PAUL PUBLIC CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

	Page No.
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses, Year Ended June 30, 2017	5
Statement of Functional Expenses, Year Ended June 30, 2016	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 21
Independent Auditor's Report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	22 - 23

JM&M
Jones, Maresca & McQuade, P.A.
Certified Public Accountants

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

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, 2017 and 2016, 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, 2017 and 2016, 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 November 29, 2017 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.

Jones Marzella & McQuade PA

Washington, DC
November 29, 2017

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,317,821	$ 1,314,322
Cash and cash equivalents restricted by debt agreements	543,960	2,319
Grants and accounts receivable	466,742	219,933
Prepaid expenses	37,632	8,407
Total Current Assets	3,366,155	1,544,981
PROPERTY AND EQUIPMENT, NET	22,062,651	23,022,951
OTHER ASSETS		
Investments	2,441,966	354,572
Investments restricted by debt agreements	-	2,070,971
Deferred rental asset	1,108,633	1,161,425
Total Other Assets	3,550,599	3,586,968
TOTAL ASSETS	$ 28,979,405	$ 28,154,900
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 331,912	$ 439,294
Payroll and related liabilities	1,362,332	918,292
Deferred revenue	31,110	34,034
Capital lease payable, current portion	12,867	14,463
Long-term debt, current portion	-	887,733
Total Current Liabilities	1,738,221	2,293,816
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	39,823	-
Long-term debt, net	18,170,860	16,749,637
Total Long-Term Liabilities	18,210,683	16,749,637
TOTAL LIABILITIES	19,948,904	19,043,453
NET ASSETS		
Unrestricted	9,029,501	9,110,447
Temporarily restricted	1,000	1,000
Total Net Assets	9,030,501	9,111,447
TOTAL LIABILITIES AND NET ASSETS	$ 28,979,405	$ 28,154,900

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil appropriations	$ 11,263,010	$ -	$ 11,263,010	$ 9,878,990	$ -	$ 9,878,990
Per pupil facility allowance	2,277,396	-	2,277,396	2,111,824	-	2,111,824
Federal entitlements and grants	538,112	-	538,112	581,225	-	581,225
Food services	14,856	-	14,856	44,954	-	44,954
Other grants and contributions	185,744	-	185,744	181,022	-	181,022
In-kind contributions	8,321	-	8,321	15,000	-	15,000
Student activity fees	147,443	-	147,443	60,000	-	60,000
Net appreciation in fair value of investments	197,820	-	197,820	24,831	-	24,831
Rental income	41,603	-	41,603	-	-	-
Interest income	219	-	219	158	-	158
Net assets released from restrictions	-	-	-	110,000	(110,000)	-
Total Revenue and Support	14,674,524	-	14,674,524	13,008,004	(110,000)	12,898,004
EXPENSES						
Educational programs	12,474,718	-	12,474,718	10,793,466	-	10,793,466
General and administrative	1,727,592	-	1,727,592	1,354,487	-	1,354,487
Fundraising	342,380	-	342,380	305,756	-	305,756
Total Expenses	14,544,690	-	14,544,690	12,453,709	-	12,453,709
CHANGE IN NET ASSETS FROM OPERATIONS	129,834	-	129,834	554,295	(110,000)	444,295
Loss on Extinguishment of Debt	(210,780)	-	(210,780)	-	-	-
CHANGE IN NET ASSETS	(80,946)	-	(80,946)	554,295	(110,000)	444,295
NET ASSETS, beginning of year	9,110,447	1,000	9,111,447	8,556,152	111,000	8,667,152
NET ASSETS, end of year	$ 9,029,501	$ 1,000	$ 9,030,501	$ 9,110,447	$ 1,000	$ 9,111,447

