D.C. PREPARATORY ACADEMY AND DC PREP SUPPORT CORPORATION

Consolidated Financial Statements and Supplemental Information

For the Years Ended June 30, 2018 and 2017

and Report Thereon

Reports Required in Accordance with the Uniform Guidance

For the Year Ended June 30, 2018

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

TABLE OF CONTENTS
For the Years Ended June 30, 2018 and 2017

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy and
DC Prep Support Corporation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of D.C. Preparatory Academy and its subsidiary, DC Prep Support Corporation (DC Prep Support Corp) (collectively referred to as DC Prep), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of D.C. Preparatory Academy and its subsidiary 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.

Continued

Other Matter

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the supplemental statements on pages 24 and 25 is presented for purposes of additional analysis of the consolidating financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. 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 also presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of DC Prep'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 solely 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 the effectiveness of DC Prep's 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 DC Prep's internal control over financial reporting and compliance.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
October 30, 2018

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 14,500,349	$ 12,580,484
Grants and contributions receivable	280,152	1,406,529
Accounts receivable	634,783	657,639
Prepaid expenses	364,951	361,223
Total Current Assets	15,780,235	15,005,875
Restricted cash	3,195,402	11,628,934
Grants and contributions receivable, net	256,951	336,323
Deposits	235,602	243,089
Interest rate swaps asset	22,354	-
Notes receivable	1,014,100	1,264,100
Fixed assets		
Land	2,902,620	2,902,620
Buildings and improvements	40,511,811	19,954,330
Leasehold improvements	26,830,046	26,828,278
Furniture, fixtures and equipment	3,179,206	2,845,119
Construction in progress	-	17,804,767
Total Fixed Assets	73,423,683	70,335,114
Less: Accumulated Depreciation and Amortization	(12,520,227)	(10,152,397)
Fixed Assets, Net	60,903,456	60,182,717
TOTAL ASSETS	$ 81,408,100	$ 88,661,038
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 929,244	$ 1,299,272
Construction payables	-	6,019,719
Accrued payroll and benefits	1,467,834	1,656,801
Deferred revenue	33,745	33,745
Notes payable, current portion	1,515,000	722,982
Total Current Liabilities	3,945,823	9,732,519
Interest rate swaps liability	-	28,806
Notes payable, net of current portion	62,816,459	64,643,047
TOTAL LIABILITIES	66,762,282	74,404,372
NET ASSETS		
Unrestricted	13,478,308	12,755,033
Temporarily restricted	1,167,510	1,501,633
TOTAL NET ASSETS	14,645,818	14,256,666
TOTAL LIABILITIES AND NET ASSETS	$ 81,408,100	$ 88,661,038

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

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil allocation	$ 34,231,026	$ -	$ 34,231,026	$ 29,153,225	$ -	$ 29,153,225
Private grants and contributions	1,618,221	828,951	2,447,172	1,793,159	1,210,034	3,003,193
Federal grants	1,530,493	-	1,530,493	1,736,101	-	1,736,101
Federal entitlements	616,814	-	616,814	1,129,210	-	1,129,210
Local government grants and program revenue	250,061	-	250,061	208,156	-	208,156
Other revenue	544,746	-	544,746	365,806	-	365,806
In-kind donations	312,082	-	312,082	150,984	-	150,984
Interest income	129,537	-	129,537	26,413	-	26,413
Net assets released from restriction:						
Satisfaction of time restrictions	696,523	(696,523)	-	365,163	(365,163)	-
Satisfaction of program restrictions	466,551	(466,551)	-	656,464	(656,464)	-
TOTAL REVENUE AND SUPPORT	40,396,054	(334,123)	40,061,931	35,584,681	188,407	35,773,088
EXPENSES						
Program Services	33,342,740	-	33,342,740	29,597,020	-	29,597,020
Supporting Services:						
Management and general	6,092,297	-	6,092,297	5,529,915	-	5,529,915
Development and fundraising	288,902	-	288,902	311,308	-	311,308
Total Supporting Services	6,381,199	-	6,381,199	5,841,223	-	5,841,223
TOTAL EXPENSES	39,723,939	-	39,723,939	35,438,243	-	35,438,243
Change in net assets before unrealized gain on interest rate swaps	672,115	(334,123)	337,992	146,438	188,407	334,845
Unrealized gain on interest rate swaps	51,160	-	51,160	157,223	-	157,223
CHANGE IN NET ASSETS	723,275	(334,123)	389,152	303,661	188,407	492,068
NET ASSETS, BEGINNING OF YEAR	12,755,033	1,501,633	14,256,666	12,451,372	1,313,226	13,764,598
NET ASSETS, END OF YEAR	$ 13,478,308	$ 1,167,510	$ 14,645,818	$ 12,755,033	$ 1,501,633	$ 14,256,666

