

**CAMBRIDGE PREPARATORY ACADEMY DC, INC.  
D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC  
CHARTER SCHOOL**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2017 AND 2016**

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## Independent Auditor's Report

The Board of Directors  
Cambridge Preparatory Academy DC, Inc. D/B/A  
Somerset Preparatory Academy Public Charter School  
Washington, DC

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statement of activities, functional expenses, and cash flows for 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 the 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.

Independent Auditor's Report  
Cambridge Preparatory Academy DC, Inc. D/B/A  
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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 Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School 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 17, 2017, on our consideration of Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School'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 the effectiveness of Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School'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 Cambridge Preparatory Academy DC, Inc. D/B/A Cambridge Preparatory Academy DC, Inc.'s internal control over financial reporting and compliance.

*Jane Marston & McQuade PA*

Washington, DC  
November 17, 2017

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2017 AND 2016**

	2017	2016
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 461,153	\$ 858,337
Grants receivable	44,834	150,119
Accounts receivable	26,074	24,238
Prepaid expenses and employee advances	45,806	46,795
Total Current Assets	577,867	1,079,489
<b>PROPERTY AND EQUIPMENT</b>		
Computers and equipment	424,053	374,363
Classroom furnishings	203,532	162,140
	627,585	536,503
Less: accumulated depreciation	(434,982)	(299,142)
Property and Equipment, Net	192,603	237,361
<b>OTHER ASSETS</b>		
Deposit	5,000	5,000
Total Other Assets	5,000	5,000
<b>TOTAL ASSETS</b>	<b>\$ 775,470</b>	<b>\$ 1,321,850</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 163,636	\$ 214,290
Accrued salaries and related expenses	315,389	277,467
Deferred revenue	12,840	6,499
Total Liabilities	491,865	498,256
<b>NET ASSETS</b>		
Unrestricted	263,388	823,594
Temporarily restricted	20,217	-
Total Net Assets	283,605	823,594
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 775,470</b>	<b>\$ 1,321,850</b>

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Per pupil appropriations	\$ 5,253,210	\$ -	\$ 5,253,210
Per pupil facilities allowance	1,012,176	-	1,012,176
Federal entitlements and grants	491,290	-	491,290
Other grants and contributions	22,695	20,217	42,912
Activity fees	27,737	-	27,737
Other income	123,931	-	123,931
Total Revenue and Support	<u>6,931,039</u>	<u>20,217</u>	<u>6,951,256</u>
<b>EXPENSES</b>			
Programs - educational services	5,927,596	-	5,927,596
General and administrative services	1,563,649	-	1,563,649
Total Expenses	<u>7,491,245</u>	<u>-</u>	<u>7,491,245</u>
<b>CHANGE IN NET ASSETS</b>	(560,206)	20,217	(539,989)
<b>NET ASSETS, beginning of year</b>	<u>823,594</u>	<u>-</u>	<u>823,594</u>
<b>NET ASSETS, end of year</b>	<u>\$ 263,388</u>	<u>\$ 20,217</u>	<u>\$ 283,605</u>

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

**UNRESTRICTED REVENUE AND SUPPORT**

Per pupil appropriations	\$ 4,640,417
Per pupil facilities allowance	865,348
Federal entitlements and grants	450,923
Other grants and contributions	46,098
Activity fees	24,791
Other income	32,284
Total Revenue and Support	<u>6,059,861</u>

**EXPENSES**

Programs - educational services	4,738,915
General and administrative services	1,206,606
Total Expenses	<u>5,945,521</u>

