PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018 AND 2017

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Independent Auditor's Report

The Board of Trustees
Perry Street Preparatory Public Charter School
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Perry Street Preparatory 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 Perry Street Preparatory Public Charter School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of Perry Street Preparatory 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 Perry Street Preparatory Public Charter School's internal control over financial reporting and compliance.

Jane Marcus & McQuade PA

Washington, DC
November 16, 2018

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,346,471	$ 1,594,341
Investments	374,035	371,088
Grants receivable	415,234	187,248
Accounts receivable	130,635	235,731
Prepaid expenses	41,866	52,063
Total Current Assets	3,308,241	2,440,471
PROPERTY AND EQUIPMENT, NET	12,016,146	12,744,846
NON CURRENT ASSETS		
Investments, restricted	7,149,314	6,381,577
Security deposit	5,275	5,275
Total Non Current Assets	7,154,589	6,386,852
TOTAL ASSETS	$ 22,478,976	$ 21,572,169
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 477,631	$ 141,623
Accrued expenses	169,892	132,558
Deposits	1,750	48,140
Deferred revenue	-	6,469
Capital lease payable, current portion	-	55,089
Deferred rent, current portion	291,593	291,593
Total Current Liabilities	940,866	675,472
LONG TERM LIABILITIES		
Capital lease payable, net	-	4,201
Deferred rent, net	2,617,805	2,326,212
Bonds payable	11,650,887	11,582,714
Total Long Term Liabilities	14,268,692	13,913,127
Total Liabilities	15,209,558	14,588,599
NET ASSETS		
Unrestricted		
Operating	1,558,698	1,245,000
Board designated - facilities fund	5,462,019	5,462,019
	7,020,717	6,707,019
Temporarily restricted	248,701	276,551
Total Net Assets	7,269,418	6,983,570
TOTAL LIABILITIES AND NET ASSETS	$ 22,478,976	$ 21,572,169

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	$ 5,879,370	$ -	$ 5,879,370
Per pupil facility allowance	1,120,647	-	1,120,647
Federal entitlements and grants	861,587	-	861,587
Other grants and contributions	144,471	-	144,471
In-kind contributions	14,140	-	14,140
Activity fees	10,518	-	10,518
Investment income, net	30,326	-	30,326
Rental income	408,590	-	408,590
Gain on disposal of lease and fixed assets	8,758	-	8,758
Other income	3,853	-	3,853
Net assets released from restriction	27,850	(27,850)	-
Total Revenue and Support	8,510,110	(27,850)	8,482,260
EXPENSES			
Educational programs	7,030,508	-	7,030,508
Management and general	1,160,004	-	1,160,004
Fundraising	5,900	-	5,900
Total Expenses	8,196,412	-	8,196,412
CHANGE IN NET ASSETS	313,698	(27,850)	285,848
NET ASSETS, beginning of year	6,707,019	276,551	6,983,570
NET ASSETS, end of year	$ 7,020,717	$ 248,701	$ 7,269,418

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	$ 4,619,718	$ -	$ 4,619,718
Per pupil facility allowance	955,944	-	955,944
Federal entitlements and grants	706,944	-	706,944
Other grants and contributions	45,183	-	45,183
In-kind contributions	29,706	-	29,706
Activity fees	7,683	-	7,683
Investment income, net	16,681	-	16,681
Rental income	411,183	-	411,183
Insurance reimbursements	91,433	-	91,433
Other income	16,205	-	16,205
Net assets released from restriction	27,850	(27,850)	-
Total Revenue and Support	6,928,530	(27,850)	6,900,680
EXPENSES			
Educational programs	6,347,654	-	6,347,654
Management and general	1,279,638	-	1,279,638
Fundraising	4,626	-	4,626
Total Expenses	7,631,918	-	7,631,918
CHANGE IN NET ASSETS	(703,388)	(27,850)	(731,238)
NET ASSETS, beginning of year	7,410,407	304,401	7,714,808
NET ASSETS, end of year	$ 6,707,019	$ 276,551	$ 6,983,570