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

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Programs	Management and General	Development and Fundraising	Total	Programs	Management and General	Development and Fundraising	Total
Personnel, Salaries and Benefits:								
Salaries	$ 19,051,668	$ 3,549,010	$ 114,254	$ 22,714,932	$ 17,286,195	$ 3,267,779	$ 145,133	$ 20,699,107
Employee benefits	1,946,842	373,487	12,375	2,332,704	1,846,961	333,772	14,485	2,195,218
Payroll taxes	1,454,420	264,979	8,427	1,727,826	1,339,658	239,402	10,305	1,589,365
Other staff-related expense	323,263	102,985	4,296	430,544	255,023	141,107	8,752	404,882
Professional development	201,932	111,729	5,217	318,878	138,678	49,762	2,827	191,267
Total Personnel, Salaries and Benefits	22,978,125	4,402,190	144,569	27,524,884	20,866,515	4,031,822	181,502	25,079,839
Direct Student Costs:								
Student food service program	1,067,224	-	-	1,067,224	956,529	-	-	956,529
Contracted instruction fees	664,546	-	-	664,546	656,933	-	-	656,933
Supplies, materials and snacks	382,317	-	-	382,317	342,605	-	-	342,605
Fieldwork and other transportation	227,587	-	-	227,587	194,166	-	-	194,166
Student assessments	195,183	-	-	195,183	167,861	-	-	167,861
Other student costs	151,271	-	-	151,271	138,957	-	-	138,957
Textbooks	97,197	-	-	97,197	97,139	-	-	97,139
Total Direct Student Costs	2,785,325	-	-	2,785,325	2,554,190	-	-	2,554,190
Occupancy Expenses:								
Depreciation and amortization – facilities	2,024,773	11,033	3,678	2,039,484	1,572,864	10,935	3,645	1,587,444
Interest	2,354,636	11,091	1,606	2,367,333	1,308,732	8,250	1,018	1,318,000
Contracted building services	901,762	7,402	2,467	911,631	830,275	7,187	2,396	839,858
Rent	58,897	33,501	11,167	103,565	425,818	37,368	12,456	475,642
Utilities and garbage removal	566,227	3,867	1,289	571,383	458,642	4,043	1,348	464,033
Facilities finance fees	439,701	5,479	1,826	447,006	359,749	5,682	1,894	367,325
Maintenance and repairs	178,550	1,518	506	180,574	153,201	1,704	568	155,473
Facilities consulting services	2,640	-	-	2,640	43,342	9,802	140	53,284
Janitorial supplies	3,420	29	10	3,459	2,578	38	13	2,629
Total Occupancy Expenses	6,530,606	73,920	22,549	6,627,075	5,155,201	85,009	23,478	5,263,688

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

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

(continued)

	2018				2017			
	Programs	Management and General	Development and Fundraising	Total	Programs	Management and General	Development and Fundraising	Total
Office Expenses:								
Office supplies	$ 171,321	$ 36,712	$ 36,712	$ 244,745	$ 155,827	$ 33,391	$ 33,391	$ 222,609
Computer support expenses	142,316	26,475	855	169,646	128,789	24,354	1,086	154,229
Telecommunications	128,144	27,459	27,459	183,062	104,571	22,408	22,411	149,390
Equipment rent and maintenance	85,485	18,318	18,318	122,121	87,266	18,700	18,700	124,666
Printing and copying	19,467	4,172	4,172	27,811	17,707	3,794	3,794	25,295
Postage	13,967	2,993	2,993	19,953	14,389	3,083	3,083	20,555
Total Office Expenses	560,700	116,129	90,509	767,338	508,549	105,730	82,465	696,744
General Expenses:								
Accounting, auditing and payroll	-	466,856	-	466,856	-	393,952	-	393,952
Depreciation and amortization – operating assets	165,701	167,685	-	333,386	186,269	145,353	-	331,622
Authorizer fees	-	334,974	-	334,974	-	325,771	-	325,771
Other general expenses	138,046	201,840	23,497	363,383	148,129	86,922	19,093	254,144
Other professional and fundraising fees	-	73,230	6,041	79,271	-	188,533	3,473	192,006
Insurance	143,564	26,707	863	171,134	138,352	26,162	1,165	165,679
Dues, fees, licenses and fines	20,377	101,319	874	122,570	16,216	74,288	132	90,636
Legal fees	20,296	127,447	-	147,743	23,599	66,373	-	89,972
Total General Expenses	487,984	1,500,058	31,275	2,019,317	512,565	1,307,354	23,863	1,843,782
TOTAL EXPENSES	$ 33,342,740	$ 6,092,297	$ 288,902	$ 39,723,939	$ 29,597,020	$ 5,529,915	$ 311,308	$ 35,438,243

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

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017
Increase (Decrease) in Cash and Cash Equivalents

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 389,152	$ 492,068
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,372,870	1,919,066
Amortization of deferred financing costs	142,907	147,387
Gain on sale of fixed assets	-	(249)
Imputed interest on notes payable	62,523	(137,254)
Change in value of interest rate swaps	(51,160)	(157,223)
Forgiveness of debt	(750,000)	-
Changes in assets and liabilities:		
Grants and contributions receivable	1,205,749	(517,811)
Accounts receivable	22,856	647,522
Note receivable	250,000	(1,014,100)
Prepaid expenses	(3,728)	369,279
Deposits	7,487	(23,227)
Accounts payable and accrued expenses	(370,028)	426,144
Accrued payroll and benefits	(188,967)	225,416
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,089,661	2,377,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets, including construction costs	(9,113,328)	(11,881,478)
NET CASH USED IN INVESTING ACTIVITIES	(9,113,328)	(11,881,478)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	25,801,478
Principal payments on notes payable	(490,000)	(1,670,000)
Transfers (to) from restricted cash	8,433,532	(10,299,020)
Payments for loan financing costs	-	(845,381)
NET CASH PROVIDED BY FINANCING ACTIVITIES	7,943,532	12,987,077
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,919,865	3,482,617
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,580,484	9,097,867
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 14,500,349	$ 12,580,484
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 14,500,349	$ 12,580,484
Restricted cash – reserve financing funds	3,195,402	11,628,934
TOTAL CASH AND CASH EQUIVALENTS	$ 17,695,751	$ 24,209,418
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	$ 2,077,805	$ 1,074,005
NONCASH TRANSACTIONS		
Noncash investing and financing activities:		
Fixed assets included in construction payables	$ -	$ 6,019,719
Forgiveness of debt	$ 750,000	$ -

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

1. Organization and Summary of Significant Accounting Policies

Organization

D.C. Preparatory Academy was incorporated as a District of Columbia (D.C.) charter school in 2001 to provide middle school students in Washington, D.C., with an outstanding education emphasizing academics, character and leadership. D.C. Preparatory Academy has expanded to five schools – Edgewood Middle, Edgewood Elementary, Benning Middle, Benning Elementary and Anacostia Elementary. Since its inception, D.C. Preparatory Academy's revenue and other support has consisted primarily of per pupil funding, contributions and grants from the District of Columbia, and federal and private sources.

In June 2017, D.C. Preparatory Academy formed a wholly controlled support corporation, DC Prep Support Corporation (DC Prep Support Corp), a D.C. non-profit corporation. DC Prep Support Corp was established as part of a New Markets Tax Credit (NMTC) financing transaction for the Anacostia Elementary campus to act as a leverage lender, facilitating D.C. Preparatory Academy's ability to participate in that program. All transactions of DC Prep Support Corp are consolidated with the transactions of D.C. Preparatory Academy in the accompanying consolidated financial statements.

