

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

**FINANCIAL STATEMENTS, SUPPLEMENTAL
INFORMATION, AND GRANT COMPLIANCE**

***As of and for the Year Ended December 31, 2019
(with Comparative Totals as of and for the Year Ended 2018)***

And Report of Independent Auditor

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

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Report of Independent Auditor

To the Board of Directors
National Alliance for Public Charter Schools
Washington, D.C.

We have audited the accompanying financial statements of National Alliance for Public Charter Schools (the "National Alliance") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statement of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 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 National Alliance for Public Charter Schools as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report of Summarized Comparative Information

We have previously audited the National Alliance's 2018 financial statements and we have expressed an unmodified audit opinion on those audited financial statements in our report dated July 1, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2020 on our consideration of the National Alliance'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 the National Alliance's internal control over financial reporting and compliance.



Tysons Corner, Virginia
June 22, 2020

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,305,759	\$ 3,772,677
Investments	3,662,271	2,907,195
Accounts receivable, net	7,865	41,717
Grants receivable, net	2,965,636	2,083,159
Prepaid expenses and other current assets	481,360	445,650
Total Current Assets	<u>11,422,891</u>	<u>9,250,398</u>
Other Assets:		
Grants receivable, net of current portion	500,000	-
Property and equipment, net	853,316	46,502
Total Assets	<u>\$ 12,776,207</u>	<u>\$ 9,296,900</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 624,834	\$ 838,960
Accrued expenses	314,878	270,101
Obligations under capital leases	6,146	1,840
Deferred revenue	339,958	314,568
Deferred rent liability	69,306	14,022
Total Current Liabilities	<u>1,355,122</u>	<u>1,439,491</u>
Other Liabilities:		
Deferred rent liability, net of current portion	976,387	-
Total Liabilities	<u>2,331,509</u>	<u>1,439,491</u>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	853,316	46,502
Board-designated	3,480,971	2,784,971
Undesignated	3,704,440	3,833,641
Total Without Donor Restrictions	<u>8,038,727</u>	<u>6,665,114</u>
With Donor Restrictions	2,405,971	1,192,295
Total Net Assets	<u>10,444,698</u>	<u>7,857,409</u>
Total Liabilities and Net Assets	<u>\$ 12,776,207</u>	<u>\$ 9,296,900</u>

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	Without Donor Restriction	With Donor Restriction	2019 Total	2018 Total
Revenue:				
Contributions	\$ 7,497,709	\$ 3,945,582	\$ 11,443,291	\$ 7,797,206
Government grants	-	957,413	957,413	283,906
Conference	3,670,516	-	3,670,516	3,247,927
Miscellaneous income	199,538	-	199,538	155,913
Interest income, net	59,908	-	59,908	43,116
Released from restrictions	3,689,319	(3,689,319)	-	-
Total Revenue	<u>15,116,990</u>	<u>1,213,676</u>	<u>16,330,666</u>	<u>11,528,068</u>
Expenses:				
Program services	12,060,315	-	12,060,315	10,352,628
Management and general	1,093,722	-	1,093,722	1,133,123
Fundraising	589,340	-	589,340	479,454
Total Expenses	<u>13,743,377</u>	<u>-</u>	<u>13,743,377</u>	<u>11,965,205</u>
Change in net assets	1,373,613	1,213,676	2,587,289	(437,137)
Net assets, beginning of year	6,665,114	1,192,295	7,857,409	8,294,546
Net assets, end of year	<u>\$ 8,038,727</u>	<u>\$ 2,405,971</u>	<u>\$ 10,444,698</u>	<u>\$ 7,857,409</u>

