ACHIEVEMENT PREPARATORY ACADEMY, INC.

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016 AND 2015

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Independent Auditor's Report

The Board of Trustees
Achievement Preparatory Academy, Inc.
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Achievement Preparatory Academy, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 Achievement Preparatory Academy, Inc. as of June 30, 2016 and 2015, 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 (CFR) 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 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 October 19, 2016, on our consideration of Achievement Preparatory Academy, 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 the Achievement Preparatory Academy, Inc.'s internal control over financial reporting and compliance.

Jones Maresca & McQuade PA

Washington, DC
October 19, 2016

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	$ 13,654,416	$ 3,950,140
Cash, restricted	460,638	-
Grants receivable	220,758	125,299
Accounts receivable	1,920	10,384
Prepaid expenses	49,006	23,340
Total Current Assets	14,386,738	4,109,163
PROPERTY AND EQUIPMENT, NET	30,569,915	6,824,461
OTHER ASSETS		
Loan costs, net of amortization	963,880	-
Security deposit	-	5,000
Total Other Assets	963,880	5,000
TOTAL ASSETS	$ 45,920,533	$ 10,938,624
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 4,625,404	$ 2,710,505
Accrued expenses	2,061,633	133,089
Notes payable, current portion	3,617	-
Deferred revenue	-	38,759
Accrued interest payable	95,355	32,967
Total Current Liabilities	6,786,009	2,915,320
NONCURRENT LIABILITIES		
Notes payable, net of current portion	34,430,825	4,200,000
Total Noncurrent Liabilities	34,430,825	4,200,000
TOTAL LIABILITIES	41,216,834	7,115,320
NET ASSETS		
Unrestricted	4,580,699	3,700,304
Temporarily restricted	123,000	123,000
Total Net Assets	4,703,699	3,823,304
TOTAL LIABILITIES AND NET ASSETS	$ 45,920,533	$ 10,938,624

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

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	$ 8,667,784	$ -	$ 8,667,784
Per pupil facility allowance	2,046,220	-	2,046,220
Federal entitlements and grants	797,815	-	797,815
Local grants	196,911	-	196,911
Other grants and contributions	178,689	-	178,689
Activity fees	59,628	-	59,628
Other income	3,479	-	3,479
Interest income	9,899	-	9,899
Loss on disposal of asset	(61,438)	-	(61,438)
In kind contributions	71,576	-	71,576
Total Revenue and Support	11,970,563	-	11,970,563
EXPENSES			
Program services	9,418,505	-	9,418,505
Management and general	1,658,875	-	1,658,875
Fundraising	12,788	-	12,788
Total Expenses	11,090,168	-	11,090,168
CHANGE IN NET ASSETS	880,395	-	880,395
NET ASSETS, beginning of year	3,700,304	123,000	3,823,304
NET ASSETS, end of year	$ 4,580,699	$ 123,000	$ 4,703,699

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

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	$ 8,429,607	$ -	$ 8,429,607
Per pupil facility allowance	1,990,656	-	1,990,656
Federal entitlements and grants	1,270,153	-	1,270,153
Other grants and contributions	714,705	-	714,705
Activity fee	47,535	-	47,535
Interest income	8,459	-	8,459
Other income	5,573	-	5,573
Net assets released from restrictions	3,000	(3,000)	-
Total Revenue and Support	12,469,688	(3,000)	12,466,688
EXPENSES			
Program services	8,758,078	-	8,758,078
Management and general	1,785,197	-	1,785,197
Fundraising	10,339	-	10,339
Total Expenses	10,553,614	-	10,553,614
CHANGE IN NET ASSETS	1,916,074	(3,000)	1,913,074
NET ASSETS, beginning of year	1,784,230	126,000	1,910,230
NET ASSETS, end of year	$ 3,700,304	$ 123,000	$ 3,823,304