Principles of Consolidation

The consolidated financial statements of D.C. Preparatory Academy and DC Prep Support Corp (collectively known as DC Prep) have been prepared on the accrual basis of accounting. The organizations are consolidated due to the presence of common control and an economic interest, per accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions and balances are eliminated in consolidation.

Basis of Accounting

DC Prep prepares its consolidated financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recorded when the obligation is incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, money market funds and U.S. Treasury securities with maturities of less than 90 days. Under the terms of certain note payable agreements, DC Prep is required to maintain cash balances restricted for debt service reserves and sinking funds. This restricted cash is separately reported in the accompanying consolidated statements of financial position.

Accounts Receivable

Accounts receivable are primarily from the federal government and other historically reliable private parties. DC Prep uses the allowance method to record potentially uncollectible accounts. Management believes that all accounts receivable are fully collectible. Therefore, no allowance is deemed necessary.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Fixed Assets and Related Depreciation and Amortization

Land, buildings, building improvements, furniture, leasehold improvements, fixtures and equipment, and construction in progress are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 39 years for the buildings and improvements and three to five years for furniture, fixtures and equipment. Leasehold improvements are amortized using the straight-line method over the remaining life of the lease. Construction in progress is not depreciated until the construction is completed and the asset is placed in service. The construction in progress as of June 30, 2017, was for renovating the facility DC Prep purchased in April 2016 to house the Anacostia Elementary School, which was completed during the year ended June 30, 2018. Expenditures for major repairs and improvements are capitalized, while expenditures for minor repairs and maintenance costs are expensed when incurred.

Impairment of Long-Lived Assets

DC Prep reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the years ended June 30, 2018 and 2017.

Classification of Net Assets

The net assets of DC Prep are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for general support of DC Prep's operations.
- Temporarily restricted amounts are specifically restricted by donors or grantors for various purposes or time periods.

Revenue Recognition

Grants and contributions of cash and other assets are reported as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets for a particular purpose or for a specific period of time. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of activities as net assets released from restrictions.

Contributions and grants are reported as revenue in the year in which payments are received and/or unconditional promises to give are made.

Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Federal and Charter School Funding

DC Prep receives a per pupil student allocation and facility allowance from D.C., as well as federal funding, to cover the cost of academic expenses. Revenue is recognized ratably over the academic year. Payments received for the summer following the academic year, if any, are reported as deferred revenue in the accompanying consolidated statements of financial position.

In-Kind Donations

In-kind donations reflect professional consulting and other services that have been contributed to DC Prep. These services include professional development and legal services. Donated professional services are valued at their estimated fair value based on the type of professional services provided. These services are recognized as both revenue and expense if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not donated. Donated services are valued at a cost consistent with amounts paid for similar services by DC Prep or at the services' estimated fair value.

Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the accompanying consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon estimates of how such costs have benefited those programs and supporting services.

Deferred Financing Costs

Deferred financing costs represent legal costs and other fees associated with DC Prep's Bond Issuances and NMTC financings. The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*: *Simplifying the Presentation of Debt Issuance Costs*. This standard requires the presentation of deferred financing costs as a reduction to the carrying amount of the related debt liability rather than as a deferred charge as required under prior guidance. In the fiscal year ended June 30, 2017, DC Prep adopted the standard and, as a result of the adoption, unamortized deferred financing costs are presented as a reduction of the carrying amount of the related debt liability as disclosed in Note 3.

2. Grants and Contributions Receivable

Grants and contributions receivable consist of unconditional promises to give made by individuals and foundations as of June 30, 2018 and 2017. DC Prep has not recorded an allowance for uncollectible accounts, as management believes all amounts are fully collectible. Grants and contributions receivable are due as follows:

	2018	2017
Due in less than one year	$ 280,152	$ 1,406,529
Due in one to five years	265,000	350,000
Total Grants and Contributions Receivable	545,152	1,756,529
Less: Present Value Discount	(8,049)	(13,677)
Grants and Contributions Receivable, Net	$ 537,103	$ 1,742,852

Discount rates between 1% and 1.9% were used to calculate the net present value of multiyear grants and contributions, depending on the year of each gift.

As of June 30, 2018, DC Prep had no conditional grants from funders. As of June 30, 2017, there was a conditional grant amount of $182,666 which was paid and recognized as revenue during the year ended June 30, 2018, after meeting certain milestones.

3. Notes Payable

In June 2005, D.C. issued $5,500,000 of tax-exempt variable rate demand revenue bonds (the Series 2005 Bonds), the proceeds of which were loaned to DC Prep. DC Prep is required to make deposits into a sinking fund, which is used for redemption of the Series 2005 Bonds. The sinking fund is to be held in a trust and invested in money market funds. Principal payments are funded through the sinking fund, payable every first business day in June, and commenced in the fiscal year ended June 30, 2008, starting at $120,000. The payments increase each year to a final payment of $360,000 in 2032. Interest is payable monthly and is calculated on a floating seven-day rate currently based on the Bond Market Association (BMA) Index. The average interest rate was approximately 1.22% and 0.76% during the years ended June 30, 2018 and 2017, respectively. The bond proceeds were used in part to repay the outstanding notes payable used to finance the purchase and initial renovation of DC Prep's first middle school building. The outstanding balance on this loan was $3,810,000 and $4,000,000 as of June 30, 2018 and 2017, respectively.

