

**ELSIE WHITLOW STOKES COMMUNITY FREEDOM
PUBLIC CHARTER SCHOOL**

**Financial Statements and Supplemental Schedules
Together with Reports of Independent Public Accountants**

For the Years Ended June 30, 2017 and 2016



SB & COMPANY, LLC
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JUNE 30, 2017 AND 2016

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Trustees
Elsie Whitlow Stokes Community Freedom
Public Charter School

Report on the Financial Statements

We have audited the accompanying statements of financial position of Elsie Whitlow Stokes Community Freedom Public Charter School (the School), as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, 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; and the auditing standards established pursuant to the District of Columbia School Reform Act, Public Law No. 104-134, 110 Stat. 1321-121, 2204(C)(11)(B)(ix)(1996); D.C. Official Code 38-1802.04(ii)(B)(2001, as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.



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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 the 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 Matters

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplemental schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements for the years ended June 30, 2017 and 2016. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 November 28, 2017, on our consideration of the School's internal control over financial reporting and 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 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 School's internal control over financial reporting and compliance.

Washington, D.C.
November 28, 2017

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

**Statements of Financial Position
As of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash	\$ 1,656,451	\$ 1,618,729
Investments	9,889	8,917
Accounts receivable	162,707	163,694
Grants receivable	111,359	214,737
Prepaid expenses	24,640	-
Total Current Assets	<u>1,965,046</u>	<u>2,006,077</u>
Property and equipment, net	9,834,804	8,695,280
Security deposit	7,102	7,101
Other assets	189,308	128,641
Total Assets	<u>\$ 11,996,260</u>	<u>\$ 10,837,099</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 492,928	\$ 455,354
Deferred compensation	179,204	127,844
Deferred revenue	58,548	61,081
Capital lease - current portion	-	2,577
Notes payable - current portion	227,363	275,037
Total Current Liabilities	<u>958,043</u>	<u>921,893</u>
Non-Current Liabilities		
Notes payable, net of current portion	7,265,764	6,065,872
Interest rate swap	88,605	317,114
Total Non-Current Liabilities	<u>7,354,369</u>	<u>6,382,986</u>
Total Liabilities	<u>8,312,412</u>	<u>7,304,879</u>
Net Assets		
Unrestricted	3,563,848	3,532,220
Temporarily restricted	120,000	-
Total Net Assets	<u>3,683,848</u>	<u>3,532,220</u>
Total Liabilities and Net Assets	<u>\$ 11,996,260</u>	<u>\$ 10,837,099</u>

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

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

**Statements of Activities and Changes in Net Assets
For the Years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Revenue and Support:		
Per pupil allocations	\$ 4,576,741	\$ 4,442,675
DC facilities allowance	1,093,400	1,093,400
Federal entitlements	190,280	213,960
Federal grants	242,377	387,271
Grants and contributions	274,582	202,956
Before and after care	290,786	264,234
Student fees	43,835	77,916
Food services	400,623	584,708
Interest income	13,239	5,843
Building rental	3,800	26,350
Program fees	72,160	53,958
Special events, net of \$12,752 of direct expenses for 2017	24,938	15,493
Other	5,292	14,495
Total Revenue and Support	<u>7,232,053</u>	<u>7,383,259</u>
Expenses		
Program Services	6,272,341	6,213,054
Supporting Services:		
General and administrative	1,020,523	990,467
Fundraising	136,070	132,064
Total Supporting Services	<u>1,156,593</u>	<u>1,122,531</u>
Total Expenses	<u>7,428,934</u>	<u>7,335,585</u>
Non-Operating Revenue (Expense)		
Gain (loss) on interest rate swap	228,509	(123,418)
Change in Unrestricted Net Assets	<u>31,628</u>	<u>(75,744)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Grants and contributions	120,000	-
Change in Temporarily Restricted Net Assets	<u>120,000</u>	<u>-</u>
Changes in net assets	151,628	(75,744)
Net assets, beginning of year	3,532,220	3,607,964
Net Assets, End of Year	<u>\$ 3,683,848</u>	<u>\$ 3,532,220</u>