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

		Supporting Services		
	Educational Programs	Management and General	Fundraising	Total
PERSONNEL COSTS				
Salaries	$ 2,219,828	$ 277,825	$ 2,153	$ 2,499,806
Employee benefits	172,107	26,910	175	199,192
Payroll taxes	192,214	30,055	195	222,464
Staff development	30,023	4,548	29	34,600
Total Personnel Costs	2,614,172	339,338	2,552	2,956,062
DIRECT STUDENT COSTS				
Supplies and materials	165,580	-	-	165,580
Contracted student services	606,880	-	-	606,880
Transportation and field trips	25,859	-	-	25,859
Food service	257,506	-	-	257,506
Student assessments	8,977	-	-	8,977
Other direct student expenses	50,745	-	-	50,745
Total Direct Student Costs	1,115,547	-	-	1,115,547
OCCUPANCY EXPENSES				
Rent	251,942	39,395	256	291,593
Repairs and maintenance	113,806	18,410	116	132,332
Utilities	306,078	47,860	310	354,248
Janitorial supplies	854	133	1	988
Contracted building services	246,441	86,060	250	332,751
Total Occupancy Expenses	919,121	191,858	933	1,111,912
OFFICE EXPENSES				
Office supplies and materials	28,664	4,484	29	33,177
Office equipment lease	30,044	4,698	30	34,772
Postage and shipping	2,653	414	3	3,070
Professional fees	112,030	131,310	114	243,454
Telecommunications	15,900	2,486	16	18,402
Total Office Expenses	189,291	143,392	192	332,875
GENERAL EXPENSES				
Insurance	87,917	13,747	89	101,753
Interest	82,473	80,409	84	162,966
In-kind legal	12,217	1,911	12	14,140
Authorizer fee	-	75,093	-	75,093
Management fees	1,239,122	193,755	1,257	1,434,134
Depreciation and amortization	724,919	113,352	735	839,006
Technology	43,403	6,787	44	50,234
Other general expenses	2,326	362	2	2,690
Total General Expenses	2,192,377	485,416	2,223	2,680,016
Total Expenses	$ 7,030,508	$ 1,160,004	$ 5,900	$ 8,196,412

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

		Supporting Services		
	Educational Programs	Management and General	Fundraising	Total
PERSONNEL COSTS				
Salaries	$ 2,158,953	$ 470,819	$ 2,021	$ 2,631,793
Employee benefits	189,294	37,613	156	227,063
Payroll taxes	206,042	40,942	170	247,154
Staff development	20,224	3,656	15	23,895
Total Personnel Costs	2,574,513	553,030	2,362	3,129,905
DIRECT STUDENT COSTS				
Supplies and materials	73,721	-	-	73,721
Contracted student services	643,776	-	-	643,776
Transportation and field trips	23,040	-	-	23,040
Food service	195,025	-	-	195,025
Student assessments	42,425	-	-	42,425
Other direct student expenses	79,888	-	-	79,888
Total Direct Student Costs	1,057,875	-	-	1,057,875
OCCUPANCY EXPENSES				
Rent	243,090	48,303	200	291,593
Repairs and maintenance	131,192	26,068	108	157,368
Utilities	93,752	19,188	14	112,954
Janitorial supplies	14,518	2,885	12	17,415
Contracted building services	53,172	10,566	44	63,782
Total Occupancy Expenses	535,724	107,010	378	643,112
OFFICE EXPENSES				
Office supplies and materials	17,270	3,432	14	20,716
Office equipment lease	19,884	3,951	16	23,851
Postage and shipping	588	178	8	774
Professional fees	21,381	124,222	100	145,703
Telecommunications	12,842	2,552	11	15,405
Other office expenses	34,637	6,883	29	41,549
Total Office Expenses	106,602	141,218	178	247,998
GENERAL EXPENSES				
Insurance	83,513	16,594	69	100,176
Interest	81,256	16,146	67	97,469
In-kind legal	24,765	4,921	20	29,706
Authorizer fee	-	66,478	-	66,478
Management fees	1,001,711	199,044	825	1,201,580
Depreciation and amortization	844,254	167,757	695	1,012,706
Technology	34,285	6,813	29	41,127
Other general expenses	3,156	627	3	3,786
Total General Expenses	2,072,940	478,380	1,708	2,553,028
Total Expenses	$ 6,347,654	$ 1,279,638	$ 4,626	$ 7,631,918