In June 2007, DC issued $9,580,000 of tax-exempt variable rate demand revenue bonds (the Series 2007 Bonds) and loaned the proceeds to DC Prep to refinance a loan to fund the acquisition of a building and renovation of a new preschool and elementary school. The building is adjacent to DC Prep's first middle school building. The Series 2007 Bonds required

3. Notes Payable (continued)

interest-only payments for two years, depending on construction periods. The Series 2007 Bonds then began amortizing, with an optional redemption over 25 years. DC Prep is required to make deposits into a sinking fund, which is used for redemption of the Series 2007 Bonds. The first sinking fund payment for principal was made in November 2008. The sinking fund is to be held in a trust and invested in money market funds. The first payment to bond holders was made in November 2009 for $210,000. The payments increase each year through November 2033 to a final payment of $630,000. Interest is payable monthly and is calculated on a floating seven-day rate currently based on the BMA Index. The average interest rate was approximately 1.2% and 0.74% during the years ended June 30, 2018 and 2017, respectively. The outstanding balance on this loan was $7,300,000 and $7,600,000 as of June 30, 2018 and 2017, respectively.

The Series 2005 and the Series 2007 Bonds are secured by the land, building and improvements of DC Prep. In order to provide enhanced security and liquidity for the weekly remarketing of the Series 2005 and Series 2007 Bonds, DC Prep has entered into various letter of credit agreements with M&T Bank since the bonds were issued. The current letter of credit agreements related to the Series 2005 and Series 2007 Bonds expire June 14, 2019. Under the terms of the letter of credit agreements, the bank is obligated to lend funds to DC Prep in amounts sufficient to pay the purchase price of any bonds tendered for purchase that cannot be successfully remarketed. These letter of credit agreements have debt service reserve requirements. The letters of credit also have various financial covenants, including maintaining a certain debt service coverage ratio, minimum liquidity and maximum annual capital expenditures. As of June 30, 2018 and 2017, DC Prep was in compliance with all of the covenants.

In December 2013, DC Prep entered into a $1,000,000 subordinated loan agreement with Charter Fund, Inc., a charter school support organization. The loan is to provide general support for DC Prep in carrying out its tax-exempt purposes. The note is interest-only with a 1% interest rate. The entire unpaid principal balance and accrued unpaid interest are due on June 20, 2019. As the note payable has a below-market interest rate of 1%, DC Prep has discounted the note by $178,568, using an effective interest rate of 4.5%. DC Prep has amortized the discount and recorded the corresponding additional interest expense in the amounts of $34,373 and $32,797 for the years ended June 30, 2018 and 2017, resulting in an unamortized discount of $35,017 and $69,390 as of June 30, 2018 and 2017.

In January 2014, DC Prep closed on new construction financing for its Benning Campus Cluster. The financing covered construction of a new addition for the Benning Middle School, buyout of prior improvements from the Charter School Incubator Initiative, and additional improvements to the existing Benning Elementary School building. In December 2014, DC Prep refinanced the Benning Campus construction financing in a NMTC transaction. The transaction resulted in 10 new loans from four Community Development Entities (CDEs) for a total of $28,950,000. The loans, considered Qualified Low Income Community Investments (QLICIs), were made to the Benning Campus Cluster, which is considered a Qualified Active Low Income Community Business (QALICB).

Continued

3. Notes Payable (continued)

The QLICI loans have a seven-year compliance period during which no principal can be repaid; however, quarterly sinking fund payments of $58,245 are required commencing in June 2016 through September 2021. The loans have fixed interest rates of either 3.68% or 4.08%, with a blended rate of 4.04%. Six of the loans are considered “A loans,” and four are considered “B loans.” The “A loans” total $20,775,403 while the “B loans” total $8,174,597. At the end of the compliance period, the “A loans” must be refinanced as they are due in full, while the “B loans” will begin to require payments that fully amortize the loans over their remaining 17-year term through November 2038, if they are not accelerated by the respective lenders.

Each “B loan” may be accelerated within six months of the end of the NMTC compliance period by each respective lender. Each lender may provide notice of such accelerated repayment and will accept a discounted repayment amount of $1,000 for the full principal balance of each respective “B loan.” While there is no guarantee, much of the value of the NMTC financing transaction is in the expected acceleration of the “B loans,” by which the $8,174,597 principal balance would be retired for $4,000.

The loans from the CDEs were as follows:

Lender	Loan	Rate	Category
Banc of America CDE I, LLC	$ 1,690,750	3.68%	A
LIIF Sub-CDE XXVIII, LLC	3,116,314	4.08%	A
LIIF Sub-CDE XXVIII, LLC	4,000,000	4.08%	A
City First Capital 36, LLC	5,201,935	4.08%	A
City First Capital 36, LLC	2,000,000	4.08%	A
Telesis CDE Nine, LLC	4,766,404	4.08%	A
Banc of America CDE I, LLC	809,250	3.68%	B
LIIF Sub-CDE XXVIII, LLC	2,883,686	4.08%	B
City First Capital 36, LLC	2,598,065	4.08%	B
Telesis CDE Nine, LLC	1,883,596	4.08%	B
Total	$ 28,950,000		

The loans under the NMTC financing are secured by all Benning Campus Cluster revenue, accounts, furniture, fixtures, equipment, other assets, licenses, intangibles and leasehold deed of trust.

The NMTC financing agreement required DC Prep to establish and maintain individual fee and expense reserve accounts totaling $941,500 to pay certain annual service fees to the respective CDEs over the seven-year NMTC compliance period. The remaining balance associated with each reserve account is reported and included in restricted cash in the accompanying statement of financial position and will be paid over the compliance period as these fees become due and payable.

Continued

3. Notes Payable (continued)

The construction financing for the Benning Campus Cluster has various financial covenants, including maintaining certain debt service coverage ratios, minimum liquidity and minimum tangible net worth. In addition to the financial covenants, DC Prep's Benning Campus Cluster must comply with certain NMTC program requirements during the seven-year compliance period. As of June 30, 2018 and 2017, DC Prep was in compliance with all of its financial covenants and NMTC program requirements.

In June 2016, DC Prep entered into an additional subordinated loan agreement with the Charter School Growth Fund for $1,200,000. The loan was to support the acquisition and development of DC Prep's Anacostia Elementary Facility located at 1409 V Street, SE. The note was interest-only with a 3% interest rate. The entire unpaid principal balance and accrued unpaid interest were due on June 30, 2017. As the note payable had a below-market interest rate of 3%, DC Prep discounted the note by $19,531, using an effective interest rate of 4.5%. DC Prep amortized the discount and recorded the corresponding additional interest expense in the amount of $18,681 for the year ended 2017. As of June 30, 2017, DC Prep paid the loan in full as part of the Anacostia Elementary Campus NMTC financing transaction, as detailed below.

