

EARLY CHILDHOOD ACADEMY PUBLIC CHARTER SCHOOL
AND SUBSIDIARY

WASHINGTON, DC

COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

KENDALL, PREBOLA AND JONES

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Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Trustees
Early Childhood Academy Public Charter School
and Subsidiary
4025 9th Street, SE
Washington, DC 20032

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Early Childhood Academy Public Charter School (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Early Childhood Academy Public Charter School and Subsidiary as of June 30, 2018 and 2017, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidated schedules of functional expenses, as well as the consolidating statement of financial position and the consolidating statement of activities, are presented for purposes of additional analysis and are 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 November 9, 2018, on our consideration of the Early Childhood Academy Public Charter School and Subsidiary'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 solely 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 Early Childhood Academy Public Charter School and Subsidiary's internal control over financial reporting and compliance.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 9, 2018

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
COMPARATIVE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 4,040,093	\$ 4,292,731
Accounts Receivable	76,101	39,659
Grants Receivable	171,768	171,015
Promises Receivable	-	4,500
Prepaid Expenses	<u>14,249</u>	<u>20,829</u>
Total Current Assets	<u>\$ 4,302,211</u>	<u>\$ 4,528,734</u>
<u>Fixed Assets:</u>		
Furniture and Equipment	\$ 174,358	\$ 166,607
Computer Equipment	258,491	285,299
Leasehold Improvements	75,235	75,235
Construction in Progress	1,786,191	550,000
Land - Deposit	50,000	-
Less: Accumulated Depreciation and Amortization	<u>(448,000)</u>	<u>(432,193)</u>
Total Fixed Assets	<u>\$ 1,896,275</u>	<u>\$ 644,948</u>
<u>Other Assets:</u>		
Deposits	\$ 57,517	\$ 56,857
Loan Acquisition Costs	<u>40,000</u>	<u>-</u>
Total Other Assets	<u>\$ 97,517</u>	<u>\$ 56,857</u>
TOTAL ASSETS	<u>\$ 6,296,003</u>	<u>\$ 5,230,539</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 558,069	\$ 66,496
Accrued Salary and Vacation	151,735	142,239
Payroll Withholdings and Related Liabilities	19,599	3,372
Deferred Revenues	126	-
Current Portion: Long-Term Debt	<u>2,931</u>	<u>6,423</u>
Total Current Liabilities	<u>\$ 732,460</u>	<u>\$ 218,530</u>
<u>Long Term Liabilities:</u>		
Capital Lease Payable	\$ 2,931	\$ 9,354
Less: Current Portion	<u>(2,931)</u>	<u>(6,423)</u>
Total Long Term Liabilities	<u>\$ -</u>	<u>\$ 2,931</u>
Total Liabilities	<u>\$ 732,460</u>	<u>\$ 221,461</u>
<u>Net Assets:</u>		
Unrestricted	\$ 5,563,543	\$ 5,009,078
Temporarily Restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 5,563,543</u>	<u>\$ 5,009,078</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,296,003</u>	<u>\$ 5,230,539</u>

(See Accompanying Notes and Auditor's Report)

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
COMPARATIVE CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>			<u>June 30, 2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues and Other Support:</u>						
Per-Pupil Funding Allocation	\$ 3,941,922	\$ -	\$ 3,941,922	\$ 3,291,774	\$ -	\$ 3,291,774
Per-Pupil Funding - Facilities Allowance	785,411	-	785,411	715,396	-	715,396
Federal Entitlements and Grants	596,110	-	596,110	515,653	-	515,653
Donated Federal Commodities	16,796	-	16,796	14,037	-	14,037
State Grants	18,456	-	18,456	58,440	-	58,440
Private Grants and Contributions	38,634	-	38,634	22,364	-	22,364
Service Fees	42,589	-	42,589	17,862	-	17,862
Student Fees	59,283	-	59,283	68,969	-	68,969
Interest	5,257	-	5,257	4,140	-	4,140
Special Events (Net)	4,340	-	4,340	4,923	-	4,923
Loss on Disposal of Fixed Assets	(669)	-	(669)	(1,745)	-	(1,745)
Net Assets Released from Restrictions (Satisfaction of Program Restrictions)	-	-	-	36,063	(36,063)	-
 Total Revenues and Other Support	 <u>\$ 5,508,129</u>	 <u>\$ -</u>	 <u>\$ 5,508,129</u>	 <u>\$ 4,747,876</u>	 <u>\$ (36,063)</u>	 <u>\$ 4,711,813</u>
<u>Expenses and Losses:</u>						
Educational Services	\$ 4,457,357	\$ -	\$ 4,457,357	\$ 4,160,162	\$ -	\$ 4,160,162
Fundraising	29,077	-	29,077	4,287	-	4,287
General and Administrative	467,230	-	467,230	383,114	-	383,114
 Total Expenses	 <u>\$ 4,953,664</u>	 <u>\$ -</u>	 <u>\$ 4,953,664</u>	 <u>\$ 4,547,563</u>	 <u>\$ -</u>	 <u>\$ 4,547,563</u>
Changes in Net Assets	\$ 554,465	\$ -	\$ 554,465	\$ 200,313	\$ (36,063)	\$ 164,250
Net Assets, Beginning of Year	<u>5,009,078</u>	<u>-</u>	<u>5,009,078</u>	<u>4,808,765</u>	<u>36,063</u>	<u>4,844,828</u>
Net Assets, End of Year	<u>\$ 5,563,543</u>	<u>\$ -</u>	<u>\$ 5,563,543</u>	<u>\$ 5,009,078</u>	<u>\$ -</u>	<u>\$ 5,009,078</u>