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

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Statements of Cash Flows
For the Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 151,628	\$ (75,744)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	334,492	303,411
Amortization of debt issuance costs	16,192	16,191
Net unrealized gain on investments	(972)	(339)
Interest rate swap liability	(228,509)	123,418
Effect of changes in non-cash operating assets and liabilities:		
Accounts receivable	987	3,862
Grants receivable	103,378	(129,626)
Prepaid expenses	(24,640)	25,602
Accounts payable and accrued expenses	37,574	3,130
Deferred compensation	51,360	51,360
Deferred revenue	(2,533)	15,578
Net Cash from Operating Activities	<u>438,957</u>	<u>336,843</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,474,018)	(67,482)
Purchases of investments	(60,667)	(53,988)
Cash Flows from Investing Activities	<u>(1,534,685)</u>	<u>(121,470)</u>
Cash Flows from Financing Activities		
Principal payments on capital leases	(2,577)	(5,441)
Proceeds from notes payable	1,429,554	-
Principal payments on notes payable	(293,527)	(330,642)
Net Cash from Financing Activities	<u>1,133,450</u>	<u>(336,083)</u>
Net change in cash	37,722	(120,710)
Cash, beginning of year	1,618,729	1,739,439
Cash, End of Year	<u>\$ 1,656,451</u>	<u>\$ 1,618,729</u>
Supplemental Disclosure		
Cash paid during the year for interest	<u>\$ 374,110</u>	<u>\$ 332,206</u>

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

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

1. ORGANIZATION AND PROGRAM

Elsie Whitlow Stokes Community Freedom Public Charter School (the School) was incorporated in 1998 as a public charter school and enrolls students in kindergarten through fifth grade. The School's mission is to provide an exemplary academic experience in a small nurturing environment to 350 culturally diverse, young children, to focus on high academic standards, early foreign languages, multi-cultural and international education, and to prepare students for citizenship through community service. The School's revenue and other support consist primarily of contributions and grants from the District of Columbia and the Federal government.

On July 1, 1998, the School entered into a contract with the District of Columbia Board of Education granting the School a charter for the establishment of a public charter school in Washington, D.C. The charter was renewed on July 1, 2013, and shall continue for a term of 15 years unless renewed, revoked, or terminated by the District of Columbia Board of Education for violations of applicable laws and conditions, terms and procedures set forth in the charter. The School's current charter provides for enrollment of up to 350 students in kindergarten through sixth grade. Under the provisions of the contract, the District of Columbia Board of Education is to make annual payments to the School for services provided to the students based on the number of students attending the School each year.

In June 2014, the School became part of a consortium of schools, including: the District of Columbia Bilingual Public Charter School (DC Bilingual); Latin American Montessori Bilingual Public Charter School (LAMB); Mundo Verde Bilingual Public Charter School (Mundo Verde); and Washington Yu Ying Public Charter School (Yu Ying) (collectively, Consortium Members) that jointly formed the District of Columbia International School (DCI). DCI operates as a public charter school and currently serves students in sixth and seventh grades but will eventually enroll students in grades six through twelve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are recorded at fair market value. Investment income, including unrealized gains or losses, is reported through the change in net assets as unrestricted unless restricted by the donor or by law.

Accounts and Grants Receivable

The School provides an allowance for doubtful accounts equal to the estimated uncollectible accounts. The School's estimate is based on historical collection experience and a review of the current status of specific accounts and grants receivable. There was no allowance for the years ended June 30, 2017 and 2016, as management believes that these amounts are fully collectible.

Property and Equipment, Net

Property and equipment valued in excess of \$500, are capitalized and recorded at cost if purchased or estimated fair market value as of the date of gift, if donated. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years.

Net Assets

Unrestricted net assets are assets and contributions that are not restricted by donors or for which restrictions have expired.