In December 2016, DC Prep entered into a $1,500,000 subordinate forgivable loan agreement with Building Hope. The loan financed renovations and related capital expenditures for the Anacostia Elementary Campus. The note does not bear interest. The entire unforgiven principal balance is due at the maturity of the loan in 10 years; however, the loan may be forgiven or partially forgiven if DC Prep meets certain criteria. DC Prep met the criteria for partial forgiveness during the year ended June 30, 2018, and the forgiven amount of $750,000 is included in contributions in the accompanying consolidated statement of activities. As the note payable has a below-market interest rate of 0%, DC Prep has discounted the note by $167,516, using an effective interest rate of 4.5%. DC Prep has amortized the discount and recorded the corresponding additional interest expense in the amounts of $28,150 and $30,263 for the years ended June 30, 2018 and 2017, resulting in an unamortized discount of $109,103 and $137,253 as of June 30, 2018 and 2017.

On June 29, 2017, DC Prep closed on an NMTC transaction to finance the remaining construction at the Anacostia Elementary Campus, as well as to refund excess equity DC Prep invested into the project. The transaction resulted in eight new loans from two CDEs for a total of $24,250,000. The loans were made to the Anacostia Elementary Campus, which is considered a QALICB.

The QLICI loans have a seven-year compliance period during which no principal can be repaid; however, quarterly sinking fund payments of $43,750 are required commencing in September 2018 and increasing to $93,750 in September 2019, continuing through June 2024. The loans have fixed interest rates of 3.909%. Four of the notes, the "A notes" and "B notes," must be refinanced at the end of the compliance period. The A and B notes total $15,660,000. Two of the notes, the "D notes," are subject to an early repayment provision

Continued

3. Notes Payable (continued)

such that the notes can be retired for a discounted repayment amount of $1,000 each. The D notes total $7,575,900. The "C notes," totaling $1,014,100, are subject to acquisition and potential forgiveness via DC Prep Support Corp acquiring the member interests in the transaction's investment fund.

The C and D notes will begin payments that fully amortize the loans over their remaining term through December 2051 if they are not accelerated or otherwise retired by the respective lenders at the end of the compliance period. The loans from the CDEs were as follows:

Loan	Amount
CURE Loan A	$ 7,168,000
CURE Loan B	2,854,400
CURE Loan C	649,024
CURE Loan D	4,848,576
ENMP Loan A	4,032,000
ENMP Loan B	1,605,600
ENMP Loan C	365,076
ENMP Loan D	2,727,324
Total	$ 24,250,000

A summary of outstanding principal balances by source type as of June 30, 2018 and 2017, is as follows:

	2018	2017
NMTC financings	$ 53,200,000	$ 53,200,000
Series 2007 Bonds	7,300,000	7,600,000
Series 2005 Bonds	3,810,000	4,000,000
Charter School Growth Fund	1,000,000	1,000,000
Building Hope	750,000	1,500,000
Total Outstanding Principal Balances	$ 66,060,000	$ 67,300,000

As of June 30, 2018, sinking fund and principal payments on the notes payable over the next five years and thereafter were due as follows:

For the Year Ending June 30,	Sinking Fund	Principal Payments
2019	$ 933,815	$ 1,515,000
2020	1,158,815	540,000
2021	1,187,149	565,000
2022	1,039,079	595,000
2023	1,009,167	21,747,965
Thereafter	8,362,500	41,097,035
Total Principal Payments Due	$ 13,690,525	$ 66,060,000

3. Notes Payable (continued)

Notes payable, net of the discount and unamortized financing costs, at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Total Outstanding Principal Balances	$ 66,060,000	$ 67,300,000
Less: Current Portion	(1,515,000)	(722,982)
Less: Discount on Imputed Interest	(144,121)	(206,644)
Less: Unamortized Deferred Financing Costs	(1,584,420)	(1,727,327)
Notes Payable, Net of Current Portion	$ 62,816,459	$ 64,643,047

DC Prep purchased two interest rate swap agreements for the Series 2005 and 2007 Bonds to reduce its exposure to interest rate risk on its variable rate debt. Since inception of each bond series, DC Prep has hedged a portion of the outstanding principal of the bonds as required by the letter of credit agreements. On June 15, 2012, DC Prep purchased two new interest rate swap agreements for the Series 2005 and 2007 Bonds that expire May 31, 2019. The two interest rate swap agreements cover $2,860,000 and $5,475,000, respectively, of the $11,110,000 outstanding balance of the Bonds, representing approximately 75% of the combined bond issuance. The swaps have a fixed interest rate of 1.28%. DC Prep bears the interest rate risk on the uncovered balances of the two variable rate bond issuances totaling $2,775,000 as of June 30, 2018. The fair value of the swaps as of June 30, 2018 and 2017, represented an asset position of $22,354 and liability position of ($28,806), respectively.

The following schedule presents the notional principal amounts of DC Prep's interest rate swaps as of June 30, 2018 and 2017:

	Remaining Notional Amount at June 30, 2018	Expiration Date	Estimated Fair Value
Series 2005 Bonds	$ 2,860,000	5/31/2019	$ 7,842
Series 2007 Bonds	5,475,000	5/31/2019	14,512
	$ 8,335,000		$ 22,354

	Remaining Notional Amount at June 30, 2017	Expiration Date	Estimated Fair Value
Series 2005 Bonds	$ 3,000,000	5/31/2019	$ (10,053)
Series 2007 Bonds	5,700,000	5/31/2019	(18,753)
	$ 8,700,000		$ (28,806)

3. Notes Payable (continued)

The classifications in the consolidated financial statements of the derivative financial instruments are summarized below as of June 30, 2018 and 2017:

	Fair Value	
	2018	2017
Consolidated statements of financial position location:		
Interest Rate Swaps Asset	$ 22,354	$ -
Interest Rate Swaps Liability	$ -	$ 28,806

	Amount of Gain Recognized in the Statements of Activities	
	2018	2017
Location of gain recognized in the consolidated statements of activities:		
Unrealized gain on interest rate swaps	$ 51,160	$ 157,223

Interest of $152,281 and $143,023 was incurred on the Edgewood Campus Cluster revenue bonds and associated swaps for the years ended June 30, 2018 and 2017, respectively. Interest of $2,191,441 and $1,303,693 was incurred on the Benning NMTC financing, Anacostia NMTC financing and other debt for the years ended June 30, 2018 and 2017.

