# Center City Public Charter Schools, Inc.

Financial Report
June 30, 2016

**Contents**

RSM US LLP

# Independent Auditor's Report

To the Board of Directors
Center City Public Charter Schools, Inc.
Washington, D.C.

**Report on the Financial Statements**
We have audited the accompanying financial statements of Center City Public Charter Schools, Inc. (the School), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of activities 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 the School 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports, dated November 18, 2016, and November 19, 2015, on our consideration of the School's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal controls over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
November 18, 2016

**Center City Public Charter Schools, Inc.**

**Balance Sheets**
**June 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 7,471,634 | $ 4,955,995 |
| Receivables | 547,074 | 608,154 |
| Prepaid expenses and other assets | 701,687 | 357,971 |
| **Total current assets** | 8,720,395 | 5,922,120 |
| Property and equipment, net (Note 2) | 1,818,793 | 2,046,664 |
| **Total assets** | $ 10,539,188 | $ 7,968,784 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 286,186 | $ 396,347 |
| Accrued payroll and benefits | 1,411,979 | 1,439,648 |
| Deferred revenue | 5,149 | - |
| Deferred rent | 72,420 | 991 |
| **Total current liabilities** | 1,775,734 | 1,836,986 |
| Long-term liabilities: | | |
| Deferred rent, net of current portion | 166,907 | 237,345 |
| **Total liabilities** | 1,942,641 | 2,074,331 |
| Commitments and contingencies (Notes 3, 4 and 6) | | |
| Net assets: | | |
| Unrestricted | 8,596,547 | 5,894,453 |
| | 8,596,547 | 5,894,453 |
| | $ 10,539,188 | $ 7,968,784 |

See notes to financial statements.

**Center City Public Charter Schools, Inc.**

**Statements of Activities**
**Years Ended June 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Revenue and support (Note 5): | | |
| Per-pupil allocations | $ 18,723,396 | $ 20,405,168 |
| Facilities fees | 4,492,312 | 4,555,777 |
| Federal grants and entitlements | 2,630,846 | 2,726,045 |
| Meals and activities fees | 316,411 | 281,522 |
| Contributions | 78,173 | 135,706 |
| Other grants and awards | 626,787 | 213,938 |
| Other Income | 500 | - |
| **Total revenue and support** | 26,868,425 | 28,318,156 |
| Expenses: | | |
| Educational programs | 20,777,721 | 20,999,600 |
| Supporting services: | | |
| General and administrative | 3,377,741 | 3,118,472 |
| Fundraising | 10,869 | 10,867 |
| **Total expenses** | 24,166,331 | 24,128,939 |
| **Change in net assets** | 2,702,094 | 4,189,217 |
| Net assets: | | |
| Beginning | 5,894,453 | 1,705,236 |
| Ending | $ 8,596,547 | $ 5,894,453 |

See notes to financial statements.

**Center City Public Charter Schools, Inc.**

**Statements of Cash Flows**
**Years Ended June 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 2,702,094 | $ 4,189,217 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 544,903 | 538,406 |
| Deferred rent | 991 | 72,250 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | 61,080 | 165,764 |
| Prepaid expenses and other assets | (343,716) | 140,646 |
| (Increase) decrease in: | | |
| Accounts payable and accrued expenses | (110,161) | 51,871 |
| Accrued payroll and benefits | (27,669) | 199,409 |
| Deferred revenue | 5,149 | (625,903) |
| **Net cash provided by operating activities** | 2,832,671 | 4,731,660 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (317,032) | (588,263) |
| **Net cash used in investing activities** | (317,032) | (588,263) |
| **Net increase in cash** | 2,515,639 | 4,143,397 |
| Cash: | | |
| Beginning | 4,955,995 | 812,598 |
| Ending | $ 7,471,634 | $ 4,955,995 |

See notes to financial statements.

## Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** On October 11, 2007, Center City Public Charter Schools, Inc. (the School) was organized as a nonprofit corporation under the District of Columbia Nonprofit Corporation Act. The principal activity of the School is to operate a community-based public charter school with multiple campuses. The schools are child- and family-centered and offer a comprehensive liberal arts education. The School's mission is to enable a diverse group of students to meet high expectations, develop creativity, critical thinking and problem-solving skills, achieve a deep understanding of complex subjects and acquire a love of learning along with a strong sense of community and character.

A summary of the School's significant accounting policies follows:

**Basis of accounting:** The accompanying financial statements are presented in accordance with the accrual basis of accounting consistent with accounting principles generally accepted in the United States (GAAP), whereby revenue is recognized when earned and expenses are recognized when incurred.

**Basis of presentation:** The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

**Unrestricted net assets:** Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

**Temporarily restricted net assets:** Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. The School had no temporarily restricted net assets as of June 30, 2016 and 2015.

**Permanently restricted net assets:** Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the School's actions. The School has no permanently restricted net assets as of June 30, 2016 and 2015.

**Charter school agreement:** On August 5, 2008, the School entered into a 15-year charter school agreement with the District of Columbia Public Charter School Board. Under the terms of this agreement, the School will operate a charter school with seven campuses for students of certain ages and in pre-kindergarten through grade eight, in accordance with the mission established in the School's by-laws. The School currently operates six campuses in the District of Columbia.