Temporarily restricted net assets are those whose uses by the School have been limited by donors primarily for a specific time period or purpose. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. If a donor restriction is met in the same reporting period in which the contribution is received, the contribution (to the extent that the restrictions have been met) is reported as unrestricted net assets. Temporarily restricted net assets were \$120,000 for the education program as of June 30, 2017. There were no temporarily restricted net assets as of June 30, 2016.

Permanently restricted net assets are those that are restricted by donors to be maintained by the School in perpetuity. There were no permanently restricted net assets as of June 30, 2017 and 2016.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded when pledged and classified as unrestricted, temporarily or permanently restricted support, depending on the existence and/or nature of any donor imposed restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted and Unrestricted Revenue and Support (continued)

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and change in net assets as net assets released from restrictions.

Revenue Recognition

The School receives a student allocation from the District of Columbia as well as Federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allotment. The School recognizes this funding in the year in which the school term is conducted. Funding received in advance of the school term is recorded as deferred revenue in the accompanying statements of financial position. Revenue from other government sources are recognized as earned. Food service revenue is recognized for food services provided to other schools. Costs are shared and the schools are billed based on an allocation of the number of meals provided. In addition, the School recognizes building rental revenue for the rental of the School space on weekends, program fees for summer school, and revenue from special events, such as fundraising galas.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services that benefit from those costs. General and administrative expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the School.

Income Taxes

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable District of Columbia income tax laws. Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The School performed an evaluation of uncertain tax positions for the year ended June 30, 2017, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

As of June 30, 2017, the statute of limitations for fiscal years 2014 through 2017, remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which the School files tax returns. It is the School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Accounting Changes

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The recognition and measurement of debt issuance costs are not affected by the new guidance. ASU 2015-03 was effective for fiscal years beginning after December 15, 2015. ASU 2015-03 was adopted for the year ended June 30, 2017, and has been retrospectively applied to the balance as of June 30, 2016. The unamortized debt issuance cost of \$41,827 and \$58,019, as of June 30, 2017 and 2016, was reclassified from deferred costs in other assets to net the mortgage note payable in liabilities. Additional disclosures have been added in Note 5 to reflect the requirements of ASU 2015-03.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to assess an entity's ability to continue as a going concern. Management should evaluate whether conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. This pronouncement was effective for the annual reporting periods ending after December 15, 2016. Management adopted ASU. No. 2014-15. Its effect is not material to the School's financial statements.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities and ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments*, that provides updated guidance on the reporting model for not-for-profits and the statement of cash flows. These standards are effective for periods beginning after December 15, 2017 and December 15, 2018, respectively. Management is evaluating the effects of these pronouncements on the financial statements, and will implement these pronouncements by their effective dates.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, (ASU 2016-02). Under ASU 2016-02, lessees will be required to recognize a lease liability and a right-of-use asset, as defined in ASU 2016-02, for all leases (with the exception of short-term leases) at the commencement date. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. ASU 2016-02 is effective for fiscal year beginning after December 31, 2018. Management is currently evaluating the impact ASU 2016-02 will have on the financial statements.

Subsequent Events

The School evaluated subsequent events and transactions through November 28, 2017, the date the financial statements were available for issue, and has determined that no material subsequent events have occurred, except for Note 10 to the financial statements, that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. INVESTMENTS

Accounting standards generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under accounting principles generally accepted in the United States of America are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

**Notes to the Financial Statements
June 30, 2017 and 2016**

3. INVESTMENTS (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for investments measured at fair value.

Mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, the fair value hierarchy of the School's investments at fair value as of:

	As of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Large growth funds	\$ 9,889	\$ -	\$ -	\$ 9,889
	As of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Large growth funds	\$ 8,917	\$ -	\$ -	\$ 8,917