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

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Educational Programs	General and Administrative	Fundraising	Total
Personnel Expenses				
Salaries	$ 5,878,942	$ 915,122	$ 183,358	$ 6,977,422
Employee benefits	684,929	125,920	5,390	816,239
Payroll taxes	485,542	67,591	13,543	566,676
Professional development	245,995	20,136	4,035	270,166
Total Personnel Expenses	7,295,408	1,128,769	206,326	8,630,503
Direct Student Costs				
Supplies and materials	111,489	-	-	111,489
Transportation	207,593	-	-	207,593
Contracted instruction fees	539,078	-	-	539,078
Textbooks	32,608	-	-	32,608
Food service	349,540	-	-	349,540
Student assessments	83,321	-	-	83,321
Other student costs	206,650	-	-	206,650
Total Direct Student Costs	1,530,279	-	-	1,530,279
Occupancy Expenses				
Rent	99,726	15,523	3,110	118,359
Maintenance and repairs	77,032	11,990	2,403	91,425
Utilities	243,590	37,918	7,597	289,105
Contracted building services	306,348	47,686	9,555	363,589
Total Occupancy Expenses	726,696	113,117	22,665	862,478
Office Expenses				
Office supplies and materials	162,276	569	5,061	167,906
Telecommunications	68,993	10,740	2,152	81,885
Professional fees	430,832	90,803	13,437	535,072
Postage and shipping	25,570	15,081	797	41,448
Marketing and recruitment	2,307	360	18,407	21,074
Computer and related	56,570	8,806	1,764	67,140
Total Office Expenses	746,548	126,359	41,618	914,525
General Expenses				
Insurance	75,621	11,770	2,359	89,750
Interest	701,181	110,074	21,869	833,124
Authorizer fee	124,098	19,318	3,870	147,286
Depreciation and amortization	1,174,347	194,782	36,627	1,405,756
Fees and licenses	34,777	13,197	2,644	50,618
Travel and meetings	65,763	10,206	2,081	78,050
Other general expense	-	-	2,321	2,321
Total General Expenses	2,175,787	359,347	71,771	2,606,905
TOTAL EXPENSES	$ 12,474,718	$ 1,727,592	$ 342,380	$ 14,544,690

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
Total Personnel Expenses	6,294,906	865,184	189,307	7,349,397
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	468,151	70,531	15,434	554,116
Authorizer fee	113,158	17,049	3,730	133,937
Depreciation and amortization	774,433	116,677	25,528	916,638
Food service/catering	103,452	15,586	3,410	122,448
Fees and licenses	22,397	3,375	738	26,510
Travel and meetings	50,866	7,663	1,677	60,206
Other general expense	15,716	2,367	518	18,601
Total General Expenses	1,620,851	244,198	53,431	1,918,480
TOTAL EXPENSES	$ 10,793,466	$ 1,354,487	$ 305,756	$ 12,453,709

PAUL PUBLIC CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (80,946)	$ 444,295
Adjustments to reconcile change in net assets provided by (used for) operating activities:		
Depreciation and amortization of property and equipment	1,405,756	916,638
Amortization of debt issuance costs	1,101	101,223
Loss on extinguishment of debt	210,780	-
Net appreciation in fair value of investments	(197,820)	(24,831)
(Increase) decrease in assets		
Cash and cash equivalents restricted by debt agreements	(541,641)	(1)
Grants and accounts receivable	(246,809)	187,284
Prepaid expenses	(29,225)	135,846
Deferred rental asset	52,792	(387,142)
Increase (decrease) in current liabilities		
Accounts payable and accrued expenses	(107,382)	(3,921,090)
Payroll and related liabilities	444,040	(140,431)
Deferred revenue	(2,924)	34,034
Net Cash Provided by (Used for) Operating Activities	907,722	(2,654,175)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(277,875)	(5,169,752)
Proceeds from sale of investments	181,397	370,000
Net Cash Used for Investing Activities	(96,478)	(4,799,752)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	18,566,251	8,448,218
Principal payments on long-term debt	(17,949,272)	(437,145)
Principal payments on capital lease	(28,232)	(20,813)
Debt issuance costs incurred	(396,492)	(5,000)
Net Cash Provided by Financing Activities	192,255	7,985,260
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,003,499	531,333
CASH AND CASH EQUIVALENTS, beginning of year	1,314,322	782,989
CASH AND CASH EQUIVALENTS, end of year	$ 2,317,821	$ 1,314,322
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 832,023	$ 452,893

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

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. On May 25, 2000 the School entered into a 15-year Charter School Agreement with the District of Columbia Public Charter School Board. On July 1, 2015, that agreement was renewed for an additional 15 years. 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;

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - continued

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, 2017 and 2016.

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 held by a trustee to fund a portion of debt service related to the Series 2017 Bonds (see Note F).

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments Restricted by Debt Agreements

In accordance with the terms of the debt agreements in place as of June 30, 2016 (see Note F), investments of $2,200,000 were required to be held in collateral escrow accounts for which the lenders had the right to draw from in the event of non payment. The revenue bonds issued in June 2017 that refinanced previous debt (see Note F) did not include this requirement, so restricted investments are not reflected in the accompanying statement of financial position as of June 30, 2017.

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.

Debt Issuance Costs

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

The School receives a student allocation on a per pupil basis from the District of Columbia to cover the cost of academic expenses. Per pupil appropriated revenue is recognized during the period for which the associated education services are provided. Per pupil appropriations includes $2,980,059 and $2,359,048 for the years ended June 30, 2017 and 2016, 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. The School recognizes donated services that create or enhance non-financial assets or require specialized skills and are provided by individuals who possess those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2017, the School received $8,321 in donated services. During the year ended June 30, 2016, the School received $15,000 in donated services from a human resources outsourcing firm.