**Financial risk:** The School maintains cash in bank deposit accounts, which at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to any significant financial risk on cash.

**Receivables:** Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management believes that an allowance was not required, based on its evaluation of collectability of receivables, at June 30, 2016 and 2015.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Property and equipment:** Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the related assets, ranging from three to seven years. Normal repairs and maintenance are expensed as incurred. The School capitalizes all property and equipment purchased with a cost of $1,000 or more.

**Valuation of long-lived assets:** Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

**Deferred rent:** Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the balance sheets.

**Contributions:** Contributions are recognized when the donor makes a written promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

**Per-pupil allocations:** The School receives a student allocation from the District of Columbia to cover the cost of academic and facilities expenses. Pupil allocation revenue is recognized in the period when it is earned, which is the school year for which the allocation is made. Unearned pupil allocation collections are recorded as deferred revenue.

**Grants:** The School receives grants from federal agencies and private grantors for various purposes. Receivables related to grant awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant or award. The School defers grant revenue received under approved awards from grantors to the extent they exceed expenses incurred for the purposes specified under the grant restrictions. These deferred grants, if any, are recorded as refundable advances.

**Functional allocation of expenses:** The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. General and administrative expenses include those costs not directly identifiable with any other specific function but that provide for the overall support and administration of the School.

**Recognition of salary expense:** Salary expense is recognized in the year the service is rendered, which coincides with the fiscal year. Salaries unpaid at June 30 are recognized as an expense and accrued.

**Tax status:** The School is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar tax laws and regulations of the District of Columbia and is not considered to be a private foundation. Under Section 501(c)(3) of the IRC, the School is exempt from federal taxes on income other than unrelated business income. The School did not have any net unrelated business income for the years ended June 30, 2016 and 2015.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Recent accounting pronouncements:** In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The School is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier applicable is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management is currently evaluating the impact of this ASU on the financial statements.

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent events:** The School evaluated subsequent events through November 18, 2016, which is the date the financial statements were available to be issued.

## Note 2. Property and Equipment

Property and equipment as of June 30, 2016 and 2015, and the related depreciation expense for the years ended June 30, 2016 and 2015, are as follows:

| | | 2016 | | | |
|---|---|---|---|---|---|
| | Estimated Useful Lives | Cost | Accumulated Depreciation | Net | Depreciation Expense |
| Furniture and equipment | 5-7 years | $ 1,944,558 | $ 1,206,445 | $ 738,113 | $ 230,270 |
| Leasehold improvements | 3-5 years | 3,848,706 | 2,768,026 | 1,080,680 | 314,633 |
| | | $ 5,793,264 | $ 3,974,471 | $ 1,818,793 | $ 544,903 |

| | | 2015 | | | |
|---|---|---|---|---|---|
| | Estimated Useful Lives | Cost | Accumulated Depreciation | Net | Depreciation Expense |
| Furniture and equipment | 5-7 | $ 1,728,494 | $ 976,176 | $ 752,318 | $ 206,592 |
| Leasehold improvements | 3-5 years | 3,747,738 | 2,453,392 | 1,294,346 | 331,814 |
| | | $ 5,476,232 | $ 3,429,568 | $ 2,046,664 | $ 538,406 |

## Note 3. Lease Commitments

On May 19, 2008, the School entered into a five-year lease agreement for its school campus properties. These campus leases expired in July 2013. In September 2013, the School's request to exercise an option for an additional five years on the initial lease agreements for six of the seven school campus properties was accepted by the landlord. These campus leases now expire in July 2018.

The School has a lease agreement for its central office space in Washington D.C. The term of the lease is 62 months which commenced on August 1, 2013, and is due to expire on September 30, 2018. The new agreement provides for a rent escalation rate of 3.5% each year. The lease can be renewed for one additional term of three years at the prevailing market rate. Parking fees are included in rent expense.

Future minimum lease commitments are as follows:

| | |
|---|---|
| Years ending June 30: | |
| 2017 | $ 2,479,822 |
| 2018 | 2,555,482 |
| 2019 | 262,654 |
| | $ 5,297,958 |

Rent expense under the above leasing arrangements was $2,439,128 and $2,430,546 for the years ended June 30, 2016 and 2015, respectively.

## Note 4. Other Commitments and Contingencies

**Federal grants:** The School participates in federally-assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

**Legal claims:** The School is, by nature of its operations, the subject of a variety of legal claims. In the opinion of management, costs, if any, for all known legal claims are believed to be covered by insurance and the amount of any additional liability will not have a material impact on the financial statements.

## Note 5. Concentration

The School receives a substantial portion of its revenue from the District of Columbia and the federal government. If a significant reduction in this revenue should occur, it may have an effect on the School's programs. During the years ended June 30, 2016 and 2015, 97% and 98% of the School's revenue, respectively, was comprised of pre pupil, facility fees and grant funding from the District of Columbia and the federal government. As of June 30, 2016 and 2015, 65% and 79% of the School's receivables, respectively, was related to per-pupil, facility fees and grant funding from the District of Columbia and the federal government.

