PAUL PUBLIC CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016 AND 2015

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JM&M
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Paul Public Charter School, Inc. , a nonprofit organization, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paul Public Charter School, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated xxx, 2016 on our consideration of Paul Public Charter School, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Paul Public Charter School, Inc.'s internal control over financial reporting and compliance.

Washington, DC
December 7, 2016

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,314,322	$ 782,989
Cash and cash equivalents restricted by debt agreements	2,319	2,318
Grants and accounts receivable	219,933	407,217
Prepaid expenses	8,407	144,253
Investments	354,572	570,712
Total Current Assets	1,899,553	1,907,489
PROPERTY AND EQUIPMENT, NET	23,022,951	18,769,837
OTHER ASSETS		
Investments restricted by debt agreements	2,070,971	2,200,000
Deferred financing costs, net	308,004	404,227
Deferred rental asset	1,161,425	774,283
Total Other Assets	3,540,400	3,378,510
TOTAL ASSETS	$ 28,462,904	$ 24,055,836
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 439,294	$ 4,360,384
Payroll and related liabilities	918,292	1,058,723
Deferred revenue	34,034	-
Capital lease payable, current portion	14,463	20,813
Long-term debt, current portion	887,733	429,306
Total Current Liabilities	2,293,816	5,869,226
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	-	14,463
Long-term debt, net of current portion	17,057,641	9,504,995
Total Long-Term Liabilities	17,057,641	9,519,458
TOTAL LIABILITIES	19,351,457	15,388,684
NET ASSETS		
Unrestricted	9,110,447	8,556,152
Temporarily restricted	1,000	111,000
Total Net Assets	9,111,447	8,667,152
TOTAL LIABILITIES AND NET ASSETS	$ 28,462,904	$ 24,055,836

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil appropriations	$ 9,878,990	$ -	$ 9,878,990	$ 10,094,076	$ -	$ 10,094,076
Per pupil facility allowance	2,111,824	-	2,111,824	2,153,472	-	2,153,472
Federal entitlements and grants	581,225	-	581,225	1,011,962	-	1,011,962
Food services	44,954	-	44,954	58,666	-	58,666
Other grants and contributions	181,022	-	181,022	62,334	11,000	73,334
In-kind contributions	15,000	-	15,000	77,565	-	77,565
Student activity fees	60,000	-	60,000	-	-	-
Net appreciation (depreciation) in fair value of investments	24,831	-	24,831	(52,964)	-	(52,964)
Interest income	158	-	158	-	-	-
Other income	-	-	-	5,319	-	5,319
Net assets released from restrictions	110,000	(110,000)	-	296,233	(296,233)	-
Total Revenue and Support	13,008,004	(110,000)	12,898,004	13,706,663	(285,233)	13,421,430
EXPENSES						
Educational Programs	10,793,466	-	10,793,466	10,073,448	-	10,073,448
General and administrative	1,354,487	-	1,354,487	2,013,690	-	2,013,690
Fundraising	305,756	-	305,756	448,881	-	448,881
Total Expenses	12,453,709	-	12,453,709	12,536,019	-	12,536,019
CHANGE IN NET ASSETS	554,295	(110,000)	444,295	1,170,644	(285,233)	885,411
NET ASSETS, beginning of year	8,556,152	111,000	8,667,152	7,385,508	396,233	7,781,741
NET ASSETS, end of year	$ 9,110,447	$ 1,000	$ 9,111,447	$ 8,556,152	$ 111,000	$ 8,667,152