(See Accompanying Notes and Auditor's Report)

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
COMPARATIVE CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 554,465	\$ 164,250
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	57,534	62,945
Loss on Disposal of Fixed Assets	669	1,745
Bad Debt Expense	4,500	-
Accounts Receivable - (Increase)/Decrease	(36,442)	(12,397)
Grants Receivable - (Increase)/Decrease	(753)	(86,498)
Promises Receivable - (Increase)/Decrease	-	40,500
Prepaid Expenses - (Increase)/Decrease	6,580	(7,877)
Deposits - (Increase)/Decrease	(660)	23,915
Accounts Payable - Increase/(Decrease)	(65,517)	43,531
Accrued Salary and Vacation - Increase/(Decrease)	9,496	2,349
Payroll Withholdings and Related Liabilities - Increase/(Decrease)	16,227	(12,096)
Deferred Revenues - Increase/(Decrease)	<u>126</u>	<u>(2,795)</u>
Net Cash Flows from Operating Activities	<u>\$ 546,225</u>	<u>\$ 217,572</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (23,339)	\$ (84,937)
Purchase of Deposit on Land	(50,000)	-
Payments for Construction in Progress	<u>(679,101)</u>	<u>(500,000)</u>
Net Cash Flows from Investing Activities	<u>\$ (752,440)</u>	<u>\$ (584,937)</u>
<u>Cash Flows from Financing Activities:</u>		
Payments for Loan Acquisition Fees	\$ (40,000)	\$ -
Payments on Capital Lease	<u>(6,423)</u>	<u>(7,131)</u>
Net Cash Flows from Financing Activities	<u>\$ (46,423)</u>	<u>\$ (7,131)</u>
Net (Decrease) in Cash and Cash Equivalents	\$ (252,638)	\$ (374,496)
Cash and Cash Equivalents at Beginning of Year	<u>4,292,731</u>	<u>4,667,227</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,040,093</u>	<u>\$ 4,292,731</u>

Supplemental Disclosures:

- a) No income taxes were paid during the years ended June 30, 2018 and 2017.
- b) Cash paid for interest during the years ended June 30, 2018 and 2017 was \$843 and \$852, respectively.

(See Accompanying Notes and Auditor's Report)

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Early Childhood Academy Public Charter School, Inc., and Subsidiary (ECA), a District of Columbia not-for-profit corporation was incorporated on November 12, 2004, exclusively for educational purposes. The public charter school operates as part of the District of Columbia Public School System and was chartered under the authority of the DC Public Charter School Board. ECA is a tuition-free public school, designed to ultimately serve 300 Washington, DC, children in grades prekindergarten through grade three. ECA focuses heavily on language and literacy, with instruction also provided in math, social studies, science, music, and physical education.

It is the mission of Early Childhood Academy Public Charter School and Subsidiary to foster the academic and social/emotional growth and development of each student in a safe and holistic learning environment that will equip all students with the knowledge and tools to become high achievers, proficient readers, and critical thinkers who will thrive for a lifetime as productive and caring citizens.

ECA's primary sources of support are local appropriations for charter schools from the District of Columbia. ECA also receives federal entitlement funding through the Office of the State Superintendent of Education.

