred. Employees are immediately vested 100% in their respective contributions and become 100% vested in employer contribution after two years of service. For the years ended June 30, 2018 and 2017 employer contributions totaled \$448,587 and \$278,281, respectively.

NOTE J – LEASE COMMITMENTS

The School entered into a lease agreement with the District of Columbia Public Schools for facility space located at 5901 9th Street NW, Washington, DC on August 11, 2003. The term of the lease is from September 1, 2003 to August 31, 2018 with options to renew for three consecutive periods of five additional years each. On July 1, 2013, the lease agreement was amended. The revised term of the lease is from July 1, 2013 to June 30, 2038, with option to extend for one additional period of twenty five years. The monthly lease payments were \$41,923 for the first five years and \$2,137 for years eleven through twenty-five. No lease payments were due for years six through ten.

In June 2016, the lease was amended whereby effective July 1, 2016 monthly payments will be \$5,261 through June 2038.

Future minimum lease payments are as follows for the years ended June 30:

2019	\$	63,136
2020		63,136
2021		63,136
2022		63,136
2023		63,136
Thereafter		947,047
Total	\$	<u>1,262,727</u>

Rent expense related to the lease for the years ended June 30, 2018 and 2017 was \$115,928. The difference between rent paid and straight-line rent expense is reflected as deferred rent in the accompanying statements of financial position.

In August 2016, the School signed a sub-lease agreement to lease office space to Urban Teachers, a not-for-profit corporation. The sub-lease agreement expires in May 2019. Monthly payments under the sub-lease total \$3,667. Rental income recognized during the year ended June 30, 2018 totaled \$38,227.

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE J – LEASE COMMITMENTS(continued)

Future minimum lease payment receipts as of June 30, 2018 was a total of \$40,337.

NOTE K – CONCENTRATIONS

The School receives a substantial amount of funding from the District of Columbia based on student enrollment according to the Uniform per Student Funding Formula developed by the Mayor and City Council. For the years ended June 30, 2018 and 2017, the School's total revenue consisted of 92% and 93%, respectively, of revenue from the District of Columbia Board of Education's funding stream. Reduction of this source of support would have a significant impact on the School's programs and activities.

Balances in certain cash accounts occasionally exceed \$250,000, the maximum amount insured by the Federal Deposit Insurance Corporation. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

NOTE L – SUBSEQUENT EVENTS

In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through November 29, 2018, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required recognition or further disclosure.

**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***

The Board of Trustees
Paul Public Charter School, Inc.
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paul Public Charter School, Inc. (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 29, 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 over financial reporting 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 financial reporting 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.

Paul Public Charter School, Inc.
The Board of Trustees

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 entity'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 Marice & McQuade PA

Washington, DC
November 29, 2018



**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 of
Paul Public Charter School, Inc.
Washington, DC

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with 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, 2018.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jane Mauer & McQuade PA

Washington, DC
November 29, 2018

PAUL PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
State Superintendent of Education (OSSE)		
Title I Grants to Local Educational Agencies	84.010	\$ 271,094
Supporting Effective Instruction State Grant	84.367	81,437
English Language Acquisition State Grants	84.365	11,028
Student Support and Academic Enrichment Program	84.424	10,000
Special Education Grants to States	84.027	139,538
DC School Choice Incentive Program	84.370	<u>100,549</u>
Total U.S. Department of Education		613,646
U.S. Department of Agriculture		
State Superintendent of Education (OSSE)		
Fresh Fruit and Vegetable Program	10.582	2,528
Child Nutrition Cluster		
National School Breakfast Program	10.553	27,632
National School Lunch Program	10.555	<u>152,078</u>
		<u>179,710</u>
Total U.S. Department of Agriculture		182,238
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 795,884</u></u>

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

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein, certain types of expenses are not allowable or are limited as to reimbursement. The School elected not to use the 10 percent de minimis indirect cost rate. Pass through programs, agencies, and entity identifying numbers are presented where available.

NOTE C – RECONCILIATION TO THE FINANCIAL STATEMENTS

Expenditures per the Schedule exclude \$70,176 of federal awards provided under the Federal Communications Commission E-Rate program, which is reported as a federal entitlement and grant revenue in the statement of activities. Funding under this program is considered to be federal funds, however, does not qualify as direct financial support, and therefore, is exempt from Uniform Guidance requirements.

**PAUL PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

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 |
| Child Nutrition Cluster | 10.553/10.555 |
| (e) Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| (f) Auditee qualified as low-risk auditee? | No |

**PAUL PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted

**SECTION III – FINDINGS AND QUESTIONED COSTS RELATED
TO FEDERAL AWARDS**

None noted

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
AND QUESTIONED COSTS**

None noted