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

PERRY STREET PREPARATORY 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	$ 285,848	$ (731,238)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	839,006	1,012,706
Amortization of debt issuance costs	68,173	68,173
Net appreciation in fair value of investments	(2,947)	195
Gain on disposal of property and equipment	(8,758)	-
(Increase) decrease in assets:		
Grants receivable	(227,986)	(94,592)
Accounts receivable	105,096	52,623
Prepaid expenses	10,197	100,704
Increase (decrease) in liabilities:		
Accounts payable	336,008	(45,454)
Accrued expenses	37,334	(6,604)
Deposits held	(46,390)	48,140
Deferred revenue	(6,469)	(37,914)
Deferred rent	291,593	291,593
Net Cash Provided by Operating Activities	1,680,705	658,332
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(156,247)	(68,277)
Purchase of investments	(767,737)	(474,270)
Net Cash Used for Investing Activities	(923,984)	(542,547)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease payable	(4,591)	(54,091)
Net Cash Used for Financing Activities	(4,591)	(54,091)
NET CHANGE IN CASH AND CASH EQUIVALENTS	752,130	61,694
CASH AND CASH EQUIVALENTS, beginning of year	1,594,341	1,532,647
CASH AND CASH EQUIVALENTS, end of year	$ 2,346,471	$ 1,594,341
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	$ 27,280	$ 29,296

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

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE A – ORGANIZATION AND PURPOSE

Perry Street Preparatory Public Charter School (the "School") was incorporated as a college preparatory public charter school in 1999 in an effort to develop socially responsible leaders while transforming public education. The School operated under a license agreement with Hyde Leadership Schools ("HLS") in Maine. As a part of the agreement, HLS made available its trademark, educational model, curricula, written materials and certain other services. In July 2011, the School terminated its license with HLS and changed its name to Perry Street Preparatory Public Charter School.

On July 1, 1999, the School entered into a contract with the District of Columbia Public Charter School Board ("DCPCSB"), which granted the School a charter for the establishment of a public charter school in Washington, DC.

On February 19, 2014, the School's charter was renewed by the DCPCSB effective July 1, 2014, for another 15 years. The DCPCSB has the authority to revoke the School's charter for violations of applicable laws, conditions, terms and procedures set forth in the charter. The School's charter provides for enrollment of up to 850 students in pre-kindergarten (3 years old) through 8th grade. Under the provisions of the contract, the DCPCSB is to make annual payments to the School for services provided to the students based on the number of students attending the School each year. The School's revenue and other support consist primarily of contributions, as well as grants and contracts from the District of Columbia, the federal government and private sources.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting</u>

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.

<u>Basis of Presentation</u>

Financial statement presentation follows Financial Standards Accounting 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:

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - continued

Basis of Presentation (continued)

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. The Board of Trustees has designated a portion of the funds and established a Facilities Fund, which will be utilized toward the acquisition of a School facility and approved leasehold improvements of the facilities currently under lease. It is the Board's goal to use the Facilities Fund for capital improvements and to liquidate debt incurred in capital improvements.

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 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 that were assumed in preparing the financial statements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less and money market account. The School maintains its cash in bank deposit accounts which may, at times, exceed federally insured limits. The School believes it is not exposed to any significant credit risk on cash or cash equivalents

Restricted Investments

Restricted investments are comprised of investments required to be maintained in separate accounts in accordance with debt agreements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment

All acquisitions of property and equipment in excess of $1,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment acquired are recorded at cost or, if donated, at the approximate fair value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

Leasehold improvements are amortized over the term of the lease or useful life of the asset, whichever is shorter. Maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense when incurred.

Investments

The School reports its investments at fair value, and any net appreciation and depreciation in fair value and investment income are recorded in the statement of activities as a change in unrestricted net assets, unless their use is restricted by explicit donor-imposed stipulations or by law.