On May 11, 2018, the ECA Support Corporation was organized as a District of Columbia not-for-profit organization to participate in the Internal Revenue Service's Federal New Market Tax Credit (NMTC) Program to develop and construct a new facility site and campus for its elementary school operations and programs, located at 885 Barnaby Street, SE, Washington, DC. The ECA Support Corporation will serve as a leverage lender to indirectly fund the NMTC loans and will operate for the benefit of, perform the functions of, and carry out the purposes of the Early Childhood Academy Public Charter School.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Charter School are summarized below:

(a) Basis of Accounting and Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Contributions

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-605-25, *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor-imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met. Contributions and promises to give with donor-imposed restrictions are reported as temporarily restricted support.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

Contributions (Continued)

Unconditional promises to give due in the next year are recorded at their net realizable value. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history and type of contribution.

The Charter School reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Charter School reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Federal and Charter School Funding

The Charter 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 Charter 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 a refundable advance. Federal entitlements are recognized based on the allowable costs incurred.

Before and After Care Fees

The Charter School offers fee-based extended day programming for students in grades prekindergarten through third grade. The hours of operation are structured to coincide with the typical workday of parents of the students. Both the before and after care programs offer food services. Tuition is collected based on a monthly fee and has been reflected as student fees.

(c) Corporate Taxes:

Early Childhood Academy Public Charter School

The Charter School is exempt from federal and state income taxes (other than on unrelated business income) under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. Exemption from District of Columbia income taxes was granted to the Charter School effective June 13, 2007. Accordingly, no provisions for income taxes have been provided for in the accompanying financial statements. The Charter School has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions qualify as a charitable tax deduction by the contributor under Section 170(b)(i)(A)(ii). The Charter School did not have any net unrelated business income for the years ended June 30, 2018 and 2017.

The Charter School is also exempt from District of Columbia sales and personal property taxes.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(c) Corporate Taxes: (Continued)

ECA Support Corporation

The ECA Support Corporation was incorporated on May 11, 2018, to operate as a not-for-profit organization. As of June 30, 2018, the application for federal income tax exemption was in the process of being submitted to apply for exemption under 501(c)(3) of the Internal Revenue Code. The Support Corporation is currently operating with the benefits provided to an exempt organization until such time as the Application for Exemption is reviewed by the Internal Revenue Service and a determination is issued.

(d) Grants:

Foundation Grants

Grant revenues from foundations are recognized as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions between the applicable classes of net assets.

Government Grants

The Charter School receives grants from federal and state governmental agencies for various purposes in the form of exchange transactions. Receivables related to grant awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant award. Funds received in advance for these types of grants and those that are unexpended as of year-end are reflected as a deferred revenue.

(e) Net Assets:

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-205-05, *Financial Statements of Not-for-Profit Organizations*, which requires reporting information regarding its financial position and activities according to three classes of net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are defined as net assets that are not subject to donor-imposed restrictions and over which the Board of Trustees has discretionary control. This classification includes net assets subject to donor-imposed conditions, which have been met in the current year and net assets subject to donor-imposed restrictions that have been released from restrictions.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are defined as net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Charter School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets available at June 30, 2018 and 2017.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, the passage of time, or by occurrence of events specified by donors for the following activity:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Afterschool Enrichment	\$ _____ -	\$ <u>36,063</u>
Total Released	\$ <u>_____ -</u>	\$ <u>36,063</u>

Permanently Restricted Net Assets

Permanently restricted net assets are defined as net assets subject to donor-imposed stipulations that require the net assets be maintained permanently by the Charter School. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Charter School did not have any permanently restricted net assets as of June 30, 2018 and 2017.

(f) Donated Services and Materials:

Donated services and materials are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. The time contributed by the Charter School's Board of Trustees is uncompensated and is not reflected as donated services. In-kind contributions are recorded in the statement of activities at estimated fair value and recognized as revenue and expense (or an asset) in the period they are received. There were no donated services or materials recognized during the years ended June 30, 2018 and 2017.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs:

Educational Approach

ECA has a strong curricular focus on language and literacy, given the tremendous impact of early language development on nearly all other aspects of development. Instruction is based upon the Early Learning Standards for prekindergarten and the national Common Core standards for reading and math, kindergarten through grade three. Early Childhood Academy Public Charter School has selected *Pearson Opening the World of Learning (OWL)* as its instructional tool for pre-kindergarten and *Houghton Mifflin Science* and *Social Studies*, as well as *McGraw Hill My Math* and *Reading Wonders* for kindergarten to grade three.

Opening the World of Learning is a comprehensive curriculum that covers all domains of early learning. The content of each unit is built around a carefully crafted daily routine within activity centers. Themes, skills, and concepts are developed through quality children's fiction and nonfiction trade books.