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

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	Federal Advocacy	State Advocacy and Support	Communications and Marketing	Data and Research	National Conference	Total Program Services	Management and General	Fundraising	Total Supporting Services	2019 Total	2018 Total
Salaries and related expenses	\$ 922,684	\$ 853,825	\$ 703,109	\$ 366,816	\$ 476,199	\$ 3,322,633	\$ 662,384	\$ 322,107	\$ 984,491	\$ 4,307,124	\$ 4,154,029
Professional services and fees	1,500,610	1,710,986	1,535,376	89,424	658,542	5,494,938	293,645	153,033	446,678	5,941,616	5,041,216
Rent	100,066	104,301	81,501	45,113	67,519	398,500	35,990	34,493	70,483	468,983	310,357
Insurance	-	-	-	-	7,806	7,806	16,063	(3,999)	12,064	19,870	17,811
Travel	146,304	152,070	92,400	10,377	136,434	537,585	14,028	30,862	44,890	582,475	613,628
Meeting expenses	85,475	118,991	10,326	4,211	1,248,672	1,467,675	22,133	447	22,580	1,490,255	668,489
Office expenses	140,892	29,198	116,668	11,898	141,070	439,726	42,285	24,750	67,035	506,761	569,759
Dues and subscriptions	38,316	30,218	89,957	180	7,226	165,897	425	20,943	21,368	187,265	189,135
Marketing	34,978	5,136	22,457	10,000	80,908	153,479	-	-	-	153,479	360,390
Total expenses before noncash transactions	<u>2,969,325</u>	<u>3,004,725</u>	<u>2,651,794</u>	<u>538,019</u>	<u>2,824,376</u>	<u>11,988,239</u>	<u>1,086,953</u>	<u>582,636</u>	<u>1,669,589</u>	<u>13,657,828</u>	<u>11,924,814</u>
Noncash transactions:											
Depreciation and amortization	<u>19,448</u>	<u>18,511</u>	<u>15,839</u>	<u>8,767</u>	<u>9,511</u>	<u>72,076</u>	<u>6,769</u>	<u>6,704</u>	<u>13,473</u>	<u>85,549</u>	<u>40,391</u>
Total Expenses	<u>\$ 2,988,773</u>	<u>\$ 3,023,236</u>	<u>\$ 2,667,633</u>	<u>\$ 546,786</u>	<u>\$ 2,833,887</u>	<u>\$ 12,060,315</u>	<u>\$ 1,093,722</u>	<u>\$ 589,340</u>	<u>\$ 1,683,062</u>	<u>\$ 13,743,377</u>	<u>\$ 11,965,205</u>

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

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,587,289	\$ (437,137)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation expense	85,549	40,391
Bad debt expense	-	2,808
Changes in operating assets and liabilities:		
Accounts receivable, net	33,852	15,457
Grants receivable, net	(1,382,477)	(343,275)
Prepaid expenses and other current assets	(35,710)	(128,102)
Accounts payable	(214,126)	510,529
Accrued expenses	44,777	(35,954)
Obligations under fiscal agent agreement	-	(50,000)
Deferred revenue	25,390	(100,556)
Deferred rent liability	269,296	(44,060)
Net cash provided by (used in) operating activities	<u>1,413,840</u>	<u>(569,899)</u>
Cash flows from investing activities:		
Purchases of fixed assets	(121,371)	(10,609)
(Purchases of) proceeds from investments	(695,259)	89,466
Reinvested dividends	(59,817)	(43,006)
Net cash (used in) provided by investing activities	<u>(876,447)</u>	<u>35,851</u>
Cash flows from financing activities:		
Payments on capital lease obligation	(4,311)	(3,726)
Net cash used in financing activities	<u>(4,311)</u>	<u>(3,726)</u>
Net increase (decrease) in cash	533,082	(537,774)
Cash and cash equivalents, beginning of year	3,772,677	4,310,451
Cash and cash equivalents, end of year	<u>\$ 4,305,759</u>	<u>\$ 3,772,677</u>
Noncash transactions:		
Assets acquired by capital leases	<u>\$ 8,617</u>	<u>\$ -</u>
Assets acquired by tenant incentive	<u>\$ 762,375</u>	<u>\$ -</u>