Debt Issuance Costs

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

Accounts and Grants Receivable

Accounts and grants receivable consist of unsecured amounts from public funding sources whose ability to pay are subject to appropriations. Accounts and grants receivable are reported net of the allowance for doubtful accounts, if any. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, the age of outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. As of June 30, 2018 and 2017, a significant portion of the receivables are due from governmental agencies. 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred Rent

Under generally accepted accounting principles, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statement of financial position.

Deferred Revenue

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

Per Pupil Appropriations

Deferred revenue result from per pupil appropriated revenue and other income received in the current fiscal year and deferred until the next fiscal year in which the service is provided. Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriated revenue includes $1,789,289 and $1,259,677 for the years ended June 30, 2018 and 2017, respectively, for enhancements, such as special education, English language learners, and at risk students.

Activity Fees

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

Federal Entitlements and Grants

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

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Donated Services and Materials

Donated materials are recorded at fair market value at the date of donation. Donated services are recognized at their fair value if the service requires specialized skills and the services would typically need to be purchased, if not donated. Contributed services and promises to give services that do not meet the above criteria are not recognized. The School received donated legal services in the amount of $14,140 and $29,706 for the years ended June 30, 2018 and 2017, respectively.

Insurance Reimbursements

During 2017, the School received $91,433 from insurance claims due to water damage to the property. As of June 30, 2017, the property damage claims have been settled in full.

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.

The School’s information tax 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 – PROPERTY AND EQUIPMENT

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

	2018	2017
Leasehold improvements	$ 17,005,849	$ 17,031,830
Leased equipment	2,380	107,897
Computers	135,711	2,750,139
Resource materials	103,373	1,478,583
Furniture and fixtures	64,617	835,268
	17,311,930	22,203,717
Less accumulated depreciation	(5,295,784)	(9,458,871)
Property and Equipment, Net	$ 12,016,146	$ 12,744,846

Depreciation expense totaled $839,006 and $1,012,706, for the years ended June 30, 2018 and 2017, respectively.

In August 2013, the School leased copiers with a recorded cost basis of $267,718. Accumulated amortization on leased equipment of June 30, 2018 and 2017, was $0 and $59,290, respectively. This equipment was returned on July 31, 2017.

NOTE E – INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS

Current accounting standards establish a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs are based on unadjusted quoted prices for identical assets traded in active markets that the School has the ability to access.

Level 2 Inputs are based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data.

Level 3 Inputs are unobservable and significant to the fair value measurement. There were no Level 3 inputs for any assets held by the School at June 30, 2018 and 2017.

NOTE E – INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS – continued

The School's money market funds are publicly traded on the New York Stock Exchange and are considered Level 1 items. The U.S. treasury obligations, reported at cost, are restricted and held by the Trustee for the bonds. These securities are State and Local Government Series securities, issued specifically to be held privately and therefore not traded in the public market. These are issued as time deposits and are reported at cost. U.S. Treasury obligations are reported at cost. Federal mortgage-backed securities are priced based on based on their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full term of the instruments and are, therefore, considered Level 2 items.

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

	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Cash	$ 361,636	$ -	$ -	$ 361,636
Money market funds	6,237,922	-	-	6,237,922
Federal mortgage-backed securities	-	12,399	-	12,399
Total Investments at Fair Value	$ 6,599,558	$ 12,399	$ -	$ 6,611,957
Investments at cost:				
U.S. treasury obligations				841,667
Cash				137,238
Total Investments				$ 7,590,862

NOTE E – INVESTMENTS AND FAIR MARKET VALUE MEASUREMENTS – continued

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

	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Cash	$ 354,460	$ -	$ -	$ 354,460
Money market funds	5,402,601	-	-	5,402,601
Federal mortgage-backed securities	-	16,628	-	16,628
Total Investments at Fair Value	$ 5,757,061	$ 16,628	$ -	$ 5,773,689
Investments at cost:				
U.S. treasury obligations				841,667
Cash				137,309
Total Investments				$ 6,752,665

The preceding valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the School's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