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Educational Programs	General and Administrative	Fundraising	Total
Personnel Expenses				
Salaries	$ 4,909,295	$ 739,635	$ 161,836	$ 5,810,766
Employee benefits	754,782	38,923	8,516	802,221
Payroll taxes	419,802	64,206	14,049	498,057
Professional development	211,027	22,420	4,906	238,353
Travel and meetings	50,866	7,663	1,677	60,206
Total Personnel Expenses	6,345,772	872,847	190,984	7,409,603
Direct Student Costs				
Supplies and materials	67,297	-	-	67,297
Transportation	96,084	-	-	96,084
Contracted instruction fees	565,996	-	-	565,996
Textbooks	26,058	-	-	26,058
Food service	345,072	-	-	345,072
Student assessments	65,866	-	-	65,866
Other student costs	254,737	-	-	254,737
Total Direct Student Costs	1,421,110	-	-	1,421,110
Occupancy Expenses				
Rent	97,943	14,756	3,229	115,928
Maintenance and repairs	76,922	11,588	2,536	91,046
Utilities	269,791	40,647	8,894	319,332
Contracted building services	327,869	49,397	10,808	388,074
Total Occupancy Expenses	772,525	116,388	25,467	914,380
Office Expenses				
Office supplies and materials	123,477	18,600	4,070	146,147
Telecommunications	75,583	11,387	2,492	89,462
Professional fees	375,585	56,586	12,381	444,552
Postage and shipping	15,753	2,374	519	18,646
Marketing and recruitment	1,890	25,942	15,063	42,895
Computer and related	91,786	13,828	3,026	108,640
Total Office Expenses	684,074	128,717	37,551	850,342
General Expenses				
Insurance	72,678	10,950	2,396	86,024
Interest	382,632	57,647	12,614	452,893
Administration fee	113,158	17,049	3,730	133,937
Depreciation and amortization	859,952	129,561	28,348	1,017,861
Food service/catering	103,452	15,586	3,410	122,448
Fees and licenses	22,397	3,375	738	26,510
Other general expense	15,716	2,367	518	18,601
Total General Expenses	1,569,985	236,535	51,754	1,858,274
TOTAL EXPENSES	$ 10,793,466	$ 1,354,487	$ 305,756	$ 12,453,709

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Educational Programs	General and Administrative	Fundraising	Total
Personnel Expenses				
Salaries	$ 5,569,783	$ 1,049,894	$ 192,752	$ 6,812,429
Employee benefits	833,035	137,914	21,238	992,187
Payroll taxes	481,892	46,963	25,764	554,619
Professional development	203,688	32,632	4,013	240,333
Travel and meetings	17,105	4,153	5,987	27,245
Total Personnel Expenses	7,105,503	1,271,556	249,754	8,626,813
Direct Student Costs				
Food service	524,356	31,343	992	556,691
Supplies and materials	100,219	-	-	100,219
Transportation	70,885	1,406	45	72,336
Contracted instruction fees	392,120	-	-	392,120
Textbooks	9,725	-	-	9,725
Student assessments	81,304	-	-	81,304
Other student costs	114,803	-	22,565	137,368
Total Direct Student Costs	1,293,412	32,749	23,602	1,349,763
Occupancy Expenses				
Rent	94,867	18,759	4,257	117,883
Maintenance and repairs	100,414	19,846	4,504	124,764
Utilities	202,076	38,518	8,741	249,335
Contracted building services	265,045	52,411	11,894	329,350
Total Occupancy Expenses	662,402	129,534	29,396	821,332
Office Expenses				
Office supplies and materials	34,981	69,526	1,107	105,614
Telecommunications	63,638	12,584	2,856	79,078
Professional fees	55,455	309,789	-	365,244
Printing and copying	315	2,272	-	2,587
Postage and shipping	1,742	16,097	15	17,854
Marketing and recruitment	15,814	2,137	112,662	130,613
Computer and related	95,011	18,787	4,264	118,062
Memberships and subscriptions	2,621	19,582	2,495	24,698
Other office expense	-	533	-	533
Total Office Expenses	269,577	451,307	123,399	844,283
General Expenses				
Insurance	81,769	16,169	3,669	101,607
Interest	7,352	1,454	330	9,136
Administration fee	132,457	-	-	132,457
Depreciation and amortization	410,051	81,086	18,401	509,538
Fees and licenses	7,353	1,452	330	9,135
Other general expense	5,390	22,757	-	28,147
Food service/catering	98,182	5,626	-	103,808
Total General Expenses	742,554	128,544	22,730	893,828
TOTAL EXPENSES	$ 10,073,448	$ 2,013,690	$ 448,881	$ 12,536,019