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 1—Organization

The National Alliance for Public Charter Schools (the “National Alliance”) is a 501(c)(3) nonprofit organization located in Washington, D.C., incorporated under the laws of Washington, D.C. in April 2004. The National Alliance is the leading national nonprofit organization committed to advancing the charter school movement. The National Alliance receives grants and contributions from foundations and government agencies and works to increase the number of high-performing charter schools available to all families, particularly low-income and minority families who currently do not have access to quality public schools. The National Alliance provides assistance to state charter school associations and resource centers, develops and advocates for improved public policies, and serves as the united voice for this large and diverse movement. More than 3.3 million students attend more than 7,500 charter schools in 44 states and the District of Columbia.

Note 2—Summary of significant accounting policies

Basis of Accounting – The National Alliance follows the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The National Alliance classifies resources into net asset classes established according to the nature, purpose, and restrictions placed by donors on the use of such resources. Accordingly, all financial transactions have been recorded and reported by net asset classes as follows:

Net Assets Without Donor Restriction – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the National Alliance. These net assets may be used at the discretion of the National Alliance’s management and the board of directors. The National Alliance has chosen to provide further classification about net assets without donor restriction on the statements of financial position.

Invested in Property and Equipment – Represents net assets invested in property and equipment, net of the accumulated depreciation.

Board-Designated – Represents resources set aside by the board of directors to be used for specific activities within guidelines established by the board.

In-Kind Donations – Represents donated assets without donor restriction.

Undesignated – Represents the cumulative net assets without donor restriction excluding those net assets invested in property and equipment, designated by the board for specific activities, or received as in-kind donations.

Net Assets with Donor Restriction – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the National Alliance or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. At December 31, 2019 and 2018, there are no net assets with donor restriction to be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restriction to net assets without donor restriction in the statement of activities.

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 2—Summary of significant accounting policies (continued)

Revenue is reported as increases in net assets without donor restriction unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets are reported as reclassifications from net assets with donor restriction to net assets without donor restrictions.

Cash and Cash Equivalents – Cash and cash equivalents consist primarily of demand deposits and highly liquid investments with original maturities of three months or less and available for current operations.

The National Alliance places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (“FDIC”) covers \$250,000 for substantially all depository accounts. The National Alliance from time to time may have amounts on deposit in excess of insured limits. As of December 31, 2019 and 2018, the National Alliance had \$3,962,119 and \$3,377,766 respectively, which exceeded these amounts.

Investments – The National Alliance has adopted the Investments-Debt and Equity Securities for Not-for-Profit Entities Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Under this topic, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law. Realized gains on securities sold during the year and held at the beginning of the year are recognized to the extent sales proceeds exceed the security's fair market value at the beginning of the year. Donated securities are recorded at their fair market value on the date of donation. The National Alliance's investments are limited to those that are aligned with its investment policy.

Accounts Receivable – Accounts receivable are reported at their outstanding balances, reduced by an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio. As of December 31, 2019 and 2018, the National Alliance's allowance for doubtful accounts was \$48,814 and \$22,240, respectively.

Grants Receivable – Grant receivables are accounted for as contributions and government grants, and are reported at their outstanding balances and represent current obligations of grantors in a future year. Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, although the National Alliance expects such amounts, if any, to be immaterial. Grants received that exceed one year are required to be the present value of the promised amount discounted by a risk-free interest rate commensurate with the term of the payments. The related discount is to be amortized using the interest method over the life of the promise.

Property and Equipment – The National Alliance capitalizes all property and equipment acquisitions greater than \$1,500 and a useful life of 3 years. The National Alliance's furniture, fixtures, equipment, website development costs and leasehold improvements are carried at original cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 7 years. Amortization of leasehold improvements is provided on the straight-line method over the remaining term of the lease or the useful life of the improvement, whichever is shorter.

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 2—Summary of significant accounting policies (continued)

Revenue Recognition – The National Alliance recognizes revenue in accordance with the Revenue Recognition for Not-For-Profit Entities Topic of FASB ASC 958 and Revenue from Contracts with Customers Topic of FASB ASC 606.