NOTE F – BONDS PAYABLE

In May 2010, the District of Columbia issued and sold qualified school construction revenue bonds (Hyde Leadership Public Charter School of Washington, D.C., Inc. Issue, Series 2010) ("the Bonds"), totaling $12,625,000 for a period of 16 years and maturing in May 2026, to Eagle Bank, the proceeds of which were loaned to the School by the District of Columbia government and were used to finance the building improvements and related capital expenditures at 1800 Perry Street, NE, Washington, D.C. During the construction period, draw requests were reviewed by a third-party project engineer contracted by the financial institution at the School's expense and advanced to the School's operating bank account as approved.

NOTE F – BONDS PAYABLE – continued

Beginning on November 1, 2010, the School is required to make deposits into a sinking fund, which are to be used for redemption of the principal by the maturity date. The sinking fund will be invested in a money market or business savings account with a fixed rate of 2% for five years. Thereafter, the interest rate will adjust to the then prevailing five-year certificate of deposit interest rate of the financial institution at the call date of the Bonds. The financial institution has the ability to call the Bonds as a whole for prepayment after 60 months and 120 months, following the initial Bond closing date, upon six continued months' notice. The first call date was November 1, 2014. The Bonds were not called by Eagle Bank.

The Bonds are secured by (1) a first leasehold deed of trust on the property at 1800 Perry Street, NE; (2) the School's $350,000 deposit account with a financial institution; (3) a $600,000 guaranty provided by America's Charter School Corporation, a subsidiary of Building Hope; (4) a $1,000,000 guaranty provided by the Office of the State Superintendent of Education (OSSE) for four years from the date of closing; (5) a first priority Uniform Commercial Code (UCC) lien on all of the School's tangible assets, including all equipment and fixtures located on the real estate collateral; (6) a pledge of all net revenue, including, but not limited to, the School's facilities allowance, the District of Columbia Public Charter School Board's per-pupil-quarterly funding and all future non-designated philanthropic pledges; (7) construction documents and materials; (8) an assignment of the lease between the School and the District of Columbia Office of Property Management for the property; (9) a pledge of a debt service reserve fund held by Eagle Bank equal to no less than 12 months of senior debt service in the amount of $841,667, funded by a source acceptable to the bank; and (10) the full balance of the sinking fund. The interest rate is calculated at each put date at the prevailing Five-Year Treasury Constant Maturity Rate plus 4.25% less the tax credit rate.

On June 30, 2015, the Bond agreement was modified and extended and the interest rate reset as of the put date on May 1, 2015 to 0.21% per annum until the next put date. In addition, the debt payable to Building Hope and OSSE by the School were paid in full on June 30, 2015 and related guarantees released. As of June 30, 2018 and 2017, the rate was 0.21% and 0.21%, respectively. Interest is due monthly. The outstanding balance on the Bonds as of June 30, 2018 and 2017 is $12,114,656, respectively. The maturity date of the Bonds is May 1, 2026.

The bonds have various covenants. The School must maintain a minimum debt service coverage ratio of 1.20 to 1:00 on an annual basis to be in good standing with the jurisdiction in which it is domiciled. As of June 30, 2018, the School had met the debt service coverage ratio minimum.

NOTE F – BONDS PAYABLE – continued

The sinking fund payments on the revenue Bonds over the next five years and thereafter are as follows:

2019	$ 810,160
2020	810,160
2021	810,160
2022	810,160
2023	810,160
Thereafter	2,430,480
	$ 6,481,280

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

	2018	2017
Eagle bank loan due May 2026	$ 12,114,656	$ 12,114,656
Less debt issuance costs, net of accumulated amortization	(463,769)	(531,942)
Total Long Term Debt	$ 11,650,887	$ 11,582,714

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

	2018	2017
Debt issuance costs	$ 1,142,978	$ 1,142,978
Less accumulated amortization	(679,209)	(611,036)
Debt Issuance Costs, Net	$ 463,769	$ 531,942

The total amortization expense for debt issuance costs for the years ending June 30, 2018 and 2017, totaled $68,173 for each year.