	2018	2017
Interest (nonimputed)	$ 2,281,200	$ 1,364,975
Imputed interest	62,523	81,741
Interest related to amortization of deferred financing costs	142,907	147,387
Capitalized interest	(119,297)	(276,103)
Interest Expense in Consolidated Statements of Functional Expenses	$ 2,367,333	$ 1,318,000

4. Line of Credit

On October 12, 2010, DC Prep entered into a line of credit agreement with M&T Bank for $1,750,000 to support working capital requirements. The agreement bears interest at a variable rate of the one-month London Interbank Offered Rate plus 3.5%, floating daily. The borrowing amount is limited to a ceiling of 75% of accounts receivable due within 90 days. DC Prep has not drawn down on the line of credit since inception. The line of credit remains in effect until terminated by DC Prep or the bank, after any outstanding balance is paid in full. No amount was outstanding as of June 30, 2018 and 2017.

5. Notes Receivable

On June 29, 2017, DC Prep Support Corporation made a loan for $1,014,000 to the BoA DC Prep Anacostia Investment Fund, LLC as part of the Anacostia Elementary NMTC financing transaction. The loan bears interest at 0.5% and matures on June 29, 2027. Interest is due quarterly on the 10th of December, March, June and September, and payment is interest-only through the December 2024 payment. Beginning in March 2025, principal and interest payments are due such that the entire unpaid principal balance is retired by maturity.

6. Fair Value Measurement

Accounting standards define fair value, establish a framework for measuring fair value in accordance with GAAP and expand disclosures about fair value measurements. Accounting standards emphasize that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, accounting standards established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, or unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy under fair value measurement standards are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

The following table summarizes DC Prep's assets and liabilities measured at fair value on a recurring basis as of June 30, 2018:

	Fair Value	Significant Other Observable Inputs (Level 2)
Interest Rate Swaps Asset	$ 22,354	$ 22,354

6. Fair Value Measurement (continued)

The following table summarizes DC Prep's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

	Fair Value	Significant Other Observable Inputs (Level 2)
Interest Rate Swaps Liability	$ (28,806)	$ (28,806)

As discussed in Note 3, DC Prep has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its variable rate debt. The estimated fair value of an interest rate swap is generally determined using an externally developed model using forward-looking assumptions of interest rates and the resulting effect on the underlying cash flows of the interest rate swap. Valuations provided do not include adjustments for nonperformance risk on behalf of either party. As of June 30, 2018 and 2017, DC Prep had assessed the significance of the impact of the credit valuation adjustment on the overall valuation of its derivative positions and had determined that the credit valuation adjustments were not significant to the overall valuation of DC Prep's derivatives. As a result, DC Prep determined that the entirety of its derivative valuations is classified in Level 2 of the fair value hierarchy.

7. Temporarily Restricted Net Assets

As of June 30, 2018 and 2017, temporarily restricted net assets were available as follows:

	2018	2017
Time-restricted for future years	$ 880,446	$ 1,226,970
Purpose-restricted:		
The Broad Center Residency	231,667	137,590
Alumni support	51,672	60,000
Community and parental engagement/advocacy	3,725	77,073
Total Purpose-Restricted	287,064	274,663
Total Temporarily Restricted Net Assets	$ 1,167,510	$ 1,501,633

8. Charter School Funding – Per Pupil Allocation

Per Pupil Allocation funding for the years ended June 30, 2018 and 2017, was composed of the following:

	2018	2017
General education	$ 22,109,703	$ 18,810,964
Facilities allowance	5,986,365	5,342,040
Special education	3,668,720	3,050,467
At-risk students	2,126,119	1,778,964
English language learner	340,119	170,790
Total Per Pupil Allocation	$ 34,231,026	$ 29,153,225

In the fiscal year ended June 30, 2018, all public charter schools received a one-time payment to reflect a retroactive increase in the fiscal year 2017 Unit Per Student Funding Formula (UPSFF) base rate due to the city's new contract with the Washington Teachers' Union (WTU). The payment was based on the final enrollment audit count, supplemental payments and extended school year (ESY) funding. This supplemental payment of approximately $500,000 is included in the per pupil allocation in the accompanying consolidated statement of activities.

9. Risks and Commitments

Concentration of Risk

DC Prep maintains its cash and cash equivalents with certain commercial financial institutions. As of June 30, 2018 and 2017, the majority of DC Prep's cash was in a sweep investment account associated with its primary operating account which is invested in U.S. Treasury money market funds. As of June 30, 2018 and 2017, the cash balance exceeding the $250,000 per depositor per institution Federal Deposit Insurance Corporation (FDIC) insured limit was $5,625,519 and $11,562,832, respectively.

Office of Management and Budget Uniform Guidance

DC Prep has instructed its independent auditors to audit its federal programs for the year ended June 30, 2018, in compliance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the federal agencies' review of the independent auditor's reports for the year ended June 30, 2018, will not have a material effect on the financial position of DC Prep as of June 30, 2018, or its results of operations for the year then ended.

Continued

9. Risks and Commitments (continued)

Major Contributor

DC Prep receives a substantial portion of its revenue from D.C. If a significant reduction in this revenue should occur, it could have a material effect on DC Prep's programs. During the years ended June 30, 2018 and 2017, DC Prep earned per pupil funding revenue of $34,231,026 and $29,153,225, respectively, from DC, which is approximately 85% and 78%, respectively, of DC Prep's total revenue and support for the years ended June 30, 2018 and 2017. This revenue is reflected as per pupil allocation in the accompanying consolidated statements of activities.