**CHANGE IN NET ASSETS** 114,340

**NET ASSETS, beginning of year** 709,254

**NET ASSETS, end of year** \$ 823,594

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2017**

	Program - Educational Services	General and Administrative Services	Total
<b>Personnel Costs</b>			
Salaries	\$ 3,241,921	\$ 804,871	\$ 4,046,792
Employee benefits	150,166	37,394	187,560
Payroll taxes	270,817	67,438	338,255
Professional development	120,934	15,552	136,486
Total Personnel Costs	<u>3,783,838</u>	<u>925,255</u>	<u>4,709,093</u>
<b>Direct Student Costs</b>			
Supplies and materials	143,619	-	143,619
Assessment materials	81,688	-	81,688
Food service	157,119	-	157,119
Contracted instruction fees	439,075	7,852	446,927
Student uniforms	123,534	-	123,534
Other student costs	74,450	-	74,450
Total Direct Student Costs	<u>1,019,485</u>	<u>7,852</u>	<u>1,027,337</u>
<b>Occupancy Expenses</b>			
Rent	809,741	202,435	1,012,176
Maintenance and repairs	24,326	6,081	30,407
Total Occupancy Expenses	<u>834,067</u>	<u>208,516</u>	<u>1,042,583</u>
<b>Office Expenses</b>			
Office supplies and materials	93,670	23,418	117,088
Equipment rental	20,910	5,227	26,137
Telecommunications	33,010	8,253	41,263
Printing and copying	3,185	796	3,981
Postage and shipping	1,650	412	2,062
Total Office Expenses	<u>152,425</u>	<u>38,106</u>	<u>190,531</u>
<b>General Expenses</b>			
Insurance	17,603	4,401	22,004
Depreciation	108,671	27,168	135,839
Accounting	-	20,565	20,565
Legal	-	35,209	35,209
Authorizer fee	-	69,300	69,300
Support service fees	-	194,400	194,400
Affiliation fee	-	30,000	30,000
Computer support fees	4,687	1,172	5,859
Memberships and subscriptions	6,820	1,705	8,525
Total General Expenses	<u>137,781</u>	<u>383,920</u>	<u>521,701</u>
Total Expenses	<u>\$ 5,927,596</u>	<u>\$ 1,563,649</u>	<u>\$ 7,491,245</u>

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2016**

	Program - Educational Services	General and Administrative Services	Total
<b>Personnel Costs</b>			
Salaries	\$ 2,747,189	\$ 570,892	\$ 3,318,081
Employee benefits	71,888	14,939	86,827
Payroll taxes	222,471	46,232	268,703
Professional development	94,502	2,772	97,274
Total Personnel Costs	<u>3,136,050</u>	<u>634,835</u>	<u>3,770,885</u>
<b>Direct Student Costs</b>			
Supplies and materials	153,956	-	153,956
Food service	153,121	-	153,121
Library and media center	27,943	-	27,943
Contracted instruction fees	289,216	-	289,216
Student uniforms	41,883	-	41,883
Other student costs	54,704	-	54,704
Total Direct Student Costs	<u>720,823</u>	<u>-</u>	<u>720,823</u>
<b>Occupancy Expenses</b>			
Rent	627,549	156,887	784,436
Maintenance and repairs	21,123	5,281	26,404
Contracted building services	4,254	1,064	5,318
Total Occupancy Expenses	<u>652,926</u>	<u>163,232</u>	<u>816,158</u>
<b>Office Expenses</b>			
Office supplies and materials	43,240	10,810	54,050
Equipment rental	17,302	4,326	21,628
Telecommunications	29,730	7,433	37,163
Printing and copying	1,486	372	1,858
Postage and shipping	566	142	708
Total Office Expenses	<u>92,324</u>	<u>23,083</u>	<u>115,407</u>
<b>General Expenses</b>			
Insurance	17,000	4,250	21,250
Depreciation	117,808	29,452	147,260
Accounting	-	19,704	19,704
Legal	-	72,324	72,324
Authorizer fee	-	63,030	63,030
Support service fees	-	166,200	166,200
Affiliation fee	-	30,000	30,000
Memberships and subscriptions	1,984	496	2,480
Total General Expenses	<u>136,792</u>	<u>385,456</u>	<u>522,248</u>
Total Expenses	<u>\$ 4,738,915</u>	<u>\$ 1,206,606</u>	<u>\$ 5,945,521</u>

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (539,989)	\$ 114,340
Adjustments to reconcile change in net assets to cash provided by (used for) operating activities:		
Depreciation	135,839	147,260
(Increase) decrease in assets:		
Grants receivable	105,285	(71,372)
Accounts receivable	(1,836)	68,444
Prepaid expenses and employee advances	989	(8,521)
Increase (decrease) in liabilities:		
Accounts payable	(50,654)	58,868
Accrued salaries and related expenses	37,922	87,269
Deferred revenue	6,341	6,499
Cash (Used for) Provided by Operating Activities	(306,103)	402,787
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(91,081)	(46,478)
Cash Used for Investing Activities	(91,081)	(46,478)
<b>NET CHANGE IN CASH</b>	(397,184)	356,309
<b>CASH, beginning of year</b>	858,337	502,028
<b>CASH, end of year</b>	\$ 461,153	\$ 858,337

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE A – ORGANIZATION AND PURPOSE**

Cambridge Preparatory Academy DC, Inc. d/b/a, Somerset Preparatory Academy Public Charter School (the “School”) is a not-for-profit organization, incorporated in the District of Columbia in 2011. The School is an affiliate of the Somerset Academy Inc., a Florida based charter school organization. The School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The charter agreement, dated July 1, 2013, shall continue for a term of 15 years unless renewed, revoked, or terminated in accordance with Sections 38-1802.12 and 1802.13 of the Act and Section 9 as outlined in the agreement.