Houghton Mifflin Science and *Social Studies* are comprehensive learning programs that includes a variety of products to help maximize teaching effectiveness, including textbooks, workbooks, teachers' guides and resources, audio-visual aids, and computer software.

McGraw-Hill My Math and *Reading Wonders* provide students with research-based content aligned with the Common Core State Standards. Differentiated instruction allows teachers to reach every student and ensure success on state and standardized tests. Together, these curriculum tools will ensure an appropriate and challenging educational program focusing on children's developmental progress and mastery of content knowledge and skills.

Assessment

ECA believes that the purpose of assessment is to inform instruction and assess student progress. Through implementation of a variety of formal and informal assessments, teachers obtain useful information about each child's knowledge, skills, and progress by observing, documenting, analyzing, and reviewing work samples over time. Teachers at Early Childhood Academy Public Charter School are given specific instructions on how to analyze data and use it to plan for instruction.

Baseline and benchmark formative and summative assessments for prekindergarten include the Phonological Awareness Literacy Screening (PALS) and the Every Child Ready Assessment provided by the AppleTree Institute for Education Innovation. Prekindergarten classroom environments are also evaluated using the Classroom Assessment and Scoring System (CLASS). Formative and summative assessments for kindergarten through grade three include the Northwest Evaluation Association Measures of Academic Progress (MAP) and the Developmental Reading Assessment (DRA). Third grade students also complete the Partnership for Assessment of Readiness for College and Careers (PARCC), which is the required statewide assessment.

Data from these assessments guide planning and instruction for all students to ensure that goals and standards are met.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Discipline

ECA promulgates clear, school-wide expectations for student and adult behavior, as well as consistent, respectful, and developmentally appropriate consequences administered as necessary. By implementing a school-wide behavior support plan and providing on-going staff training in positive behavior facilitation, ECA creates and maintains a learning environment that is nurturing, age-appropriate, and culturally sensitive.

Professional Development

ECA believes that high-quality professional development and ongoing feedback and support from administrators provide teachers with the knowledge base and skills needed to promote children's learning. Therefore, each year, the executive director, principal, and a representative group of teachers draft a Professional Development Plan that articulates goals, activities, resources, and evidence of success.

Experts in their fields are contracted to support high student achievement in reading and math. Robyn Silbey, ECA's math coach, taught for 36 years in Montgomery County, Maryland, a large, urban/suburban school district with a widely diverse population. Ms. Silbey holds a Master of Science degree in Mathematics Education and a Bachelor's of Science degree in Elementary Education. For over 30 years, Robyn has authored and co-authored books, computer software, workbooks, and articles.

Melodie Barron has worked as a literacy coach across the country for the last decade. She has a master's degree in teacher leadership and has worked as a teacher and school administrator for over 25 years. Ms. Barron currently works with a number of charter schools in the DC area, including ECA and DC Prep.

Parent Involvement

ECA is dedicated to encouraging strong and consistent parent involvement in all aspects of the child's educational, social, and emotional development. Orientation meetings are held during which parents receive *Parent Handbooks* and sign a "School-Parent Compact." Parent meetings, phone calls, written progress reports, and regularly scheduled meetings are implemented to discuss children's progress, notify parents of ECA's performance in meeting yearly academic goals, and to ensure open communication with parents on a regular basis. In addition, ECA offers free quarterly parent education workshops. The principal facilitates the establishment of a Parent Leadership Team and all parents are members of the Parent School Association.

Community Involvement

The executive director will promote partnerships and collaborative ventures with school personnel and other public and private stakeholder organizations to facilitate service delivery. ECA will also develop a continually updated list of opportunities for parents and other community members to participate in school activities.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Community Involvement (Continued)

ECA currently partners with Family Matters of Greater Washington, Reading is Fundamental, EDspired, the Richard E. and Nancy P. Marriott Foundation, Friends of Choice in Urban Schools, the Special Education Cooperative, the DC Association of Chartered Public Schools, AppleTree Institute for Education Innovation, eyemaginED, and the Joyful Market.

Leadership

ECA is overseen by the eleven-member Board of Trustees, who is responsible for the governance of the school. On-site leadership is provided by the executive director, who has overall responsibility for the operation of the Charter School and the educational program; and by the school principal, who provides instructional leadership and program and building management. ECA's executive director holds a master's degree in educational psychology and has over thirty years of experience as a teacher, special education coordinator, assistant principal, principal, and executive director. The Charter School's principal holds two master's degrees in teaching and early childhood special education and has over twenty years of experience as a teacher, special education coordinator, assistant principal, and principal. ECA's financial manager, a CPA and instructor at the University of the District of Columbia, provides the financial and HR expertise for the leadership team.