For contracts with customers, the National Alliance adopted ASC 606 using a modified retrospective method applied to those contracts that we not substantially complete as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606. No adjustment was necessary as of the adoption date.

Contributions – Contributions, including contributions receivable, are recognized as revenue in the period received. Conditional promises to give are not recognized until donor stipulations are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give are recorded as net assets with donor restrictions at the estimated present value of estimated future cash flows, using a credit risk adjusted discount rate of return appropriate for the expected term of the promise to give. Amortization of the discounts is recorded as contribution revenue in the appropriate net asset class. An allowance for uncollectible contributions receivable is provided based upon management’s judgment of such factors as prior collection history, type of contribution, and other relevant factors.

Government Grants – Prior to the adoption of ASC 606 and Accounting Standards Update (“ASU”) 2018-08, all contributions and grants, and other revenues, are considered without donor restriction unless specifically restricted by the donor or grantor. Based on the guidance of ASU 2018-08, the National Alliance’s government grants are nonreciprocal transactions which fall under the guidance of ASC 958. The government grants have limited discretion inherent in the requirements of federal cost principals and are restricted for the purpose of the grant. As such, government grants are considered conditional until the point in time when expenses related to the purpose of the project are incurred.

In-Kind Donations – In-kind donations are reflected at their fair value at the date of donation and are reported as support without donor restrictions unless explicit donor stipulations specify how donated assets must be used. These amounts have been reported as both in-kind donation income on the statement of activities and in-kind donation expense on the statement of functional expenses. There were \$75,000 and \$0 in in-kind donations for the years ended December 31, 2019 and 2018.

Conference – Prior to the adoption of ASC 606, revenue from the annual conference is recorded when the conference occurs. In accordance with ASC Topic 606, the Company evaluated the criteria of the revenue recognition standard. The National Alliance holds a conference annually and enters into contracts with participants for resignation, exhibitors, and sponsors related to their participation in the conference.

The National Alliance considers a contract with a customer to exist under Topic 606 when there is approval and commitment from the customer, the rights of the parties and payment terms are identified, the contract has commercial substance, and the collectability of consideration is probable. The National Alliance also considers whether two or more contracts entered into with the same customer should be combined and accounted for as a single contract.

In the event a contract is modified, the modification is evaluated by management to determine whether the modification should be accounted for as part of the original performance obligation(s) or as a separate contract. If the modification adds distinct goods or services and increases the contract value proportionate to the stand-alone selling price of the additional goods or services, it will be accounted for as a separate contract.

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 2—Summary of significant accounting policies (continued)

A performance obligation, a unit of account under the new revenue recognition standard, is a promise in a contract to transfer a distinct good or service to the customer. The National Alliance evaluates promised goods and services in contracts with the customer to determine whether each promise represents the transfer of distinct goods or services under Topic 606. Multiple promised goods or services often represent a single performance obligation due to the promised goods or services being integrated into a combined or highly interrelated outputs. This evaluation requires significant judgment.

The National Alliance allocates the transaction price of a contract between the performance obligations in the proportion to their respective stand-alone selling price. Generally, the National Alliance estimates the stand-alone selling price of performance obligations based on an expected cost-plus margin approach as allowed under Topic 606.

Revenue on contracts with customers may either be recognized over time, or at a point in time. The National Alliance recognizes revenue over time as the participant, sponsor, or exhibitor simultaneously receives and consumes the benefits of the contract at the conference. To measure progress towards the satisfaction of the underlying performance obligation(s), the National Alliance uses the milestone reached output method where the milestone is the conference.

The National Alliance had no conference contract receivables or revenue recognized in excess of related billings (contract asset) as of December 31, 2019 or 2018. The National Alliance received billings in excess of related revenue and these amounts are reflected as deferred revenue (contract liabilities) as of December 31, 2019 and 2018.

See Note 11 for additional information about the conferences.

Advertising – Advertising costs are expensed the first time the advertising occurs.