The School’s mission is to promote a culture that maximizes student achievement and fosters the development of responsible, self-directed life-long learners in a safe and enriching environment. This is achieved by a rigorous academic environment focused on the fundamentals of leadership development, enhanced personal responsibility, and community involvement. For school years 2017-2016 and 2016-2015, the School served grades 6-11 and 6-10, respectively.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

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.

Basis of Presentation

Financial statement presentation follows 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. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

*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 may be maintained permanently by the School. There were no permanently restricted net assets as of June 30, 2017 and 2016.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(continued)**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Cash

Cash reported on the statement of financial position includes \$30,000 of compensating balances required by the School's financial institution in accordance with the School's credit card terms.

Grants and Accounts Receivable

Grants and accounts receivable consist of unsecured amounts due from public funding sources whose ability to pay are subject to appropriation. The School performs ongoing credit evaluations of its funding sources and generally does not require collateral. Accounts receivable are reported net of the allowance for doubtful accounts, if any. The allowance, if any, is estimated based on historical collection trends, the age of outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. Due to the nature of funding from the federal government and the District of Columbia, management believes that all receivables will be collected. Therefore, no allowance for doubtful accounts has been recorded.

Employee Advances

The School provides employee advances to staff that are approved by management. The advances are deducted from the employees' future salary payments per pay period until paid in full or at date of termination, if terminated before advance is paid in full.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The School capitalizes all expenditures for property and equipment over \$1,000. Depreciation is computed, using the straight-line method over the useful lives of the assets which range from three to seven years. When assets are sold or otherwise disposed of the asset and related accumulated depreciation are removed from the accounts and any remaining gain or loss is included in operations. Repairs and maintenance are expensed as incurred. Depreciation expense for the years ended June 30, 2017 and 2016, totaled \$135,839 and \$147,260, respectively.

Contributions and Grants

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

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(continued)**

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Contributions and Grants (continued)

Grant revenues are received primarily from the District of Columbia government. The grants are subject to audit by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

Revenue Recognition

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 include \$1,706,693 and \$1,705,111 for enhancements, such as special education, at-risk students, and English language learners, for the years ended June 30, 2017 and 2016, respectively.

Activity fees are recognized at the time of the activity. Activity fees are amounts collected from students from, but not restricted to, field trips, camps and other school related activities.

Functional Expenses

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

Reclassifications

Certain amounts for the year ended June 30, 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.

Use of Estimates

The preparation of the financial statements in accordance 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.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(continued)**

**NOTE C – INCOME TAXES**

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

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

The School has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits are expected be recorded related to any uncertain tax positions taken on returns filed for open tax years (2013-2015), or expected to be taken in its 2016 information return. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

**NOTE D – COMMITMENTS**

Effective July 2013, the School entered into a one year sublease agreement with the Charter School Incubator Initiative, a District of Columbia nonprofit corporation, to use the property located at 3301 Wheeler Road, S.E. The property is leased by the Charter School Incubator Initiative from the District of Columbia. In accordance with the sublease agreement, the School pays the Charter School Incubator rent equal to ninety percent of an amount equivalent to the number of students enrolled on each census date (being every October, commencing October, 2013 and extended to June 30, 2016) multiplied by the per pupil facilities allowance received by the School from the District of Columbia. Utilities are provided by the Charter School Incubator Initiative at no additional cost to the School. This agreement was terminated on June 30, 2016. For the year ended June 30, 2016, rent expense totaled \$784,436.