Gains and losses on investments are reported in the accompanying statements of activities and change in net assets as interest income. The unrealized gains on the mutual funds for the years ended June 30, 2017 and 2016, were \$972 and \$339, respectively.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

4. PROPERTY AND EQUIPMENT

As of June 30, 2017 and 2016, property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Life</u>
Building	\$ 10,735,987	\$ 10,735,987	39 years
Furniture and equipment	139,643	139,643	5 years
Building improvements	1,541,961	63,323	10 years
Auto	19,382	9,003	5 years
Capital leases	-	54,357	3-5 years
Construction in progress	-	15,000	
Total	<u>12,436,973</u>	<u>11,017,313</u>	
Less: accumulated depreciation	<u>2,602,169</u>	<u>2,322,033</u>	
Property and Equipment, Net	<u>\$ 9,834,804</u>	<u>\$ 8,695,280</u>	

Depreciation expense was \$334,492 and \$303,411, for the years ended June 30, 2017 and 2016, respectively.

5. NOTES PAYABLE

Notes payable consisted of the following as of June 30, 2017 and 2016:

<u>Notes Payable</u>	<u>Maturity</u>	<u>2017</u>	<u>2016</u>
DC's Energy Efficiency Loan of \$1,429,554	December 1, 2036	\$ 1,411,063	\$ -
BB&T Note Payable of \$6,868,000	January 18, 2020	6,123,891	6,304,793
BB&T Note Payable of \$612,000	January 18, 2017	-	94,135
Total Notes Payable		<u>\$ 7,534,954</u>	<u>\$ 6,398,928</u>

In January 2013, the School signed an agreement with BB&T Bank (the Bank) to refinance its United Bank construction note payable and the DC Office of Public Chartered Schools note payable. The original amount of the loan was \$6,868,000. The term loan has a principal balance of \$6,123,891, as of June 30, 2017, and bears interest at 1 month London Interbank Offered Rate (LIBOR) plus 2.75%. The interest rate as of June 30, 2017 and 2016, was 3.97% and 3.25%, respectively. Principal and interest payments of \$37,399, are due monthly, with the balance due in full on January 18, 2020. The School named the Bank on the deed of trust lien for the building.

The School also entered into an agreement with the Bank to pay off its loan with Building Hope. The original amount of the loan was \$612,000. The loan bore interest at 3.21% annually. The four-year term loan required monthly principal payments of \$13,603, plus interest and matured on January 18, 2017.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

**Notes to the Financial Statements
June 30, 2017 and 2016**

5. NOTES PAYABLE (continued)

Debt issuance costs are costs incurred in refinancing the loan obtained to acquire the land and building. Debt issuance costs are deferred and amortized on a basis that approximates the effective interest method over the term of the debt agreement and recorded as amortization on the accompanying statements of activities and change in net assets. The amortization expense (charged to interest expense) for the debt issuance cost was \$16,191, for the years ended June 30, 2017 and 2016. The accumulated amortized expense as of June 30, 2017 and 2016, was \$71,512 and \$55,320, respectively.

Loan payable consists of following as of June 30,

	<u>2017</u>	<u>2016</u>
Principal amount	\$ 7,534,954	\$ 6,398,928
Less: unamortized debt issuance cost	41,827	58,019
Notes Payable, net	<u>\$ 7,493,127</u>	<u>\$ 6,340,909</u>

The future minimum payments on the notes payable as of June 30, 2017, were as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2018	\$ 227,363
2019	238,144
2020	5,781,156
2021	46,328
2022	49,286
Thereafter	1,192,677
Total	<u>\$ 7,534,954</u>

These notes have certain financial covenants that require annual financial statements to be submitted within 120 days after year end, semi-annual interim financial statements to be provided within 30 days of each 6-month time period, and maintenance of debt service financial ratios. The School was in violation of the covenants for submitting the annual financial statements within 120 days after year end for the year ended June 30, 2016. The School has received a waiver from the Bank.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

5. NOTES PAYABLE (continued)

In July 2016, the School entered into a financing agreement with the District of Columbia and Greenworks Lending LLC to obtain a loan of \$1,429,554, for the installation of energy improvements (roofing, HVAC, etc). These improvements will be performed under the District of Columbia's Energy Efficiency Loan Program, in which the energy savings are to provide the excess cash to pay the principal and interest payments for the loan. Interest shall accrue on the unpaid principal balance of the funds at a rate of 6.2% per annum, with principal and interest payments of \$64,829, due every six months until the loan is paid off in September 2036, beginning March 31, 2017.