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, 2016 have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

NOTE C – INCOME TAXES

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

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

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

The School's information 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 2013 through 2015 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.

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

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.

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, 2017:

	Level 1	Level 2	Level 3	Total
Equity				
Multi-Strategy Equity Funds	$ -	$ 1,078,092	$ -	$ 1,078,092
Fixed Income				
Multi-Strategy Bond Funds	-	1,109,891	-	1,109,891
Intermediate Term Funds	-	253,983	-	253,983
Total Fixed Income	-	1,363,874	-	1,363,874
Total Investments	$ -	$ 2,441,966	$ -	$ 2,441,966

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

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2017	2016
Furniture and fixtures	$ 2,717,795	$ 2,686,912
Computer equipment and software	406,902	285,651
Leasehold improvements	24,530,559	24,400,644
	27,655,256	27,373,207
Less accumulated depreciation and amortization	(5,592,605)	(4,350,256)
Property and Equipment, Net	$ 22,062,651	$ 23,022,951

The School capitalized interest related to construction activities totaling $303,277, for the year ended June 30, 2016. The interest capitalized was 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, 2017 and 2016 totaled $1,393,774 and $904,401, respectively.

The cost of capital leased equipment totaled $65,358. Depreciation expense attributed to capital leased assets for the years ended June 30, 2017 and 2016 totaled $11,982 and $12,237, respectively. Accumulated depreciation for capital leased assets as of June 30, 2017 and 2016 was $11,982 and $53,027, respectively.

NOTE F – LONG-TERM DEBT

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

	2017	2016
District of Columbia Revenue Bonds (Paul Public Charter School, Inc. Project) Series 2017	$ 18,566,251	$ -
BOA Loan	-	14,087,470
OPCSFS Loan	-	1,952,696
Building Hope Loan	-	1,905,208
	$ 18,566,251	$ 17,945,374
Less: current portion of long-term debt	-	(887,733)
Less: debt issuance costs, net of accumulated amortization	(395,391)	(308,004)
	$ 18,170,860	$ 16,749,637

NOTE F – LONG-TERM DEBT (continued)

Loans Payable

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 was senior to the OPCSFS and Building Hope Loan per the terms of the agreements. Draws were in simultaneous and even amounts between the OPCSFS Loan and Building Hope Loan.

The terms of the BOA Loan required the OPCSFS Loan and Building Hope Loan to be drawn completely prior to drawing from the BOA Loan funds. Draws from the BOA Loan could not have been made more frequently than monthly. Interest accrued daily at an annual rate of LIBOR daily floating rate plus 375 basis points (4.20% as of June 30, 2016). Interest only payments were due quarterly through April 1, 2015. Principal plus interest payments were due quarterly in arrears beginning April 1, 2015 and paid over a 25 year amortization schedule. The BOA Loan was subject to additional principal payments based on a factor of a portion of annual grant and contribution income. The BOA Loan was scheduled to mature on June 12, 2019. The outstanding principal on the BOA Loan as of June 30, 2017 and 2016 was $0 and $14,087,470, respectively. During June 2017, the BOA Loan was fully repaid from the proceeds of the Series 2017 Bonds. See below.

The OPCSFS Loan was for a term of five years with interest of 4.5% per annum. Interest only payments were due quarterly through January 31, 2015. Thereafter, principal and interest payments were due quarterly based upon a 15 year amortization schedule, beginning September 2015. The balance outstanding on the OPCSFS Loan as of June 30, 2017 and 2016 was $0 and $1,952,696, respectively. During June 2017, the OPCSFS Loan was fully repaid from the proceeds of the Series 2017 Bonds. See below.

The Building Hope Loan was for a term of five years with interest of 6% per annum. Interest only payments were due quarterly through January 31, 2015. Thereafter, principal and interest payments were due quarterly based upon a 15 year amortization schedule. The balance outstanding on the Building Hope Loan as of June 30, 2017 and 2016 was $0 and $1,905,208, respectively. During June 2017, the Building Hope Loan was fully repaid from the proceeds of the Series 2017 Bonds. See below.

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. At the time the loans were paid in full, these credit enhancements were terminated. The BOA Loan was collateralized by all real and personal property of the School. The collateral for the Building Hope Loan and OPCSFS Loan was a second lien on all facility improvements, per pupil payments, facility allowances, and all other revenue attributable to the facility.

NOTE F – LONG-TERM DEBT (continued)

Revenue Bonds

During June 2017, the District of Columbia issued $19,900,000 maximum principal amount of Revenue Bonds ("Series 2017 Bonds"). The proceeds of the Series 2017 Bonds were loaned to the School on a draw basis to refinance certain indebtedness, and finance the construction, installation and equipping the School's facility, including but not limited to, the refurbishment of the School's athletic fields and additional lighting thereto, and the construction of exterior education space. In addition, the proceeds of the Series 2017 Bonds were used to fund a debt service reserve fund and pay allowable debt issuance costs.