Expense Allocation – The costs of providing the various programs and activities has been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated to the program and support services benefited. Such allocations have been determined by management to be allocated on a time and effort basis.

Fair Market Valuation – The National Alliance adopted the provisions of the Fair Value Measurements and Disclosure Topic (“Fair Value Topic”) of FASB ASC as its valuation methodology. The Fair Value Topic provides the framework for measuring fair value of assets and liabilities. The Fair Value topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. It also establishes a hierarchy to help maximize the use of observable inputs when measuring fair values. These measurements are then classified by how observable or unobservable the inputs used to reach fair market value are. The three levels of the fair value hierarchy are:

Level 1 – Inputs to the valuation methodology are quoted prices available in actively traded markets for identical investments as of the reporting date.

Level 2 – Inputs to the valuation methodology are quoted prices outside of the active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies.

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 2—Summary of significant accounting policies (continued)

Level 3 – Inputs to valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates or assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the National Alliance's valuation methodology used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Money Market Funds – These investments are public investment vehicles valued using \$1 for the net asset value ("NAV"). The money market funds are classified within Level 1 of the valuation hierarchy.

Income Taxes – The National Alliance is exempt from federal income taxes under 501(c)(3) of the U.S. Internal Revenue Code and, accordingly, no provision for income taxes has been recorded in the financial statements. Management has evaluated the effect of the guidance provided by accounting principles generally accepted in the United States of America. Management believes that the National Alliance continues to satisfy the requirements of a tax-exempt organization at December 31, 2019 and 2018. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the National Alliance had no significant uncertain income tax positions at December 31, 2019 and 2018.

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

Future Accounting Pronouncements – In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring lessees to recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains consistent with U.S. GAAP. This ASU is effective for fiscal years beginning after December 15, 2021. The Alliance is currently evaluating the effect the ASU will have on the financial statements.

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 3—Liquidity and availability

The table below represents financial assets available for general expenditures within one year at December 31, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 4,305,759
Investments	3,662,271
Accounts receivable, net	7,865
Grants receivable	<u>2,965,636</u>
Total financial assets	<u>10,941,531</u>
Less amounts not available to be used for general expenditure within one year:	
Board-designated net assets	3,480,971
Net assets subject to donor restriction	<u>2,405,972</u>
Financial assets not available to be used within one year	<u>5,886,943</u>
Financial assets available to meet general expenditure within one year	<u>\$ 5,054,588</u>

The National Alliance has certain board-designated and donor-restricted assets limited to use which are not available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been excluded in the qualitative information above for financial assets to meet general expenditures within one year. However, the board-designated amounts could be made available, if necessary. General expenditures include administrative and general expenses, fundraising expenses, and grant commitments expected to be paid in the subsequent year.

As part of the National Alliance’s liquidity management plan, cash in excess of daily requirements are invested. Occasionally, the board designates a portion of any operating surplus to an operating reserve, which was \$3,480,971 at December 31, 2019. This fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs. See Note 9 for further information.

Additionally, the National Alliance maintains a \$1,000,000 line of credit, as discussed in more detail in Note 7. As of December 31, 2019, \$1,000,000 remained available on the National Alliance’s line of credit.

Note 4—Fair value measurements

Fair value hierarchy level at December 31, 2019 was as follows:

	<u>Level 1</u>
Money market account	<u>\$ 3,662,271</u>

Fair value hierarchy level at December 31, 2018 was as follows:

	<u>Level 1</u>
Money market account	<u>\$ 2,907,195</u>

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 5—Property and equipment

Property and equipment are summarized as follows:

	<u>2019</u>	<u>2018</u>
Computers and equipment	\$ 195,380	\$ 186,764
Furniture and fixtures	167,799	72,664
Leasehold improvements	<u>715,392</u>	<u>57,791</u>
Total	1,078,571	317,219
Less accumulated depreciation and amortization	<u>(225,255)</u>	<u>(270,717)</u>
Total property and equipment, net	<u>\$ 853,316</u>	<u>\$ 46,502</u>

Depreciation and amortization expense was \$85,549 and \$40,391 for the years ended December 31, 2019 and 2018, respectively.