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

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Services	Management and General	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	$ 5,451,961	$ 810,458	$ -	$ 6,262,419
Employee benefits	285,470	42,436	-	327,906
Payroll taxes	438,023	65,114	-	503,137
Contracted staff	2,500	-	-	2,500
Professional development	248,864	31,255	-	280,119
Total Personnel, Salaries and Benefits	6,426,818	949,263	-	7,376,081
DIRECT STUDENT COSTS				
Supplies and materials	60,352	-	-	60,352
Library and media center materials	329	-	-	329
Contracted student services	361,427	-	-	361,427
Food service/catering	376,702	-	-	376,702
Student assessments	68,855	-	-	68,855
Other student costs	64,881	-	-	64,881
Total Direct Student Costs	932,546	-	-	932,546
OCCUPANCY EXPENSES				
Rent	237,718	59,430	-	297,148
Maintenance and repairs	232,709	58,177	-	290,886
Janitorial services	3,645	911	-	4,556
Utilities	23,136	5,784		28,920
Contracted building services	124,475	31,118	-	155,593
Total Occupancy Expenses	621,683	155,420	-	777,103
OFFICE EXPENSES				
Office supplies and materials	25,429	6,357	-	31,786
Equipment rental	71,360	17,840	-	89,200
Telecommunications	36,403	9,101	-	45,504
Postage and shipping	2,444	610	-	3,054
Total Office Expenses	135,636	33,908	-	169,544
GENERAL EXPENSES				
Insurance	44,942	11,235	-	56,177
Administration fee	-	118,663	-	118,663
Accounting, auditing and payroll	-	110,498	-	110,498
Legal fees	66,567	-	-	66,567
Computer support fees	60,248	15,062	-	75,310
Other professional fees	112,375	499	-	112,874
Depreciation and amortization	557,220	139,305	-	696,525
Fundraising	-	-	12,788	12,788
Dues, fees and fines	-	9,905	-	9,905
Interest	459,470	114,867	-	574,337
Other general expense	1,000	250	-	1,250
Total General Expenses	1,301,822	520,284	12,788	1,834,894
Total Expenses	$ 9,418,505	$ 1,658,875	$ 12,788	$ 11,090,168

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

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Services	Management and General	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	$ 5,216,666	$ 1,037,959	$ 9,000	$ 6,263,625
Employee benefits	268,377	51,120	-	319,497
Payroll taxes	418,838	77,590	1,174	497,602
Contracted staff	96,807	-	-	96,807
Professional development	128,483	-	-	258,309
Total Personnel, Salaries and Benefits	6,129,171	1,166,669	10,174	7,435,840
DIRECT STUDENT COSTS				
Supplies and materials	84,602	-	-	84,602
Library and media center materials	51	-	-	51
Contracted student services	255,983	-	-	255,983
Food service/catering	324,734	-	-	324,734
Textbooks	5,940	-	-	5,940
Student assessments	83,967	-	-	83,967
Other student costs	104,919	-	-	104,919
Total Direct Student Costs	860,196	-	-	860,196
OCCUPANCY EXPENSES				
Rent	970,398	242,599	-	1,212,997
Maintenance and repairs	2,440	610	-	3,050
Janitorial services	3,452	863	-	4,315
Contracted building services	52,061	13,015	-	65,076
Total Occupancy Expenses	1,028,351	257,087	-	1,285,438
OFFICE EXPENSES				
Office supplies and materials	30,101	7,525	-	37,626
Equipment rental	112,097	28,024	-	140,121
Telecommunications	7,408	1,852	-	9,260
Printing and publications	2,168	542	-	2,710
Postage and shipping	1,087	272	-	1,359
Total Office Expenses	152,861	38,215	-	191,076
GENERAL EXPENSES				
Insurance	37,256	9,314	-	46,570
Travel	21,202	-	-	21,202
Administration fee	-	117,206	-	117,206
Accounting, auditing and payroll	-	103,728	-	103,728
Legal fees	156,354	-	-	156,354
Depreciation and amortization	239,214	59,804	-	299,018
Other general expense	133,473	33,174	165	36,986
Total General Expenses	587,499	323,226	165	781,064
Total Expenses	$ 8,758,078	$ 1,785,197	$ 10,339	$ 10,553,614