The Series 2017 Bonds are collateralized by a first leasehold deed of trust on the real property and improvements and all assets and revenue of the School. During June 2017, the District of Columbia's Office of Public Charter School Financing and Support entered into a guaranty agreement to provide a credit enhancement of up to $1,000,000 as additional security for the Series 2017 Bonds.

The Series 2017 Bonds are scheduled to mature July 1, 2047 and are paid over a 30 year amortization schedule. Interest accrues at a fixed rate of 3.95% per annum as of June 30, 2017 and is effective through June 30, 2027. Interest is adjusted at each subsequent ten-year period and is to be determined by the greater of the ten-year ICE Swap Rate in effect plus 3.75%, times one minus the corporate income tax rate; or 3.95% per annum. Interest payments are due monthly until maturity. Principal payments are due monthly commencing July 1, 2018.

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

In prior years, the School reported debt issuance costs as a deferred charge in the statement of financial position and amortization of such costs in the statement of activities as depreciation and amortization. To comply with new GAAP presentation requirements, in 2017 the School began reporting such costs as a direct deduction from the carrying amount of the related debt and reclassified prior year amounts, resulting in a reduction of total June 30, 2016 assets by $308,004. The change did not affect net assets.

Similarly, the School now reports amortization of debt issuance costs as interest expense and reclassified 2016 amounts accordingly. As a result, reported interest expense in 2016 was increased (and depreciation and amortization decreased) by $101,223, with no effect on the change in net assets. The amortization of debt issuance costs as interest expense for the year ended June 30, 2017 was $1,101.

NOTE F – LONG-TERM DEBT (continued)

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

	2017	2016
Debt issuance costs	$ 396,492	$ 510,284
Less accumulated amortization	(1,101)	(202,280)
Debt Issuance Costs, Net	$ 395,391	$ 308,004

Interest of $832,023 and $452,893 was expensed for the year ended June 30, 2017 and 2016, respectively.

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

2018	$ -
2019	346,462
2020	358,602
2021	375,223
2022	390,529
Thereafter	17,095,435
Total	$ 18,566,251

NOTE G – 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%. The lease obligation was fully repaid during 2017.

The School entered into a capital lease for copying equipment on July 7, 2016, 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 3.95% per annum.

NOTE G – CAPITAL LEASE PAYABLE (continued)

Minimum future lease payments under the capital lease are due as follows for the years ending June 30:

2018	$ 13,596
2019	13,596
2020	13,596
2021	13,596
Net minimum lease payments	54,384
Amount representing interest	(1,694)
Present Value of Net Minimum Lease Payments	$ 52,690

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2017 and 2016 totaled $1,000.

NOTE I – RETIREMENT PLAN

The School maintains a salary reduction plan under Section 403(b) of the Internal Revenue Code ("the Plan"). Employees who are scheduled to 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. 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, 2017 and 2016 employer contributions totaled $283,071 and $278,225, respectively.

NOTE J – 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 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.

NOTE J – LEASE COMMITMENTS (continued)

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

2018	$	63,136
2019		63,136
2020		63,136
2021		63,136
2022		63,136
Thereafter		1,010,183
Total	$	1,325,863

Rent expense related to the lease for the years ended June 30, 2017 and 2016 was $118,359 and $115,928, respectively. The difference between rent paid and straight-line rent expense is reflected as deferred rent in the accompanying statements of financial position.

In August 2016, the School signed a sub-lease agreement to lease office space to Urban Teachers, a not-for-profit corporation. The sub-lease agreement expires in May 2019. Monthly payments under the sub-lease total $3,667. Rental income recognized during the year ended June 30, 2017 totaled $41,603.

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

2018	$	44,004
2019		40,337
Total	$	84,341

NOTE K – 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, 2017 and 2016, the School's total revenue consisted of 92% and 93%, respectively, of revenue from the District of Columbia Board of Education's funding stream. 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 L – CONTINGENCY

During March 2016, the United States Department of Labor ("DOL") notified the School of its failure to attach audited financial statements of the School's 403(b) plan to Form 5500 annual report for the plan year ended August 31,2014. As of the date these financials statements were available to be issued, the School's legal counsel is engaged in active negotiations with the DOL, and the hearing which was scheduled for November 17, 2017, has been jointly requested to continue until May 17, 2018. Legal counsel anticipates settling the matter prior to that date. No amounts have been accrued in the accompanying financial statements, because the School and its legal counsel believe payment of the $50,000 penalty assessed by the DOL would be remote.

NOTE M – SUBSEQUENT EVENTS

In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through November 29, 2017, 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
JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

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, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2017.

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.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Jones Marvin & McQuade PA

Washington, DC
November 29, 2017