Note 6—Operating lease commitments

The National Alliance had a one hundred twenty-one month noncancelable operating lease for its office facility that expired April 30, 2019.

On October 15, 2018 the National Alliance entered into an eleven year lease commencing on May 1, 2019. Rent expense is recognized on a straight-line basis. The total rent expense was \$436,734 and \$310,357 for the years ended December 31, 2019 and 2018, respectively. A tenant incentive totaling \$762,375 was used to purchase leasehold improvements. The tenant incentive is included in the deferred rent liability and being amortized over the life of the lease.

Future minimum operating lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 323,541
2021	493,400
2022	505,735
2023	518,379
Thereafter	<u>3,596,078</u>
	<u>\$ 5,437,133</u>

Note 7—Line of credit

In July 2018, the National Alliance negotiated a \$1,000,000 revolving line of credit (the "line"). The line has an expiration date of August 30, 2020. The line bears interest at the greater of the prime rate plus 0.50% or 4.00% and is secured, in whole, or in part, by any real property. The interest rate was 6.00% and 6.00% at December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, there were no borrowings against the revolving line of credit.

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 8—Retirement plan

The National Alliance has a defined contribution retirement plan to provide retirement benefits for substantially all of its full time employees. The National Alliance’s contribution to the plan is based on a percentage of the employees’ salaries and contributions. Retirement expense amounted to \$135,163 and \$148,805 for the years ended December 31, 2019 and 2018, respectively, and is included in salaries and related expenses on the statement of functional expenses.

Note 9—Board-designated net assets

Certain net assets without donor restrictions at December 31, 2019 and 2018 have been designated by the Board of Directors for the purpose of an operating reserve. The operating reserve was established by the National Alliance to provide for liquid funds in the event of short-term cash flow needs for unanticipated events that would necessitate the use of reserves to continue the operations and mission of the organization.

The National Alliance established and maintains an operating reserve to ensure continuity of operations despite significant declines in grantor income, economic downturns, or emergencies. The reserve was established in 2006 and funded by an amount equaling no less than 5% of the annual operating budget in a given year. The target level of this reserve was 50% of the annual operating budget to be built over a period of five years. The Finance Committee, in accordance with the board-approved investment policies of the National Alliance, shall monitor the investments in the reserve account. An Executive Committee vote is required for the use of any reserve funds. Additionally the board may establish other reserves as deemed appropriate and/or change the purpose for which this reserve has been established. At December 31, 2019 and 2018, the board had designated \$3,480,971 and \$2,784,971 of total net assets without donor restriction for this reserve, respectively.

Note 10—Net assets with donor restriction

Net assets with donor restrictions at December 31, 2019 and 2018 have been restricted by donors for the following purposes restrictions:

	<u>2019</u>	<u>2018</u>
Subjected to restriction for educational purposes:		
Schwab Foundation	\$ 300,000	\$ 600,000
Reed Hastings	96,917	-
Charter Fund	13,848	-
J.A. & Katheryn Albertson Foundation	225,000	-
Kellogg Foundation	328,894	442,295
Bill and Melinda Gates Foundation	-	150,000
The Anschutz Foundation	19,482	-
		-
Subjected to time restriction:		
Bill and Melinda Gates Foundation	1,421,830	-
Total net assets with donor restriction	<u>\$ 2,405,971</u>	<u>\$ 1,192,295</u>

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

Note 10—Net assets with donor restriction (continued)

Net assets with donor restrictions for the years ended December 31, 2019 and 2018 were released from donor restriction by incurring expenses satisfying the purpose restriction.

As of December 31, 2019 and 2018, respectively, the National Alliance has conditional promises to give totaling \$2,677,638 and \$6,862,940 outstanding. These conditional promises to give are not recognized as assets in the statement of financial position until they become unconditional, that is, when the conditions on which they depend are substantially met. Conditions include a matching requirement and certain performance requirements.