NOTE G – LEASE COMMITMENTS

On May 13, 2010, the School entered into a non-cancelable operating lease agreement for its school space with the District of Columbia. The lease term is 25 years, subject to one extension of another 25 years, and has a monthly rental obligation of $95,833, subject to adjustment and credit thereafter, as provided by the lease. The School is entitled to rent abatements equivalent to tenant improvements to the School facility on a dollar-for-dollar basis against the full amount of the base rent through the 15th year of the lease. The balance of the improvements abatement is amortized over the remaining life of the lease agreement. As of June 30, 2018 and 2017, the School incurred $16,925,637 in improvements to the facility.

Rent expense totaled $291,593 and $291,593 for the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, future minimum annual rental obligations of $1,150,000 required under this lease for fiscal years 2018-2025 have been abated and future minimum rental payments thereafter total $6,678,069.

On May 1, 2013, the School entered into a sublease agreement for a term of 21 years, expiring on July 31, 2034, for a portion of the School's building space. After April 1, 2018, the sub lessee may cancel the lease with one year written notice. Annual base rent is $128,700; however, the rent is abated dollar-for-dollar for sub lessee improvements made up to $4,000,000. Commencing June 1, 2025, any remaining balance of sub lessee's improvements abatement is amortized over the remaining life of the agreement on a straight-line basis.

On August 17, 2016, the School entered into a sublease agreement for a term of 3 years, expiring on August 31, 2019, for a portion of the School's building space. At any time after March 1, 2017, the sub-lessee may cancel the lease with ninety days written notice. Annual base rent is $66,000. The sub-lessee defaulted on their payments during the year ended June 30, 2017 and was evicted with $33,000 due to the School. The School deemed this amount as uncollectible. The School recognized $20,700 as rental income from this sub-lease during the year ended June 30, 2017.

On June 17, 2016, the School entered into a sublease agreement for a term of 12 years, expiring on June 30, 2028, for a portion of the School's building space. At any time after June 30, 2018, the sub-lessee may cancel the lease with one year written notice. Annual base rent is $288,840, paid quarterly. The sub-lessee was terminated as of June 30, 2018. For the years ended June 30, 2018 and 2017, the School has recognized $366,840 and $394,483, respectively, as rental income, including utilities, from this lessor.

NOTE H – MANAGEMENT AGREEMENT

Effective July 1, 2015, the School entered into a management agreement with AppleTree Institute for Education Innovation ("AppleTree"). The agreement contracts AppleTree to fully manage and operate the early education program for pre-school and pre-kindergarten children under the School's charter. Management of the early education program includes operating, marketing, and staffing the program. The initial term of the agreement is effective for five years, and scheduled to terminate June 30, 2020. If adequate yearly progress has been achieved per evaluations, the term of the agreement may be automatically extended for an additional five-year period, unless either party gives notice of at least 120 days prior to expiration.

The School is responsible for all costs associated with operating the early education program. The School is to compensate AppleTree a management fee equal to the per-pupil funding the School receives for its enrolled pre-K3 and pre-K4 student population and other fees received specific to the early education program, such as special education, English language learners, at-risk population, and summer school revenue received. Management fees incurred under the agreement for the years ended June 30, 2018 and 2017 was $1,434,134 and $1,201,580, respectively.

NOTE I – COMMITMENTS AND CONTINGENT LIABILITIES

The School receives revenue from government grants and contracts that are subject to inspection and audit by the appropriate funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The school is of the opinion that disallowance, if any, arising from such audits will not have a material effect on the financial statements. The School has no provisions for the possible disallowance of program costs on its financial statements.

On November 5, 2015, the School executed an amendment to its existing contract with TenSquare, LLC. Under the amended agreement, TenSquare, LLC will provide strategic intervention and support services to the School for a fixed fee of $2,000,000, payable in monthly installments of $41,666 beginning in July 2015 and ending in June 2019. For the years ended June 30, 2018 and 2017, the amount expensed under this contract totaled $500,004, and $497,592, respectively, and is included in the statements of activities.