## Note 6. Retirement Plan

The School has a retirement plan that includes a deferral arrangement pursuant to Section 401(k) of the IRC. Substantially all employees are eligible to participate. Under the deferral arrangement, employees may elect to defer up to 100% of their annual compensation, not to exceed IRS-imposed limits. The School matches contributions up to 5% of employees' compensation. The employees' portion of the School's contributions will vest 100% after completion of the first year of employment. The School's matching contribution was $477,515 and $473,465 for the years ended June 30, 2016 and 2015, respectively.

## Note 7. Line of Credit

The School obtained a $2,000,000 working line of credit on September 13, 2012, from a financial institution. This line of credit is collateralized by the School's bank deposits. Interest is due monthly at the one-month floating London Interbank Offered Rate plus 310 basis points. Outstanding amounts are due on demand. As of June 30, 2016 and 2015, there was no outstanding balance on the line of credit.

RSM US LLP

**Independent Auditor's Report on the Supplementary Information**

To the Board of Directors
Center City Public Charter Schools, Inc.
Washington, D.C.

We have audited the financial statements of Center City Public Charter Schools, Inc. (the School) as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information 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 audits 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 as a whole.

RSM US LLP

Washington, D.C.
November 18, 2016

## Center City Public Charter Schools, Inc.

## Schedule of Functional Expenses
## Year Ended June 30, 2016
## (With Comparative Totals for 2015)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Educational Programs | General and Administrative | Fundraising and Development | Total | 2015 Total |
| Personnel, salaries and benefits: | | | | | |
| Salaries | $ 11,199,128 | $ 1,619,364 | $ 9,000 | $ 12,827,492 | $ 13,018,292 |
| Employee benefits | 1,470,046 | 355,285 | 1,097 | 1,826,428 | 1,583,901 |
| Payroll taxes | 904,066 | 186,133 | 772 | 1,090,971 | 1,117,138 |
| Contracted staff | 289,690 | 7,540 | - | 297,230 | 226,943 |
| Professional development | 382,282 | - | - | 382,282 | 388,212 |
| Travel and meetings | 16,749 | - | - | 16,749 | 19,438 |
| **Total personnel, salaries and benefits** | 14,261,961 | 2,168,322 | 10,869 | 16,441,152 | 16,353,924 |
| Direct student costs: | | | | | |
| Contracted instruction fees | 335,506 | - | - | 335,506 | 858,188 |
| Supplies and materials | 397,042 | - | - | 397,042 | 194,193 |
| Other student costs | 243,728 | - | - | 243,728 | 163,005 |
| Student assessments | 126,415 | - | - | 126,415 | 94,102 |
| Textbooks | 90,644 | - | - | 90,644 | 77,232 |
| Transportation | 40,929 | - | - | 40,929 | 38,112 |
| **Total direct student costs** | 1,234,264 | - | - | 1,234,264 | 1,424,832 |
| Occupancy expenses: | | | | | |
| Rent | 2,156,147 | 282,981 | - | 2,439,128 | 2,430,546 |
| Maintenance and repairs | 232,503 | 11,915 | - | 244,418 | 245,866 |
| Utilities | 277,614 | - | - | 277,614 | 308,906 |
| Contracted building services | 630,174 | 4,071 | - | 634,245 | 596,956 |
| **Total occupancy expenses** | 3,296,438 | 298,967 | - | 3,595,405 | 3,582,274 |
| Office expenses: | | | | | |
| Professional fees | - | 16,867 | - | 16,867 | 284,814 |
| Computer and related | 233,045 | 147,924 | - | 380,969 | 214,098 |
| Equipment rental | 92,836 | 15,383 | - | 108,219 | 114,566 |
| Office supplies and materials | 2,634 | 14,304 | - | 16,938 | 29,905 |
| Memberships and subscriptions | 275 | 18,089 | - | 18,364 | 28,432 |
| Other office expense | 18,668 | 25,630 | - | 44,298 | 25,181 |
| Telecommunications | 25,300 | 17,632 | - | 42,932 | 25,128 |
| Postage and shipping | 17 | 14,783 | - | 14,800 | 12,834 |
| Printing and publications | 7,759 | 224,100 | - | 231,859 | 10,297 |
| **Total office expenses** | 380,534 | 494,712 | - | 875,246 | 745,255 |
| General expenses: | | | | | |
| Food service/catering | 990,932 | - | - | 990,932 | 996,267 |
| Depreciation | 470,420 | 74,483 | - | 544,903 | 538,406 |
| DCPCSB administration fee | - | 276,067 | - | 276,067 | 281,228 |
| Recruiting and advertising | 116,652 | - | - | 116,652 | 113,155 |
| Insurance | 26,499 | 54,302 | - | 80,801 | 72,564 |
| Fees and licenses | 21 | 10,888 | - | 10,909 | 21,034 |
| **Total general expenses** | 1,604,524 | 415,740 | - | 2,020,264 | 2,022,654 |
| | $ 20,777,721 | $ 3,377,741 | $ 10,869 | $ 24,166,331 | $ 24,128,939 |