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 444,295	$ 885,411
Adjustments to reconcile change in net assets provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	916,638	408,481
Amortization of deferred financing costs	101,223	101,057
Net (appreciation) depreciation in fair value of investments	(24,831)	161,873
(Increase) decrease in assets		
Cash and cash equivalents restricted by debt agreements	(1)	3,479,269
Grants and accounts receivable	187,284	590,437
Prepaid expenses	135,846	(130,362)
Deferred rental asset	(387,142)	(387,141)
Increase (decrease) in current liabilities		
Accounts payable and accrued expenses	(3,921,090)	3,276,012
Payroll and related liabilities	(140,431)	3,185
Deferred revenue	34,034	(123,264)
Net Cash Provided By Operating Activities	(2,654,175)	8,264,958
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(5,169,752)	(13,495,200)
Purchase of investments	-	(2,900,899)
Proceeds from sale of investments	370,000	3,658,325
Net Cash Used In Investing Activities	(4,799,752)	(12,737,774)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	8,448,218	5,961,253
Principal payments on long term debt	(437,145)	(26,952)
Principal payments on capital lease	(20,813)	(19,800)
Deferred financing costs incurred	(5,000)	-
Repayments on line of credit	-	(1,021,000)
Net Cash Provided By Financing Activities	7,985,260	4,893,501
NET CHANGE IN CASH AND CASH EQUIVALENTS	531,333	420,685
CASH AND CASH EQUIVALENTS, beginning of year	782,989	362,304
CASH AND CASH EQUIVALENTS, end of year	$ 1,314,322	$ 782,989
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 452,893	$ 9,136

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

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE A – ORGANIZATION AND PURPOSE

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

The School is designed to serve children and adults as integral members of the community; hence, the School is designed to be far more than a traditional service provider. The goal of the School is to provide intellectually challenging experiences required to develop independent, productive, and responsible individuals, who will learn to love learning, will be taught to think critically, and who will demonstrate that they understand the importance of taking active roles in community life. The School's primary sources of support are local appropriations for Charter Schools from the District of Columbia Government, federal entitlements and grants from private foundations.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting</u>

The School's financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

<u>Basis of Presentation</u>

Financial statement presentation follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic *Not-for-Profit Entities*. In accordance with the topic, the School is required to report information regarding its financial position and activities according to three classes of net assets:

> *Unrestricted Net Assets* – Net assets not subject to donor-imposed stipulations;
>
> *Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the School and/or the passage of time;
>
> *Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the School. The School had no permanently restricted net assets as of June 30, 2016 and 2015.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Cash and Cash Equivalents

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

Cash and Cash Equivalents Restricted by Debt Agreements

Cash and cash equivalents restricted by debt agreements is comprised of cash and cash equivalents received by the School as loan proceeds in connection with the long term debt described in Note G.

Accounts and Grants Receivable

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

Investments

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

Investments Restricted by Debt Agreements

In accordance with the terms of the Building Hope Loan and OPCSFS Loan agreements (see Note G), amounts of $1,200,000 and $1,000,000, respectively, were required to be held in collateral escrow accounts for which the lenders have the right to draw from in the event of non payment.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments Restricted by Debt Agreements (continued)

If the collateral escrow account reduces below these established amounts, the School is required to fund the accounts to maintain the required balances. These investments restricted by debt agreements are comprised of equity and fixed income investment funds (see Note D).

Property and Equipment

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

During 2016, the School completed construction and renovations to the existing building. All costs related to the construction had been accumulated as construction-in-progress until completion in December 2015, when these costs were reclassified as leasehold improvements and depreciated over the useful life of the asset.

Deferred Financing Costs

Financing costs incurred to secure financing are capitalized and are amortized over the life of the debt on a straight-line basis, which estimates the effective interest method.

Deferred Revenue

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

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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

Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations includes $2,359,048 and $2,475,987 for the years ended June 30, 2016 and 2015, respectively for enhancements, such as special education, English language learners, and at-risk students.

Donated Goods and Services

Donated goods and services are recorded at fair value at the date of donation. During the year ended June 30, 2016, the School received $15,000 in donated services from a human resources outsourcing firm. During the year ended June 30, 2015, the School received $22,565 in donated goods from a charity nonprofit that included items to support the School's growing athletic program. Additionally, the School received $55,000 in donated services from a nonprofit foundation that provided volunteer services to support the School's Key Messages and Brand Strategy project.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain amounts for the year ended June 30, 2015 have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

NOTE C – INCOME TAXES

The School a 501(c)(3) tax-exempt organization under Section 501(a) of the Internal Revenue Code. The School is, however, subject to tax on business income unrelated to its exempt purpose. The School is also exempt from the District of Columbia sales and property taxes. The School files information returns as required.