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

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 880,395	$ 1,913,074
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	696,525	299,018
Loss on disposal of assets	61,438	-
Deferred rent and lease incentives	-	(118,755)
(Increase) decrease in assets:		
Grants receivable	(95,459)	58,436
Accounts receivable	8,464	(5,961)
Prepaid expenses	(25,666)	16,375
Security deposit	5,000	-
Increase (decrease) in liabilities:		
Accounts payable	1,914,899	2,583,487
Accrued expenses	1,928,544	(3,202)
Accrued interest payable	62,388	32,967
Deferred revenue	(38,759)	(139,822)
Net Cash Provided by Operating Activities	5,397,769	4,635,617
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(24,317,466)	(6,572,698)
Net Cash Used by Investing Activities	(24,317,466)	(6,572,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan costs incurred	(1,149,831)	-
Proceeds from notes payable	30,234,442	4,200,000
Net Cash Provided by Financing Activities	29,084,611	4,200,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,164,914	2,262,919
CASH AND CASH EQUIVALENTS, beginning of year	3,950,140	1,687,221
CASH AND CASH EQUIVALENTS, end of year	$ 14,115,054	$ 3,950,140
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 511,949	$ 20,131

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

NOTE A – ORGANIZATION AND PURPOSE

Achievement Preparatory Academy, Inc. (the "School") was incorporated in January 2007 as a college preparatory public charter school located in Washington, DC. The School's mission is to prepare students to excel as high-achieving scholars and leaders in high school, college, and beyond. Critical to School's mission is also the idea of developing and fostering a strong character in its scholars. Daily, scholars focus on the development and practice of the School's DREAM values (Determination, Respect, Enthusiasm, Accountability, and Mastery).

The School's beliefs include:

- All students, regardless of race or socio-economic status, deserve a top-quality, rigorous college-preparatory education.
- When provided with a highly structured, disciplined, and supportive learning environment with quality, targeted instruction, all students will achieve the highest academic standards.
- Literacy is the most essential academic skill upon which the majority of all future skill and knowledge acquisition is based.

As a DC public charter school, the School has a guaranteed funding stream from the District of Columbia (per pupil funding) and the U.S. federal government (federal formula grants for education and other programs) provided it meets compliance requirements. A DC public charter school is considered a Local Educational Agency under federal education programs. As a DC public charter school, the School enjoys significant freedom from the budget and operational restrictions placed on traditional public schools, allowing it to create a unique educational mission and approach.

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.

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, 2016 and 2015.

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

Cash include any cash on hand and checking account balances. 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 Cash

Restricted cash is comprised of cash required to be maintained in separate accounts in accordance with debt agreements.

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment - continued

During 2016, the School began construction for a new middle school building adjoining the current facilities and other renovations to the existing School building. All costs related to the construction are accumulated as construction-in-progress until the building is ready for occupancy, after which these costs will be reclassified as buildings and will be depreciated over the useful life of the asset.

Loan Costs

Loan costs incurred in securing debt have been capitalized. These costs are amortized over the remaining period of the debt, which approximates the interest method.

Grants and Accounts Receivable

Grants receivable consist of unsecured amounts from public funding sources whose ability to pay are subject to appropriations. Grants and accounts 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. Past due grants and accounts receivable are written off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2016 and 2015, the majority 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.

Per Pupil Appropriations

Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations include $2,134,630 and $1,939,167 for the years ended June 30, 2016 and 2015, respectively, for enhancements, such as special education, English language learners, and at-risk students.

Contributions and Grants

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When restrictions are met within the same year as restricted funds are contributed, they are classified as unrestricted contributions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Deferred Revenue

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

Functional Expenses

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

Reclassifications

Certain amounts for the year ended June 30, 2015 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 exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. In addition, the School is classified as an entity that is not a private foundation under Section 509(a)(1).

The School has adopted the accounting of uncertainty in income taxes as required by the *Income Taxes* topic of the FASB ASC. The topic requires the School to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement which could result in the School recording a tax liability that would reduce its net assets.