Early Childhood Academy Public Charter School's leadership is composed of a highly competent team of stakeholders from the Washington, DC community who are knowledgeable about the educational and developmental needs of children, understand the communities which they serve, and are connected with the resources and services of government and nonprofits. They know law and accounting, and they are all committed to and invigorated by this endeavor. The leadership team, along with the teaching staff of ECA, shares an understanding that the ability of children to learn is affected by many outside factors, such as socioeconomic backgrounds, family stability, parental employment and education, and influences from the community. Although the Charter School alone cannot successfully address all of the negative societal exposure many children face, ECA can and does serve as a foundation for their strong academic and emotional growth and development, and as a nurturing and safe haven for its students.

(h) Functional Expense Allocation Policies and Procedures:

Management has elected to prepare a schedule of functional expenses that is presented as supplemental information to the financial statements. The schedule of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs pertain to educating students. General and administrative costs pertain to supporting activities. Fundraising costs relate to fundraising activities such as special events, fundraisers and soliciting of contributions.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(h) Functional Expense Allocation Policies and Procedures: (Continued)

Management has established functional expense allocation policies and procedures based on a reasonable analysis of cost drivers and reasonable allocation estimates based on financial results and industry standards.

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Direct student expenses (textbooks, materials, instructional supplies, assessment material, contract educational services, and field trips) are allocated entirely to program services.

Personnel expenses for salaries are allocated based on the employee's function and management estimates of time spent on particular activities. Personnel expenses for salaries are divided into employee categories (executive, teachers, other educational staff, etc.) and then a percentage of time spent on program services, general and administrative activities, and fundraising activities is applied. All other personnel expenses (employee benefits, payroll taxes, staff development) are allocated based on the weighted average allocation of the direct salaries.

Other expenses that are not directly identifiable by program are allocated based on management estimates of use of resources. For other expenses where it is not appropriate to designate 100 percent as a program service cost, general and administrative cost, or fundraising cost, the allocation formula for personnel expenses is utilized for cost allocation purposes.

(i) 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, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Recognition of Salary Expense:

Salary expense is recognized in the year the service is rendered, which coincides with the academic year. Salaries unpaid at June 30 are recognized as expense and accrued salaries.

(k) Fair Value of Certain Financial Instruments:

Some of the Charter School's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(l) Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the ECA Support Corporation. Consolidation is presented when it is determined that there is a controlling financial interest in one or more subsidiaries resulting in the presentation of one economic entity. All significant intercompany transactions and accounts have been eliminated in consolidation.

(m) Reclassifications:

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the change in net assets or to total net assets from the prior years.

2. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in the Charter School'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 Charter School performed an evaluation of uncertain tax positions for the year ended June 30, 2018, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2018, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Charter School files tax returns. It is the Charter School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2018, the Charter School had no accruals for interest and/or penalties.

3. CASH AND CASH EQUIVALENTS:

The carrying amount of cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Non-Interest Bearing Checking Accounts	\$ 421,148	\$ 480,182
Money Market Accounts	3,618,445	3,812,049
Petty Cash	<u>500</u>	<u>500</u>
Total	<u>\$ 4,040,093</u>	<u>\$ 4,292,731</u>

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less.

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3. CASH AND CASH EQUIVALENTS: (Continued)

The Charter School maintains its operating funds in three separate financial institutions. These accounts are covered under the Federal Deposit Insurance Corporation (FDIC) Program. Federal Deposit Insurance Corporation Insurance coverage is \$250,000 per account category. Deposits held in non-interest-bearing transaction accounts are aggregated with interest-bearing deposits and the combined total is insured up to \$250,000.

As of June 30, 2018 and 2017, \$3,373,421 and \$3,846,710, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the year, the amount of funds at risk may have been greater than at year end. The Charter School was at risk for the funds held in excess of the insured amounts. The Charter School has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

4. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:

Accounts and Grants Receivable

Accounts and grants receivable are current and are considered to be fully collectible by management. Balances as of June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Accounts Receivable:</u>		
Per Pupil Funding	\$ 44,020	\$ 20,687
E-rate	24,688	13,532
Medicaid - School Based Services	6,893	5,440
Reimbursable Expenses	<u>500</u>	<u>-</u>
Total Accounts Receivable	<u>\$ 76,101</u>	<u>\$ 39,659</u>
<u>Grants Receivable:</u>		
DC School Choice Incentive Program - SOAR	\$ 100,943	\$ 71,600
Elementary and Secondary Education	27,187	50,439
National School Food Programs	25,865	37,285
Individuals with Disabilities Education Act	10,106	-
Technology Fund	5,123	-
DC Physical Activities for Youth	-	10,000
National School Food - Healthy Schools Act	853	1,691
Special Education Enhancement	<u>1,691</u>	<u>-</u>
Total Grants Receivable	<u>\$ 171,768</u>	<u>\$ 171,015</u>