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

NOTE C – INCOME TAXES (continued)

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

The School's information returns are subject to examination by the Internal Revenue Service ("IRS") for a period of three years from the date they were filed, except under certain circumstances. The Form 990 information returns for the years 2012 through 2014 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

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

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

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The three levels are defined as follows:

> *Level 1* – Observable inputs such as quoted prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
>
> *Level 2* – Inputs other than quoted prices in active markets that are either directly or indirectly observable. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.
>
> *Level 3* – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect certain assumptions by management about the assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

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

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

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following table presents the School's fair value hierarchy for investments measured on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Equity				
Multi-Strategy Equity Funds	$ -	$ 988,131	$ -	$ 988,131
Fixed Income				
Multi-Strategy Bond Funds	-	1,183,717	-	1,183,717
Intermediate Term Funds	-	253,695	-	253,695
Total Fixed Income	-	1,437,412	-	1,437,412
Total Investments	$ -	$ 2,425,543	$ -	$ 2,425,543

The following table presents the School's fair value hierarchy for investments measured on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Equity				
Multi-Strategy Equity Funds	$ -	$ 1,138,263	$ -	$ 1,138,263
Fixed Income				
Multi-Strategy Bond Funds	-	1,582,519	-	1,582,519
Intermediate Term Funds	-	49,930	-	49,930
Total Fixed Income	-	1,632,449	-	1,632,449
Total Investments	$ -	$ 2,770,712	$ -	$ 2,770,712

PAUL PUBLIC CHARTER SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2016		2015	
Furniture and fixtures	$	2,686,912	$	2,584,454
Computer equipment and software		285,651		237,633
Leasehold improvements		24,400,644		4,541,331
Construction in progress		-		14,840,038
		27,373,207		22,203,456
Less accumulated depreciation and amortization		(4,350,256)		(3,433,619)
Property and Equipment, Net	$	23,022,951	$	18,769,837

Construction in progress includes on-going renovations to the School that began during the year ended June 30, 2013 and was concluded in December 2015. The School capitalized interest related to construction activities totaling $303,277 and $290,154, for the years ended June 30, 2016 and 2015, respectively. The interest capitalized is reported as a component of construction-in-progress until the related asset was put into service. Depreciation and amortization expense for the years ended June 30, 2016 and 2015 totaled $904,401 and $408,481, respectively.

The cost of capital leased equipment totaled $97,609. Depreciation expense attributed to capital leased assets as of June 30, 2016 and 2015 totaled $12,237 and $12,237, respectively. Accumulated depreciation for capital leased assets for the years ended June 30, 2016 and 2015 was $53,027 and $40,790, respectively.

NOTE F – DEFERRED FINANCING COSTS

The following is a summary of deferred financing costs as of June 30:

	2016		2015	
Loan fees	$	510,284	$	505,284
Less allowance for amortization		(202,280)		(101,057)
Deferred Financing Costs, Net	$	308,004	$	404,227

Amortization expense for the years ended June 30, 2016 and 2015 was $101,223 and $101,057 respectively.

NOTE G – LONG-TERM DEBT

On June 12, 2014, the School secured three associated loans to finance renovations and developments of the School's facility and payment of facility rent. These three loans comprised of \$16,100,000 with Bank of America (BOA Loan), \$2,000,000 with the District of Columbia's Office of Public Charter School Financing and Support (OPCSFS Loan), and \$2,000,000 with Building Hope, a District of Columbia nonprofit corporation (Building Hope Loan). The BOA Loan is senior to the OPCSFS and Building Hope Loan per the terms of the agreements. Draws must be in simultaneous and even amounts between the OPCSFS Loan and Building Hope Loan.

The terms of the BOA Loan require the OPCSFS Loan and Building Hope Loan to be drawn completely prior to drawing from the BOA Loan funds. Draws from the BOA Loan can be made not more frequently than monthly. Interest accrues daily at an annual rate of LIBOR daily floating rate plus 375 basis points (4.20% and 3.90%, respectively as of June 30, 2016 and 2015). Interest only payments were due quarterly through April 1, 2015. Principal plus interest payments are due quarterly in arrears beginning April 1, 2015 and paid over a 25 year amortization schedule. The BOA Loan is subject to additional principal payments based on a factor of a portion of annual grant and contribution income. The BOA Loan matures on June 12, 2019. The outstanding principal on the BOA Loan as of June 30, 2016 and 2015 was \$14,087,470 and \$5,961,253, respectively.