Related Party

DC Prep receives funding from NewSchools Venture Fund and its successor spin-off, Education Forward DC. One of NewSchools Venture Fund's partners, and now Education Forward DC's Chief Executive Officer is currently a governing board member of DC Prep. For the years ended June 30, 2018 and 2017, DC Prep recognized $183,121 and $183,125 in contribution revenue, respectively, from NewSchools Venture Fund, which is included in private grants and contributions in the accompanying consolidated statements of activities.

Ground Lease Agreement

On January 31, 2014, DC Prep entered into a lease agreement with D.C. as part of the Benning Campus Cluster financing transaction. The lease term is 25 years, with one 25-year renewal term at the option of DC Prep. The annual base rent is $850,800, increasing 2% annually at each anniversary. Rent is subject to a rent credit of one year of abatement for every $1,000,000 spent on hard and soft construction costs or leasehold acquisition costs. Since DC Prep's construction and leasehold acquisition costs exceeded $25 million, DC Prep is entitled to abatement of all rent that would otherwise be due under the lease for the Benning Campus. Accordingly, no rent expense is included in the consolidated financial statements for the years ended June 30, 2018 and 2017, related to this lease. There are also no anticipated future minimum payments as a result of the above-mentioned rent credit and abatement provisions.

Operating Lease

In May 2015, DC Prep entered into a noncancelable sublease agreement that commenced on July 1, 2015, and terminated on June 30, 2016. The agreement provided DC Prep with an option for a one-year extension with no rent increase, and additional annual extensions at then-negotiated terms for a temporary facility for the Anacostia Elementary School.

DC Prep executed an amendment to that sublease, which is dated October 27, 2015, but effective for all purposes on August 20, 2015. The amendment changed the term of the sublease to two years with an expiration on August 19, 2017, and provided one two-year extension option, which DC Prep did not exercise by the option date in 2017. The base rent due for the initial period per the amendment is $548,000, with $500,000 prepaid upon

9. Risks and Commitments (continued)

Operating Lease (continued)

execution and the remaining $48,000 paid in equal monthly installments over the two-year term. As of June 30, 2018 there was no prepaid balance. As of June 30, 2017, the prepaid balance was approximately $34,000, which is included in prepaid expenses in the accompanying consolidated statements of financial position. Under the modified agreement, DC Prep is required to pay all of the operating expenses of the premises during the lease term.

Related to the amendment to the sublease agreement, DC Prep entered into an unsecured promissory note and loan agreement providing $250,000 in proceeds to the landlord of the premises, which is included as a note receivable in the accompanying consolidated statements of financial position as of June 30, 2017. The note accrued interest of 6% per year and was due and payable October 27, 2017. The proceeds of the note covered costs directly related to work on the site covered by the sublease. The note was paid in full in the fiscal year ended June 30, 2018.

10. Pension Plan

DC Prep sponsors a 403(b) plan that covers all full-time employees. Employees are eligible to join the plan upon their date of hire. DC Prep matches employee contributions up to 5% of the employees' salary after employees have completed one year of service. Pension expense was $523,657 and $438,508 for the years ended June 30, 2018 and 2017, respectively, and is included in employee benefits in the accompanying consolidated statements of functional expenses.

11. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code (the IRC), D.C. Preparatory Academy and DC Prep Support Corp are exempt from the payment of taxes on income other than net unrelated business income. For the year ended June 30, 2018, D.C. Preparatory Academy made a provision for unrelated business income tax of $5,764 due to the Tax Cuts and Jobs Acts of 2017, which caused nonprofit corporations to incur such tax on qualified transportation fringe benefits provided to employees starting January 1, 2018. D.C. Preparatory Academy and DC Prep Support Corp had no other net unrelated business income for the year ended June 30, 2018. For the year ended June 30, 2017, no provision for income taxes was made, as D.C. Preparatory Academy and DC Prep Support Corp had no net unrelated business income.

DC Prep adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes

Continued

11. Income Taxes (continued)

recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of uncertainty in income taxes taken or expected to be taken in a tax return. DC Prep performed an evaluation of uncertainty in income taxes for the years ended June 30, 2018 and 2017, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2018, the statute of limitations for tax years 2014 through 2016 remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which DC Prep files tax returns. It is DC Prep's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

12. Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

13. Subsequent Events

DC Prep's management has evaluated subsequent events through October 30, 2018, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2018

	D.C. Preparatory Academy	DC Prep Support Corp	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 14,500,349	$ -	$ -	$ 14,500,349
Grants and contributions receivable	279,152	1,000	-	280,152
Accounts receivable	634,360	423	-	634,783
Prepaid expenses	364,951	-	-	364,951
Total Current Assets	15,778,812	1,423	-	15,780,235
Restricted cash	3,190,726	4,676	-	3,195,402
Grants and contributions receivable, net	256,951	-	-	256,951
Deposits	235,602	-	-	235,602
Interest rate swaps asset	22,354	-	-	22,354
Notes receivable	-	1,014,100	-	1,014,100
Fixed assets				
Land	2,902,620	-	-	2,902,620
Building and improvements	40,511,811	-	-	40,511,811
Leasehold improvements	26,830,046	-	-	26,830,046
Furniture, fixtures and equipment	3,179,206	-	-	3,179,206
Total Fixed Assets	73,423,683	-	-	73,423,683
Less: Accumulated Depreciation and Amortization	(12,520,227)	-	-	(12,520,227)
Fixed Assets, Net	60,903,456	-	-	60,903,456
TOTAL ASSETS	$ 80,387,901	$ 1,020,199	$ -	$ 81,408,100
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	$ 929,244	$ -	$ -	$ 929,244
Accrued payroll and benefits	1,467,834	-	-	1,467,834
Deferred revenue	33,745	-	-	33,745
Notes payable, current portion	1,515,000	-	-	1,515,000
Total Current Liabilities	3,945,823	-	-	3,945,823
Notes payable, net of current portion	62,816,459	-	-	62,816,459
TOTAL LIABILITIES	66,762,282	-	-	66,762,282
NET ASSETS				
Unrestricted	12,458,109	1,020,199	-	13,478,308
Temporarily restricted	1,167,510	-	-	1,167,510
TOTAL NET ASSETS	13,625,619	1,020,199	-	14,645,818
TOTAL LIABILITIES AND NET ASSETS	$ 80,387,901	$ 1,020,199	$ -	$ 81,408,100