Interest expense on these notes was \$373,990 and \$347,366, for the years ended June 30, 2017 and 2016, respectively.

6. LINE OF CREDIT

In January 2013, the School obtained a line of credit that allows for borrowings of up to \$100,000. The line of credit has an interest rate at the Bank's prime rate. Any outstanding balances on this line of credit are secured by all assets of the School. There was no outstanding balance as of June 30, 2017 and 2016.

7. VALUATION OF INTEREST RATE SWAP AGREEMENT

In July 2013, the School entered into an interest rate swap agreement with a bank for a six-and-a-half year term ending January 2020, to fix the effective interest rate on the note payable. Under the agreement, the School pays the bank a fixed rate of interest at 4.91%, and the bank pays the School a variable rate of interest based on 2.75% of LIBOR index on a monthly basis. The interest payments are based on the notional amount which is equal to the outstanding principal balance of the notes payable, which was \$6,123,891 and \$6,304,793, as of June 30, 2017 and 2016, respectively. In accordance with accounting principles generally accepted in the United States of America, as of June 30, 2017 and 2016, the School recorded a liability of \$88,605 and \$317,114, respectively, which approximated the fair market value of the interest rate swap. An adjustment was recorded to properly state the swap liability at fair market value, and the amount was included in the gain (loss) from interest rate swap in the accompanying statements of activities and change in net assets. The amount of gain (loss) from interest rate swap incurred for the years ended June 30, 2017 and 2016, was \$228,509 and \$(123,418), respectively.

8. RETIREMENT PLAN

The School has a 403(b) plan. All full time employees who have reached the age of 21 and have been employed for more than one year are eligible to participate in this tax-deferred retirement plan (the Plan). The School's contribution is 3% for employees with less than four years of experience and 5% thereafter. Employees may also make discretionary contributions. Pension expense totaled \$134,341 and \$139,755, for the years ended June 30, 2017 and 2016, respectively.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

8. RETIREMENT PLAN (continued)

Supplemental Executive Retirement Plan

Effective January 30, 2014, the School provides a noncontributory supplemental executive retirement plan (the SERP plan) for a certain executive under section 457(f) of the Internal Revenue Code of 1986, as amended. The School's contributions to the SERP plan are established each year at the discretion of the Board of Directors. The participant is vested based on the provisions set forth in the SERP plan document, which was approved by the Board of Directors during fiscal year 2014. As of June 30, 2017 and 2016, the School held \$189,308 and \$128,641, respectively, of deferred compensation in an account that is administered by the School, which has been recorded as other assets in the accompanying statements of financial position.

9. COMMITMENTS AND CONTINGENCIES

Grants

The School receives financial assistance from Federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

The School receives a substantial portion of its revenue from the District of Columbia. If a significant reduction in this revenue should occur, it may have an effect on the School's programs. During the years ended June 30, 2017 and 2016, the School earned revenue of \$6,102,798 and \$6,137,306, from the District of Columbia, which is 84% and 83%, respectively, of the total revenue and support. These amounts are reflected as per pupil allocation, and Federal grants and entitlements in the accompanying statements of activities and change in net assets.

Operating Lease

The School also leased a vehicle under a capital lease that expired in 2017. The leased vehicle is included in property and equipment at a cost of \$30,152, of which \$15,745 was financed. Interest expense related to the capital leases was \$120 and \$1,031, for the years ended June 30, 2017 and 2016, respectively.