EARLY CHILDHOOD ACADEMY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE: (Continued)

Accounts and Grants Receivable (Continued)

The Charter School's accounts and grants receivable consists of unsecured amounts due from public funding sources whose ability to pay is subject to changes in general economic conditions. Because the Charter School does not require collateral, it is at credit risk for the amounts owed to the Charter School through the year and at year end.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable. Management believes that an allowance was not required based on its evaluation of collectability of receivables for the years ended June 30, 2018 and 2017.

Trade receivables related to program service fees (activity fees, before and after care, etc.) are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Trade receivables are written off as uncollectable once management determines that available collection efforts have been exhausted.

Promises Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Charter School. The Charter School uses the allowance method to determine uncollectable promises to give. Promises receivable at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Afterschool Enrichment	\$ _____ -	\$ <u>4,500</u>
Total	\$ <u>_____ -</u>	\$ <u>4,500</u>

The above promise receivable was charged to a bad debt expense during the year ended June 30, 2018, once it was determined to be uncollectable.

5. FIXED ASSETS:

Furniture, equipment and leasehold improvements are recorded at cost or in the case of contributed property at the fair market value at the date of contribution. If an expenditure in excess of \$500 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated or amortized over the estimated useful lives of the assets. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation or amortization is removed from the accounts and any resulting gains or losses are reflected in income for the period.

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5. FIXED ASSETS: (Continued)

Depreciation and amortization have been provided on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to expenses as incurred. Depreciation and amortization expense for the years ended June 30, 2018 and 2017, was \$57,534 and \$62,945, respectively. Major classifications of fixed assets and their estimated useful lives are as summarized below:

June 30, 2018:

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and Equipment	7-10 Years	\$ 174,358	\$ 154,720	\$ 19,638
Computer Equipment	3-5 Years	258,491	219,966	38,525
Leasehold Improvements	5 Years	75,235	73,314	1,921
Land Deposit	-	50,000	-	50,000
Construction in Progress	-	<u>1,786,191</u>	<u>-</u>	<u>1,786,191</u>
Total		<u>\$ 2,344,275</u>	<u>\$ 448,000</u>	<u>\$ 1,896,275</u>

June 30, 2017:

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and Equipment	7-10 Years	\$ 166,607	\$ 145,448	\$ 21,159
Computer Equipment	3-5 Years	285,299	216,929	68,370
Leasehold Improvements	5 Years	75,235	69,816	5,419
Construction in Progress	-	<u>550,000</u>	<u>-</u>	<u>550,000</u>
Total		<u>\$ 1,077,141</u>	<u>\$ 432,193</u>	<u>\$ 644,948</u>

The federal or state government retains a reversionary interest in equipment funded by federal or state monies, respectively, for individual items greater than \$5,000. Sale, trade-in or other disposition of such equipment generally requires notification of the appropriate federal or state authorities.

Construction in Progress - New Campus and Education Facility

Over the last thirteen years the Early Childhood Academy has operated as one school in two separate community centers. Currently, the small classrooms are divided between two buildings, making it challenging to implement a robust educational program with ample recreational options. During the year ended June 30, 2018, the Charter School began construction of a new modern facility in the same Ward 8 southeast - Washington Highlands neighborhood. Completion of construction is anticipated by the commencement of classes in the summer of 2019. This new facility will bring the school under one roof through the combined rehabilitation of a former church and the construction of a new 30,000 square-foot addition. When the renovation is complete, students will have three levels of classrooms, play spaces, a music room, a cafeteria and gym, an auditorium and offices for the teachers. Total costs to construct this facility are estimated to be about \$18 million and total costs incurred through June 30, 2018, were \$1,786,191.