The School has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years (2012-2014), or expected to be taken in its 2015 tax return. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

NOTE D – PROPERTY AND EQUIPMENT

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

	2016	2015
Computers and computer applications	$ 529,677	$ 598,655
Classroom furnishings	612,326	259,264
Office furnishings	61,128	143,870
Construction in progress	12,219,189	6,447,198
Leasehold improvements	18,012,916	190,799
	31,435,236	7,639,786
Less accumulated depreciation	(865,321)	(815,325)
Property and Equipment, Net	$ 30,569,915	$ 6,824,461

Construction in progress includes on-going renovations to the School. The School capitalized interest related to construction activities totaling $361,168 and $32,967, for the years ended June 30, 2016 and 2015, respectively. The interest capitalized is reported as a component of construction-in-progress in the statement of financial position. Depreciation expense for the years ended June 30, 2016 and 2015 totaled $510,574 and $299,018, respectively.

NOTE E – LOAN COSTS

The following is a summary of unamortized loan costs as of June 30:

	2016	2015
Loan costs	$ 1,149,831	$ -
Less accumulated amortization	(185,951)	-
Loan Costs, Net of Amortization	$ 963,880	$ -

Amortization expense for the years ended June 30, 2016 and 2015 was $185,951 and $0, respectively.

NOTE F – NOTES PAYABLE

Construction Financing

During May 2015, the School secured three associated loans to finance construction and renovation of the School's facility and payment of facility rent. These three loans include $24,075,000 from Bank of America ("BOA Loan"), $2,000,000 from the District of Columbia's Office of Public Charter School Financing and Support ("OPCSFS Loan"), and $2,500,000 from

NOTE F – NOTES PAYABLE - continued

Building Hope, a District of Columbia nonprofit corporation ("Building Hope Loan"). The BOA Loan is senior to the OPCSFS Loan and Building Hope Loan per the terms of the agreements. Draws must be in simultaneous and even amounts between the OPCSFS Loan and Building Hope Loan. The terms of the BOA Loan require the OPCSFS Loan and Building Hope Loan to be drawn against completely prior to drawing against the BOA Loan. The frequency of draws from the BOA Loan can be made no more than monthly. There were no draws against the BOA Loan during the year ended June 30, 2015 as the loans from OPCSFS and Building Hope were still being drawn against.

The OPCSFS Loan was for a term of three years and accrues interest at a rate of 4.50% per annum. Interest only payments were scheduled to be due quarterly from October 1, 2015 through July 1, 2017. Thereafter, principal and interest payments were scheduled to be due quarterly based on a 25 year amortization schedule. The balance outstanding on the OPCSFS Loan as of June 30, 2015 was $2,000,000. Amendments to the terms of the OPCSFS Loan were made during December 2015 in connection with the New Market Tax Credit program (described below). Based on the amended terms, payment frequency was increased from quarterly to monthly, and the OPSCFS Loan matures December 2022, with a balloon payment required at that time.

The Building Hope Loan was for a term of three years and accrues interest at a rate of 6.00% per annum. Interest only payments were scheduled to be due quarterly from October 1, 2015 through July 1, 2017. Thereafter, principal and interest payments were scheduled to be due quarterly based on a 25 year amortization schedule. The balance outstanding on the Building Hope Loan as of June 30, 2015 was $2,200,000. Amendments to the terms of the Building Hope Loan were made during December 2015 in connection with the New Market Tax Credit program (described below). Based on the amended terms, payment frequency was increased from quarterly to monthly, and the Building Hope Loan matures December 2022, with a balloon payment required at that time.

The BOA Loan is collateralized by all real and personal property of the School. The collateral for the OPCSFS Loan and Building Hope Loan is a third trust on all leasehold mortgages, third trust on assignment of all leases and rents from the property, third trust on per pupil appropriations, facilities allowance and assignment of all management construction and architectural contracts and plans.