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

Notes to the Financial Statements June 30, 2017 and 2016

10. SUBSEQUENT EVENTS

In September 2017, the offices of the Deputy Mayor of Education (DME) and the State Superintendent of Education (OSSE), notified all charter school leaders of a tentative approved contract with the Washington Teacher's Union (WTU). Upon approval of the contract by the City Council and Mayor of the District of Columbia (DC), it is expected that OSSE will provide additional funding to all DC Public and Charter Schools through an increase in the per pupil allocation (Uniform per Student Funding Formula (UPSFF)) which will be applied retroactive for fiscal 2017 and to future years. All public charter schools are expected to receive a one-time payment to reflect the increase in the fiscal year 2017 UPSFF base rate, which will be calculated based on the final enrollment audit count from fiscal year 2017, supplemental payments and extended school year (ESY) funding.

Based on the School's final enrollment count and the \$203 rate increase expected to the fiscal year 2017 UPSFF base rate, the School anticipates receiving approximately \$77,546 in retroactive per pupil allocation revenue which will be recognized and reported in the School's fiscal year 2018 financial statements.

SUPPLEMENTARY INFORMATION

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

**Supplemental Schedule of Functional Expenses
For the Year Ended June 30, 2017 with Comparable Totals for 2016**

	2017			2016	
	<u>Educational Programs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
SALARIES, TAXES AND BENEFITS					
Salaries	\$ 3,465,350	\$ 626,268	\$ 83,502	\$ 4,175,120	\$ 3,909,732
Employee benefits	659,761	119,234	15,898	794,893	813,024
Professional development	39,137	7,073	943	47,153	90,133
Total salaries, taxes and benefits	<u>4,164,248</u>	<u>752,575</u>	<u>100,343</u>	<u>5,017,166</u>	<u>4,812,889</u>
DIRECT STUDENT COSTS					
Supplies and materials	100,808	-	-	100,808	75,872
Contracted instruction fees	274,537	-	-	274,537	305,198
Student assessments	7,482	-	-	7,482	5,560
School activities	84,147	-	-	84,147	93,137
Food services	136,996	-	-	136,996	146,249
DCI - consortium fees	1,177	-	-	1,177	55,073
Other student costs	20,298	-	-	20,298	51,394
Total direct student costs	<u>625,445</u>	<u>-</u>	<u>-</u>	<u>625,445</u>	<u>732,483</u>
OCCUPANCY EXPENSES					
Note payable interest expense	310,411	56,099	7,480	373,990	347,366
Capital lease interest expense	100	18	2	120	1,031
Utilities	74,108	13,393	1,786	89,287	96,451
Contracted building services	115,061	20,794	2,773	138,628	185,695
Maintenance and repairs	19,491	3,523	470	23,484	39,233
Depreciation	229,075	41,399	5,520	275,994	275,994
Total occupancy expenses	<u>748,246</u>	<u>135,226</u>	<u>18,031</u>	<u>901,503</u>	<u>945,770</u>
OFFICE EXPENSES					
Office supplies and materials	3,458	625	83	4,166	17,522
Depreciation	48,553	8,775	1,170	58,498	27,417
Telecommunications	51,729	9,349	1,247	62,325	56,587
Professional fees	108,244	19,562	2,608	130,414	92,027
Printing and publications	90,193	16,300	2,173	108,666	74,937
Postage and shipping	388	70	9	467	615
Other	12,988	2,347	313	15,648	12,263
Total office expenses	<u>315,553</u>	<u>57,028</u>	<u>7,603</u>	<u>380,184</u>	<u>281,368</u>
GENERAL EXPENSES					
Insurance	57,510	10,393	1,386	69,289	74,365
Dues and subscriptions	6,089	1,100	147	7,336	15,925
Transportation	7,277	1,315	175	8,767	7,020
Food services - Stokes Kitchen	255,112	46,104	6,147	307,363	354,294
DC PCSB administration fee	74,640	13,489	1,799	89,928	73,786
Marketing and advertising	-	-	-	-	2,744
Bank/credit card service fees	11,632	2,102	280	14,014	17,101
Other general expense	6,589	1,191	159	7,939	17,840
Total general expenses	<u>418,849</u>	<u>75,694</u>	<u>10,093</u>	<u>504,636</u>	<u>563,075</u>
Total Expenses	<u>\$ 6,272,341</u>	<u>\$ 1,020,523</u>	<u>\$ 136,070</u>	<u>\$ 7,428,934</u>	<u>\$ 7,335,585</u>