Note 11—Conference

Annually the National Alliance hosts the National Charter Schools Conference. In 2019, the National Conference was held in Las Vegas, Nevada and generated \$3,670,516 in revenue. Expenses for the 2019 National Conference were \$2,833,887. In 2018, the National Conference was held in Austin, Texas and generated \$3,247,927 in revenue. Expenses for the 2018 National Conference were \$2,341,463.

Note 12—Related party transactions

The National Alliance, a 501(c)(3) nonprofit organization, is related to the National Alliance for Public Charter Schools Action Fund and the Charter Schools Action Fund (listed in both years as the “Action Fund”), both nonprofit 501(c)(4) corporations. During 2014, the National Alliance for Public Charter Schools Action Fund dissolved, and the Charter Schools Action Fund was created. The activities of the National Alliance and the Action Fund are not consolidated since the National Alliance does not have management or financial control over the Action Fund. The Action Fund represents the interests of the charter sector and is therefore a related party.

The National Alliance provided the Action Fund support for operating expenses to help develop the organization. The time spent by National Alliance employees was charged to the Action Fund. The outstanding amount due was \$43,022 and \$0 as of December 31, 2019 and 2018, respectively. This amount has been recorded and reported in other assets on the statements of financial position.

Note 13—Subsequent events

In December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. There have been mandates from federal, state, and local authorities requiring forced closures of non-essential businesses and limited person-to-person contact. The National Alliance has evaluated the impact of this outbreak on their daily operations, and will continue to monitor the situation. As of the date of this report, the National Alliance has cancelled the fiscal year 2020 national conference. As such, the National Alliance will not recognize any revenue and minimal expenses for the year ended December 31, 2020.

The National Alliance has evaluated subsequent events through June 22, 2020, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND NOTES TO SCHEDULE

YEAR ENDED DECEMBER 31, 2019

Federal Contractor/Grantor	Federal CFDA Number	Contract/Grant Number	Total YTD Expenditures
US Department of Education			
<i>*Facilitating Charter Schools</i>			
<i>A Proposal to Create a Charter School</i>			
<i>Facility Center at the National Alliance</i>			
<i>for Public Charter Schools</i>	84.282	UT282T180010	\$ 957,413
Total Expenditures of Federal Awards			\$ 957,413

(*) Major Program

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of National Alliance for Public Charter Schools (the "National Alliance") and is presented on the accrual basis of accounting. The National Alliance has elected to use the 10-percent de minimis indirect costs rate. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

GRANT COMPLIANCE

**Report of Independent Auditor 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***

To the Board of Directors
National Alliance for Public Charter Schools
Washington, D.C.

We have audited, 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, the financial statements of National Alliance for Public Charter Schools (the "National Alliance"), which comprise the statement of financial position as of December 31, 2019, 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 June 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the National Alliance'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 National Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the National Alliance'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 the attention of 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 National Alliance'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 National Alliance'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 National Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Cheryl Baekaert CP in cursive script.

Tysons Corner, Virginia
June 22, 2020

Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with the Uniform Guidance

To the Board of Directors
National Alliance for Public Charter Schools
Washington, D.C.

Report on Compliance for Each Major Program

We have audited the National Alliance for Public Charter Schools (the “National Alliance”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the National Alliance’s major federal programs for the year ended December 31, 2019. The National Alliance’s major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the National Alliance’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (“Uniform Guidance”). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the National Alliance’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the National Alliance’s compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, the National Alliance complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the National Alliance is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the National Alliance’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the National Alliance’s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Cherry Baekaert LLP".

Tysons Corner, Virginia
June 22, 2020

NATIONAL ALLIANCE FOR PUBLIC CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

Section II—Financial Statement Findings

None reported

Section III—Federal Award Findings and Questioned Costs

None reported

Section IV—Prior Year Findings

No prior year findings.