The OPCSFS Loan is for a term of five years with interest of 4.5% per annum. Interest only payments are due quarterly through January 31, 2015. Thereafter, principal and interest payments are due quarterly based upon a 15 year amortization schedule, beginning September 2015. The balance outstanding on the loan as of June 30, 2016 and 2015 was \$1,952,696 and \$2,000,000, respectively.

The Building Hope Loan is for a term of five years with interest of 6% per annum. Interest only payments are due quarterly through January 31, 2015. Thereafter, principal and interest payments are due quarterly based upon a 15 year amortization schedule. The balance outstanding on the loan as of June 30, 2016 and 2015 was \$1,905,208 and \$1,973,048, respectively.

Per the terms of the BOA Loan, America's Charter School Finance Corporation (an affiliate of Building Hope) and OPCSFS issued credit enhancements of \$500,000 each to the School to secure the loans. The BOA Loan is collateralized by all real and personal property of the School. The collateral for the Building Hope Loan and OPCSFS Loan is a second lien on all facility improvements, per pupil payments, facility allowances, and all other revenue attributable to the facility.

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

NOTE G – LONG-TERM DEBT (continued)

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

2017	$	887,733
2018		849,787
2019		16,207,854
Total	$	17,945,374

NOTE H – CAPITAL LEASE PAYABLE

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

Future minimum payments under capital leases are as follows for the years ended June 30:

2017	$	14,736
Less: Amount representing interest		(273)
Present value of future payments	$	14,463

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and 2015 were restricted for the following purposes:

		2016		2015
New Schools Venture Fund	$	-	$	100,000
Flamboyan		-		10,000
Other		1,000		1,000
Total	$	1,000	$	111,000

NOTE J – RETIREMENT PLAN

The School maintains a salary reduction plan under Section 403(b) of the Internal Revenue Code ("the Plan"). Employees that work 20 hours or more per week are eligible to participate in the Plan. The School contributes a discretionary percentage of compensation, which is determined by the Board of Trustees.

NOTE J – RETIREMENT PLAN (continued)

The School is currently making employer matching contributions of 100% up to 3% of annual employee compensation and an additional employer discretionary contribution of 3% of annual employee compensation regardless of the amount the employee deferred. Employees are immediately vested 100% in their respective contributions and become 100% vested in employer contribution after two years of service. For the years ended June 30, 2016 and 2015 employer contributions totaled $278,225 and $335,401, respectively.

NOTE K – LEASE COMMITMENTS

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

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

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

2017	$	63,136
2018		63,136
2019		63,136
2020		63,136
Thereafter		1,136,454
Total	$	1,388,998

Rent expense related to the lease for each of the years ended June 30, 2016 and 2015 was $115,928. The difference between rent paid and straight-line rent expense is reflected as deferred rent in the accompanying statements of financial position.

NOTE L – CONCENTRATIONS

The School receives a substantial amount of funding from the District of Columbia based on student enrollment according to the Uniform per Student Funding Formula developed by the Mayor and City Council. For the years ended June 30, 2016 and 2015, the School's total revenue consisted of 76% and 75%, respectively, of revenue from the District of Columbia Board of Education. Reduction of this source of support would have a significant impact on the School's programs and activities.

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

NOTE M – SUBSEQUENT EVENTS

In October 2016, the School executed an amendment to its loan agreement with Bank of America which defined the magnitude of the remaining draws the School could make under the loan. As a result of the amendment, the final loan balance was reduced and quarterly principal payments changed from $161,000 to $141,505. In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through December 7, 2016, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required recognition or further disclosure.

JM&M
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Paul Public Charter School, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2016.

Internal Control Over Financial Reporting

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

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

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

The Board of Trustees
Paul Public Charter School, Inc.

Compliance and Other Matters

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

Purpose of this Report

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

Jane Marcus & McQuade PA

Washington, DC
December 7, 2016