ELSIE WHITLOW STOKES COMMUNITY FREEDOM PUBLIC CHARTER SCHOOL

**Supplemental Schedule of Functional Expenses
For the Year Ended June 30, 2016**

	Educational Programs	General and Administrative	Fundraising	Total
SALARIES, TAXES AND BENEFITS				
Salaries	\$ 3,245,077	\$ 586,460	\$ 78,195	\$ 3,909,732
Employee benefits	674,810	121,954	16,260	813,024
Professional development	74,810	13,520	1,803	90,133
Total salaries, taxes and benefits	<u>3,994,697</u>	<u>721,934</u>	<u>96,258</u>	<u>4,812,889</u>
DIRECT STUDENT COSTS				
Supplies and materials	75,872	-	-	75,872
Contracted instruction fees	305,198	-	-	305,198
Student assessments	5,560	-	-	5,560
School activities	93,137	-	-	93,137
Food services	146,249	-	-	146,249
DCI - consortium fees	55,073	-	-	55,073
Other student costs	51,394	-	-	51,394
Total direct student costs	<u>732,483</u>	<u>-</u>	<u>-</u>	<u>732,483</u>
OCCUPANCY EXPENSES				
Note payable interest expense	288,313	52,105	6,948	347,366
Capital lease interest expense	855	155	21	1,031
Utilities	80,054	14,468	1,929	96,451
Contracted building services	154,127	27,854	3,714	185,695
Maintenance and repairs	32,563	5,885	785	39,233
Depreciation	229,075	41,399	5,520	275,994
Total occupancy expenses	<u>784,987</u>	<u>141,866</u>	<u>18,917</u>	<u>945,770</u>
OFFICE EXPENSES				
Office supplies and materials	14,544	2,628	350	17,522
Depreciation	22,756	4,113	548	27,417
Telecommunications	46,967	8,488	1,132	56,587
Professional fees	76,382	13,804	1,841	92,027
Printing and publications	62,197	11,241	1,499	74,937
Postage and shipping	511	92	12	615
Other	10,179	1,839	245	12,263
Total office expenses	<u>233,536</u>	<u>42,205</u>	<u>5,627</u>	<u>281,368</u>
GENERAL EXPENSES				
Insurance	61,723	11,155	1,487	74,365
Dues and subscriptions	13,217	2,389	319	15,925
Transportation	5,827	1,053	140	7,020
Food services - Stokes Kitchen	294,064	53,144	7,086	354,294
DC PCSB administration fee	61,242	11,068	1,476	73,786
Marketing and advertising	2,277	412	55	2,744
Bank/credit card service fees	14,194	2,565	342	17,101
Other general expense	14,807	2,676	357	17,840
Total general expenses	<u>467,351</u>	<u>84,462</u>	<u>11,262</u>	<u>563,075</u>
Total Expenses	<u><u>\$ 6,213,054</u></u>	<u><u>\$ 990,467</u></u>	<u><u>\$ 132,064</u></u>	<u><u>\$ 7,335,585</u></u>



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**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
Elsie Whitlow Stokes Community Freedom
Public Charter School

Report on the Financial Statements

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 Elsie Whitlow Stokes Community Freedom Public Charter School (the School), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 28, 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.



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Compliance and Other Matters

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

Purpose of this Report

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

Washington, DC
November 28, 2017