Amendments to the terms of the BOA Loan were made during December 2015 in connection with the New Market Tax Credit program (described below). As of December 30, 2015, the BOA Loan had an outstanding principal balance of $4,772,485. Based on the amended terms, interest accrues at a variable rate of daily floating LIBOR plus 3.50% per annum, and reset daily. As of June 30, 2016, interest accrued at a rate of 3.94% per annum. The BOA Loan is scheduled to mature December 2022. Interest only payments are due quarterly through November 2017.

NOTE F – NOTES PAYABLE - continued

Thereafter, interest and principal payments are due quarterly based on a 25 year amortization schedule, with a balloon payment due at maturity. During August 2015, the School secured financing with the Reinvestment Fund, Inc. ("TRF Loan") for an amount of $4,800,000. Loan proceeds are advanced on a draw basis. The proceeds are used to finance construction and improvements to School property. Proceeds from the TRF Loan must be drawn in full prior to drawing against the BOA Loan. Interest accrues on the TRF Loan at a variable rate of 1-month LIBOR plus 4.25% per annum, and reset monthly. As of June 30, 2016, interest accrued at a rate of 4.72% per annum. Interest only payments are due monthly, until full drawn of the TRF Loan, which then principal and interest payments are due. The collateral for the TRF Loan is a second trust on all leasehold mortgages, second trust on assignment of all leases and rents from the property, second trust on per pupil appropriations, facilities allowance and assignment of all management construction and architectural contracts and plans. Amendments to the terms of the TRF Loan were made during December 2015 and discussed below.in connection with the New Market Tax Credit program (described below). As of December 30, 2015, the TRF Loan had an outstanding principal balance of $4,571,894. Securing the New Market Tax Credit program financing required a principal payment of $3,000,000 from the School. The resulting principal balance was $1,571,894. Based on the amended terms, draws on the TRF Loan may be made up to $1,800,000 before September 2017. Interest only payments are due monthly through September 1, 2017. Thereafter, interest will accrue at a fixed rate at the current FHLB 5-year rate plus 4.50% per annum with interest and principal payments due monthly. The TRF Loan is scheduled to mature December 2022, with a balloon payment due at maturity.

<u>New Market Tax Credit</u>

During December 2015, the School became a participant to the New Market Tax Credit program ("NMTC"). The NMTC program encourages investment in real estate projects in low-income communities by allowing investors to receive tax credits against their federal income tax return in exchange for making qualified investments in Community Development Entities ("CDEs"). The CDE's purpose is to make loans and investments in low-income communities to Qualified Active Low-Income Community Businesses ("QALICB"). The School qualified as a QALICB.

The CDE utilized qualified funding to loan $23,800,000 to the School to finance renovations of the School and construction of a middle school. The NMTC program financing consists of four loans ("NMTC Loans") each scheduled to mature December 2040. The NMTC Loans accrue interest at fixed rates ranging from 0.24% to 5.20% per annum, with an average weighted interest rate of 4.00% per annum. Interest only payments are due quarterly through May 2023, with interest and principal payments due quarterly thereafter until maturity. The NMTC Loans are collateralized by the assets of the School.

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

NOTE F – NOTES PAYABLE - continued

Interest of $574,337 and $53,098 was expensed for the years ended June 30, 2016 and 2015, respectively.

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

2017	$ 3,617
2018	424,025
2019	575,717
2020	605,596
2021	637,351
Thereafter	32,188,136
Total	$ 34,434,442

NOTE G – LEASE COMMITMENTS

The School's lease agreement with the Charter School Incubator Initiative expired on June 30, 2015. There is no extension of this lease as the site now is under the School's ownership so the lease is only for the operating services, as described below, that Building Hope covered during the transition period from July 1, 2015 through December 31, 2015. In accordance with the terms of the lease, the School is required to pay a usage fee, or rent, determined with respect to the number of students enrolled. The total annual usage fee is equal to the number of students enrolled on each census date (every October) multiplied by the per pupil facilities allowance received by the School from the District of Columbia, less amounts withheld under the terms of the lease.

In August 2015, the School entered into a lease agreement with the District of Columbia to occupy Mississippi Road School premises. This agreement expired on June 30, 2016. The School is required to pay a monthly fee in the amount of $20,148, and operating expense fee in the amount of $4,614.