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	D.C. Preparatory Academy	DC Prep Support Corp	Eliminations	Total
REVENUE AND SUPPORT				
Per pupil allocation	$ 34,231,026	$ -	$ -	$ 34,231,026
Private grants and contributions	2,446,172	1,000	-	2,447,172
Federal grants	1,530,493	-	-	1,530,493
Federal entitlements	616,814	-	-	616,814
Local government grants and program revenue	250,061	-	-	250,061
Other revenue	544,746	-	-	544,746
In-kind donations	312,082	-	-	312,082
Interest income	124,466	5,071	-	129,537
TOTAL REVENUE AND SUPPORT	40,055,860	6,071	-	40,061,931
EXPENSES				
Program Services	33,342,740	-	-	33,342,740
Supporting Services:				
Management and general	6,092,297	-	-	6,092,297
Development and fundraising	288,902	-	-	288,902
Total Supporting Services	6,381,199	-	-	6,381,199
TOTAL EXPENSES	39,723,939	-	-	39,723,939
Change in net assets before unrealized gain on interest rate swaps	331,921	6,071	-	337,992
Unrealized gain on interest rate swaps	51,160	-	-	51,160
CHANGE IN NET ASSETS	383,081	6,071	-	389,152
NET ASSETS, BEGINNING OF YEAR	13,242,538	1,014,128	-	14,256,666
NET ASSETS, END OF YEAR	$ 13,625,619	$ 1,020,199	$ -	$ 14,645,818

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*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy and
DC Prep Support Corporation

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 consolidated financial statements of D.C. Preparatory Academy and DC Prep Support Corporation (DC Prep Support Corp) (collectively referred to as DC Prep), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DC Prep'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 DC Prep's internal control. Accordingly, we do not express an opinion on the effectiveness of DC Prep'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 DC Prep's consolidated 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

Continued

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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DC Prep's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raffa, P.C.

Raffa, P.C.

Washington, DC
October 30, 2018

Certified Public Accountants

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
D.C. Preparatory Academy and
DC Prep Support Corporation

Report on Compliance for Each Major Federal Program

We have audited D.C. Preparatory Academy's and DC Prep Support Corporation's (DC Prep Support Corp) (collectively referred to as DC Prep) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of DC Prep's major federal programs for the year ended June 30, 2018. DC Prep's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of DC Prep's major federal program 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* (the 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 DC Prep'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 DC Prep's compliance.

Opinion on Each Major Federal Program

In our opinion, DC Prep complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Continued

Report on Internal Control Over Compliance

Management of DC Prep 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 DC Prep'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 DC Prep'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 a 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.

Raffa, P.C.

Raffa, P.C.

Washington, DC
October 30, 2018

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Pass-through from the District of Columbia Office of the State Superintendent of Education (OSSE):			
Title I – Grants to Local Educational Agencies	84.010A	72010A/82010A	$ 430,500
Improving Teacher Quality State Grants	84.367A	72367A/82367A	67,565
Student Support and Academic Enrichment Program	84.424A	S424A170009	18,047
Special Education Cluster (IDEA):			
Special Education – Grants to States	84.027A	82027A	100,200
Special Education – Preschool grants	84.173A	82173A	502
Special Education Cluster (IDEA) Subtotal			100,702
Education for Homeless Children and Youth	84.196	82196A	4,548
Scholarships for Opportunity and Results (SOAR)	84.370C	U370C150002/U370C170001	399,047
Total U.S. Department of Education			1,020,409
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medicaid	93.768	N/A	20,503
Childcare and Development Block Grant	93.575	N/A	80,196
Temporary Assistance for Needy Families (TANF)	93.558	N/A	25,325
Total U.S. Department of Health and Human Services			126,024
U.S. DEPARTMENT OF AGRICULTURE – FOOD AND NUTRITION SERVICE			
Pass-through from the District of Columbia Office of the State Superintendent of Education (OSSE):			
Child Nutrition Cluster:			
National School Lunch Program (NSLP)	10.555	N/A	441,287
School Breakfast Program	10.553	N/A	236,141
NSLP-National School Snack Program	10.XXX	N/A	13,268
NSLP-Fresh Fruit and Vegetables Program (Food Commodities)	10.XXX	N/A	46,908
Total U.S. Department of Agriculture			737,604
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 1,884,037**

See accompanying notes to this schedule.

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

Cost Principles

Federal expenditures were recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations, or* Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). DC Prep has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance as DC Prep already has a negotiated indirect cost rate with the federal government.

2. Reconciliation of the Schedule of Expenditures of Federal Awards to the Consolidated Statement of Activities

The expenditures per the schedule of expenditures of federal awards are reported in the consolidated statement of activities in the audited financial statements as follows:

Expenditures per schedule of federal awards	$ 1,884,037
Prior period revenue adjustment for Medicaid (FY14-15)	192,508
E-rate program revenue	70,762
Total Federal Grants and Entitlements Reported in the Consolidated Statement of Activities	$ 2,147,307
Federal grants	$ 1,530,493
Federal entitlements	616,814
Total Federal Grants and Entitlements Reported in the Consolidated Statement of Activities	$ 2,147,307

D.C. PREPARATORY ACADEMY
AND
DC PREP SUPPORT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	X	Unmodified	____	Qualified
	____	Adverse	____	Disclaimer
Internal control over financial reporting:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None Reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	X	Unmodified	____	Qualified
	____	Adverse	____	Disclaimer
Internal control over major program(s):				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiency(ies) identified?	____	Yes	X	None Reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR, 200 516(a)?	____	Yes	X	No

Identification of Major Program(s):

CFDA/Grant Number	Program Title
84.010A	Title I – Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as a low-risk auditee? X Yes ____ No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None required to be reported.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.