On November 30, 2016, the School entered into a new lease agreement with the Charter School Incubator Initiative, effective July 1, 2016, for use of the School's facility located at 3301 Wheeler Road, S.E. The terms of the agreement will continue until June 30, 2021 and may be extended for up to three additional terms of five years each. This use agreement is subject to and subordinate to the terms of the prime lease between the District of Columbia and with the Charter School Incubator Initiative. In accordance with the use agreement, the School granted a first priority lien on, and security interest in, the School's revenue from federal, state, and local government sources. The agreement is a full service use agreement, thereby covers utilities, building engineering, maintenance and repairs, and related services. The School is to pay with the Charter School Incubator Initiative a usage fee equal to the number of students enrolled with the School multiplied by the per pupil facility allowance, as

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
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(continued)**

**NOTE D – COMMITMENTS - continued**

determined annually, payable in equal quarterly installments on August 1, November 1, February 1, and May 1. Accordingly, the School cannot reasonably estimate its future minimum payments under the terms of this agreement. For the year ended June 30, 2017 the rent expense totaled \$1,012,176. The School will be reimbursed by the Charter School Incubator Initiative for certain janitorial expenses. For the year ended June 30, 2017, the School recognized approximately \$92,000 for reimbursement of these qualifying expenses as other income in the statement of activities.

**NOTE E – COMMITMENTS AND CONTINGENT LIABILITIES**

The School receives revenue from government grants and contracts that are subject to inspection and audit by the appropriate funding agency. The purpose of these inspections and audits is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The School is of the opinion that disallowance, if any, arising from such inspection or audits will not have a material effect on the financial statements. The School has no provisions for the possible disallowance of program costs on its financial statements.

**NOTE F – SUPPORT SERVICES**

In accordance with the support service agreement, the School pays Academica DC, LLC a fee for support services of \$600 per student full time equivalent student per annum. The School also has an affiliation cooperation agreement with Somerset Academy, Inc. for the period July 1, 2013 to June 30, 2016, after which the agreement will be automatically renewed for additional one-year terms. The affiliation agreement allows the School to use the licensed marks of Somerset Academy, Inc. and as its member, comply with all standards of the Somerset Network of schools. For the years ended June 30, 2017 and 2016, the School's support services expense totaled \$224,400 and \$196,200, respectively, that included \$30,000, per year, in affiliation fee.

**NOTE G – CONCENTRATIONS OF RISK**

The School places its cash with a financial institution which at times, may exceed the Federal Deposit Insurance Corporation's insurance limit of \$250,000. As of June 30, 2017 and 2016, the School had approximately \$237,000 and \$250,000, respectively, of bank balances that exceeded the federally insured limit. The School has neither experienced, nor does it anticipate any loss of funds.

The School is supported primarily by local and federal appropriations and grants. For the years ended June 30, 2017 and 2016, 90% and 91%, respectively, of the total revenue was provided by one local government agency. Reduction of this source of support would have a significant impact on the School's programs and activities. Geographical area of clients served is Ward 8 of the District of Columbia.

**CAMBRIDGE PREPARATORY ACADEMY DC, INC. D/B/A  
SOMERSET PREPARATORY ACADEMY PUBLIC CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016  
(continued)**

**NOTE H – RELATED PARTY TRANSACTION**

The School sublease facilities from the Charter School Incubator Initiative, a District of Columbia nonprofit corporation, whose director and president is a Board member of the School. The School's corporate policies include a conflict of interest policy that is reviewed and signed annually by the Board members.

**NOTE I – RETIREMENT PLAN**

The Somerset Prep 401(K) Savings and Profit Sharing Plan (the "Plan") was effective January 1, 2017. All employees who are at least 21 years of age and completed three month of employment are eligible to participate in the Plan. Employees may make elective deferral from their eligible earnings, up to the amount allowed by the Internal Revenue Code. The School's match is discretionary. For the year ended June 30, 2017, there were no discretionary contributions by the School and the retirement plan expense totaled \$0.

**NOTE J – TEMPORARILY RESTRICTED NET ASSETS**

As of June 30, 2017, temporarily restricted net assets available for broadcasting program was \$20,217. There were no temporarily restricted net assets as of June 30, 2016.

**NOTE K – SUBSEQUENT EVENTS**

In preparing these financial statements, the School's management has evaluated events and transaction for potential recognition or disclosure through November 17, 2017, the date the financial statements were available to be issued. There were no additional events or transaction that were discovered during the evaluation that required further recognition or disclosure.



**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  
Cambridge Preparatory Academy DC, Inc. D/B/A  
Somerset Preparatory Academy Public Charter School  
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 Cambridge Preparatory Academy DC, Inc. D/B/A Somerset Preparatory Academy Public Charter School, (a nonprofit organization), (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 17, 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Jane Marcus & M<sup>A</sup> Quade PA*

Washington, DC  
November 17, 2017