NOTE J – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 were designated as follows:

	2018	2017
Legal counseling services	$ 222,805	$ 250,655
Athletic	17,277	17,277
Parent engagement funds	8,619	8,619
Total	$ 248,701	$ 276,551

NOTE K – CONCENTRATION OF RISK

The School is supported primarily by local and federal appropriations and grants. For the years ended June 30, 2018 and 2017, 94% and 92%, respectively, of the total revenue was provided by one local government agency. Reduction of this source of support would have a significant impact on the School's programs and activities. Geographical area of clients served is predominantly Ward 5 of the District of Columbia.

As of June 30, 2018 and 2017, the School had cash that exceeded federally insured limits by approximately $2,070,000 and $1,320,000, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

NOTE L – PENSION PLAN

The School participates in the Teachers Insurance and Annuity Association-College Retirement Equities Fund ("TIAA-CREF") and the Supplemental Retirement Annuities ("SRA") plans. Both of these plans qualify as defined contribution retirement plans under Section 403(b) of the Internal Revenue Code ("IRC") and allow eligible employees to participate in these plans.

Employees participating in the TIAA-CREF plan may elect to contribute up to a maximum of 5% of their gross salary. The School provides a dollar-for-dollar match up to the 5% limit. Employees participating in the SRA plan may elect to contribute up to a maximum of 11% of their gross salary (which includes any of the employee's TIAA-CREF contributions). There is no matching contribution associated with this plan.

For the years ended June 30, 2018 and 2017, pension expense totaled $31,709 and $34,116, respectively.

NOTE M – SUBSEQUENT EVENTS

In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through November 16, 2018, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further recognition and disclosure.

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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
Perry Street Preparatory 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 Perry Street Preparatory Public Charter School, (a non-profit organization) (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Jones Marsella & McQuade PA

Washington, DC
November 16, 2018

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

The Board of Trustees of
Perry Street Preparatory Public Charter School
Washington, DC

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Perry Street Preparatory Public Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Jane Marcus & McQuade PA

Washington, DC
November 16, 2018

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Grantor/	Federal CFDA	Grant	Federal
U. S. Department of Education			
Pass Through from District of Columbia Office of the			
Title I Grants to Local Educational Agencies	84.010	84.010A	$ 126,393
Special Education Grants to States	84.027	84.027A	52,175
Special Education Preschool Grants	84.173	84.173A	381
Charter Schools	84.282	84.282A	187,272
Supporting Effective Instruction State Grants	84.367	84.367A	28,680
DC School Choice Incentive Program	84.370	N/A	156,374
Student Support and Academic Enrichment Program	84.424	84.424A	7,643
Total U.S. Department of Education			558,918
U.S. Department of Agriculture - Food and Nutrition Service			
Pass Through from District of Columbia Office of the			
Child Nutrition Cluster			
National School Lunch Program	10.555	N/A	201,500
Commodity Supplemental Food Program	10.565	N/A	1,677
Fresh Fruit and Vegetable Program	10.582	N/A	17,503
Total Child Nutrition Cluster			220,680
Total U.S. Department of Agriculture			220,680
U.S. Department of Health and Human Services			
Pass Through from District of Columbia Office of the			
Physical Education - Physical Activity Program	93.548	N/A	7,935
School-Based HIV-STD Prevention	93.079	N/A	7,500
Total U.S. Department of Health and Human Services			15,435
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 795,033

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – RECONCILIATION TO THE FINANCIAL STATEMENTS

Expenditures per the Schedule exclude $66,554 of federal awards provided under the Medicaid program, which are reported as federal entitlements and grant revenue in the statement of activities. Funding under the Medicaid program is considered to be federal funds, however, does not qualify as direct financial support, and therefore, is exempt from Uniform Guidance requirements.

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

Major programs

Name of Federal Program:	DC School Choice Incentive Program	
CFDA Number		84.370
Name of Federal Program:	Charter Schools	
CFDA Number		84.282
Dollar threshold used to distinguish between type A and type B programs:		$750,000
Auditee qualified as low-risk auditee?		No

PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

SECTION II – FINANCIAL STATEMENTS FINDINGS

None Noted

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None Noted

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None Noted