In August 2015, the School entered into a ground lease agreement with the District of Columbia to lease the property at Wahler Place for a period of 30 years beginning August 1, 2015. The annual base rent is $777,000 for the first year and will be increased by two percent on each anniversary thereafter. Rent will be abated for twelve consecutive calendar months for each one million dollars of expense incurred for construction, capital alteration and leasehold acquisition costs. Since construction at this site is still in process, the rent abatement amount cannot be determined as of this time, and therefore neither can the future minimum lease payments.

Rent expense for the years ended June 30, 2016 and 2015 totaled $297,148 and $1,212,997, respectively.

NOTE H – 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.

NOTE I – CONCENTRATION OF RISK

The School is supported primarily by local and federal appropriations and grants. For the years ended June 30, 2016 and 2015, 89% and 81%, 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 Ward 8 of the District of Columbia. As of June 30, 2016 and 2015, the School had cash that exceeded federally insured limits by approximately $12,900,000 and $3,400,000, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

NOTE J – PENSION PLAN

The School sponsors a 401(K) Plan (the "Plan") for all employees who are at least 18 years of age. Eligible employees can become participants on the first day of the month following the completion of eligibility requirements. Employees may make elective deferral from their eligible earnings, up to the amount allowed by the Internal Revenue Service. The School matches the first three percent of a participant's compensation that is deferred as an elective deferral. For the years ended June 30, 2016 and 2015, pension expense totaled $28,476 and $40,579, respectively.

NOTE K - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015, totaled $123,000 and $123,000, respectively, and were designated for the purpose of transportation and scholarships for the students of the Septima Clark Public Charter School which closed in 2013.

NOTE L – SUBSEQUENT EVENTS

As required by the Subsequent Events topic of the FASB ASC, the School has evaluated the impact on its financial statements and disclosure of certain transactions occurring subsequent to its year end through October 19, 2016, which is the date the School's financial statements were available to be issued. Management has determined that there are no subsequent events that require disclosure pursuant to the subsequent event topic.

JM&M
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Certified Public Accountants

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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
Achievement Preparatory Academy, 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 Achievement Preparatory Academy, Inc., (a nonprofit organization), (the "School"), which comprise the statement of financial position as of June 30, 2016, 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 October 19, 2016.

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 School’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones Marcus & McQuade PA

Washington, DC
October 19, 2016

JM&M
JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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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
Achievement Preparatory Academy, Inc.
Washington, DC

Report on Compliance for Each Major Federal Program

We have audited Achievement Preparatory Academy, Inc.'s (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2016. 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, contracts, 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, Achievement Preparatory Academy, Inc. 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, 2016.

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.

Jones Maresca & McQuade PA

Washington, DC
October 19, 2016

ACHIEVEMENT PREPARATORY ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U. S. Department of Education			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Title I Grants to Local Educational Agencies	84.010	62010A	$ 271,560
Improving Teacher Quality State Grants	84.367	62367A	74,880
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	62027A	109,455
Special Education - Preschool Grants	84.173	62173A	952
			456,847
DC School Choice Incentive Program	84.370		3,310
Total U.S. Department of Education			460,157
U.S. Department of Agriculture - Food and Nutrition Service			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Fresh Fruit and Vegetable Program	10.582		19,342
NSLP Equipment Assistance Grant Phase 16	10.XXX	EQNSLC	4,600
National School Breakfast Program	10.553		99,225
National School Lunch Program	10.555		168,950
Total U.S. Department of Agriculture			292,117
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 752,274

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

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, 2016. 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 minimus 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 $45,541 of federal awards provided under the Federal Communications Commission E-Rate program, which are reported as federal entitlements and grant revenue in the statement of activities. Funding under the E-Rate program is considered to be federal funds, however, does not qualify as direct financial support, and therefore, is exempt from Uniform Guidance requirements.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

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	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?	No
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:	Title 1 Grants to Local Education Agencies
CFDA Number:	84.010
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II – FINANCIAL STATEMENTS FINDINGS

None

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None