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6. CAPITAL LEASE PAYABLE:

During the year ended June 30, 2017, the Charter School entered into a capital lease for the purchase of thirty (30) Chromebooks. The amount financed on the capital lease was \$12,735 payable over 24 months with a monthly payment of \$606. Maturity is scheduled for November 30, 2018. Interest expense was \$843 and \$852, respectively, for the years ended June 30, 2018 and 2017, using an implicit rate of 13.01%. The lease is secured by the Chromebooks, that cost \$12,735, and is presented as part of computer equipment. For the years ended June 30, 2018 and 2017, depreciation expense in the amount of \$4,245 and \$2,476, respectively, on the Chromebooks has been included in depreciation expense. Accumulated depreciation was \$6,721 and \$2,476, respectively, at June 30, 2018 and 2017. The balance of the capital lease was \$2,931 and \$9,354, respectively, at June 30, 2018 and 2017. The Charter School is committed under a capital lease to make future minimum payments as follows:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 3,027	\$ 2,931	\$ 96
Total Future Minimum Lease Payments	<u>\$ 3,027</u>	<u>\$ 2,931</u>	<u>\$ 96</u>

7. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The Charter School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of the Charter School’s fiscal management and academic acceptability. The contract dated September 2, 2005, provides for a 15-year charter effective the date of first operation. If not renewed, the charter contract will expire on or about January 1, 2020. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that the Early Childhood Academy Public Charter School is in compliance with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the Early Childhood Academy Public Charter School’s charter every five years, with the most recent review having occurred in 2015. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract. Consequently, management does not anticipate non-renewal or revocation of its charter.

As part of the agreement with the DCPCSB, the Charter School may be charged a public charter school fee, which is not to exceed one percent (.9% for the 17/18 school year) of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. For the years ended June 30, 2018 and 2017, the Charter School incurred \$49,453 and \$47,414, respectively, in administrative fees.

The charter contract provides that Early Childhood Academy Public Charter School may educate up to a predetermined number of students. However, this enrollment limit may be raised upon notification to and acceptance by the DCPCSB. The Charter School enrollment ceiling for the year ended June 30, 2018, was not permitted to be greater than 300 students. Audit enrollment for the 2017/2018 year was 246 students and enrollment for the 2016/2017 year was 229 students.

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8. PER-PUPIL FUNDING ALLOCATION:

The Charter School receives local funding from the District of Columbia in the form of per-pupil educational allotments and facility allotments. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2018, the per-student rate ranged between \$10,257 and \$13,744 for the educational allotment and \$3,193 for the facility allotment. For the year ended June 30, 2017, the per-student rate ranged between \$9,682 and \$12,974 for the educational allotment and \$3,124 for the facility allotment. Additional allotments were made for Special Educational Services and Summer Schooling. Per-pupil funding for the years ended June 30, 2018 and 2017 were as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Pre-Kindergarten - 3 rd Grade	\$ 2,974,940	\$ 2,593,808
Special Education	509,354	332,764
At-Risk Students	388,607	360,458
English as a Second Language	-	4,744
Facilities Allowance	785,411	715,396
Teachers Collective Bargaining	<u>69,021</u>	<u>-</u>
Total	<u>\$ 4,727,333</u>	<u>\$ 4,007,170</u>

9. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2018 and 2017, the Charter School participated in the following federal awards programs:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
National School Food Programs	\$ 226,277	\$ 210,572
DC School Incentive Program - SOAR	207,146	154,396
Elementary and Secondary Education - Schoolwide	139,254	150,685
Individuals with Disabilities Education Act	23,433	-
Donated Commodities	<u>16,796</u>	<u>14,037</u>
Total	<u>\$ 612,906</u>	<u>\$ 529,690</u>

Federal formula grants are allocations of money to states or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project. The Charter School receives federal formula grants under the provisions of the No Child Left Behind Act (NCLB) of 2001, P.L 107-110. NCLB funds are not intended to replace state or local educational funding. Rather, NCLB funds provide additional support to states, LEAs, and schools for specific purposes. Grants are provided by the U.S. Department of Education and passed through the District of Columbia Office of State Superintendent of Education (OSSE).

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9. FEDERAL ENTITLEMENTS AND GRANTS: (Continued)

The National School Lunch Program and School Breakfast Program are part of the child nutrition cluster of programs operated by the U.S. Department of Agriculture. The objectives of the child nutrition cluster programs are to: (1) assist states in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

10. COMMITMENTS:

Building Lease - 4025 9th Street, SE

The Early Childhood Academy Public Charter School entered into a lease agreement with the District of Columbia Baptist Convention effective for a one-year period commencing on July 1, 2014, and ending on June 30, 2015, for the rental of a building located at 4025 9th Street, SE, Washington, DC (Johanning Campus). This lease was renewed through the period ending June 30, 2016. On July 1, 2016, the Charter School signed a two-year extension of this lease for the period of July 1, 2016, through June 30, 2018, with the option to renew for a one-year additional term. This lease called for monthly lease payments of \$33,644 and a rental deposit of \$32,984. Rental expense for the years ended June 30, 2018 and 2017 was \$402,639 and \$391,470, respectively. Future required minimum lease payments at June 30, 2018, are as follows:

<u>Year Ended June 30,</u>	
2019	\$ <u>409,780</u>
Total	\$ <u>409,780</u>

Building Lease - 4301 9th Street, SE

The Early Childhood Academy Public Charter School entered into a lease agreement with Crawford Edgewood Mangers, Inc., on June 1, 2008, effective for a one-year period commencing on July 1, 2008, and ending on June 30, 2009, for the rental of a building located at 4301 9th Street, SE, Washington, DC (Walter Washington Campus). This lease automatically renewed on a yearly basis through the year ended June 30, 2016. On June 27, 2016, the Charter School signed a two-year extension of this lease for the period of July 1, 2016, through June 30, 2018. This agreement also allows the Charter School to extend the lease term for an additional one-year period through June 30, 2019. This lease calls for monthly lease payments of \$15,978 and a security deposit of \$11,000. Rental expense for the years ended June 30, 2018 and 2017 was \$191,737 and \$182,606, respectively. Future required minimum lease payments at June 30, 2018 are as follows:

<u>Year Ended June 30,</u>	
2019	\$ <u>201,324</u>
Total	\$ <u>201,324</u>

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11. RELATED PARTY TRANSACTIONS:

Business Transactions

The Early Childhood Academy entered into a contract with a company owned and operated by a member of the board for the purpose of providing Human Resource services. Total fees paid during the year ended June 30, 2018, were \$15,375.

Contributions

Various board members and leadership of the Early Childhood Academy provided contributions to the Charter School in the amount of \$6,215 during the year ended June 30, 2018.

Guarantee of Indebtedness

The Early Childhood Academy Public Charter School utilizes a credit card issued by Capital One F.S.B. for purchases related to the Charter School's activity. The credit card is issued in the name of the Charter School with a credit limit of \$30,000, however the debt is guaranteed by the Executive Director of the Charter School. In addition, the Charter School also utilizes a credit card issued by Costco. This card has an approved limit of \$31,000.

Board of Trustees

Two of the trustees appointed to serve on the Board of Trustees are parents of students attending the Early Childhood Academy Public Charter School. In addition, these individuals are employees of the Charter School. Parent trustees are elected by a majority vote of the board members from a list of qualified individuals submitted to the board by an advisory committee.

12. CONCENTRATIONS:

Revenues

The Charter School receives public funds from the DC government based on the number of students they enroll according to the Uniform Per Student Funding Formula developed by the Mayor and City Council. This per pupil allocation is supplemented with extra funds for students with special needs. During the years ended June 30, 2018 and 2017, eighty-six percent (86%) and eighty-five percent (85%), respectively, of total support was received from the District of Columbia in the form of per pupil funding.

In addition to the revenue received through the Uniform Per Student Funding, the Charter School receives state and federal grants awarded under the auspices of the U.S. Department of Education (No Child Left Behind and special education) as well as the U.S. Department of Agriculture (Child Nutrition). The Charter School is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DCPCSB).

The Charter School is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the Charter School must compete for students against the DC Public School system as well as other DC Public Charter Schools.

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13. CONTINGENCIES:

The Early Childhood Academy Public Charter School was granted its charter by the District of Columbia Public Charter School Board, authorized under the District of Columbia School Reform Act of 1995, Public Law 104-134, as amended. The Charter School has no reason to believe that this relationship will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e., the failure to continue this charter authorization or withholding of funds) could adversely affect the Charter School's ability to finance ongoing operations.

The Charter School depends on per pupil allocations, grants, and contributions for a significant portion of its revenues. The ability of the sources of revenues to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to the Charter School. While the Charter School's Board of Trustees and management believes the Charter School has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

Laws and regulations governing charter schools are complex and subject to interpretation. The Charter School receives funding from various federal and state grant reimbursement programs, which are governed by various rules and regulations of the respective grantor agencies. To the extent that the Charter School has not complied with the rules and regulations governing the grants, refunds of any money received may be required. The Charter School believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The viability of public charter schools and funding for these schools is dependent on the consensus of current and future administration of the District of Columbia. Any future change in dynamics could adversely affect the operation of public charter schools.

14. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 9, 2018, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

15. FUNDRAISING:

During the years ended June 30, 2018 and 2017, expenses incurred for the purpose of fundraising were \$29,077 and \$4,287, respectively.

16. ADVERTISING COSTS:

Advertising was conducted for the purpose of promoting open enrollment and student recruiting to the Charter School. Advertising costs are expensed when incurred. Direct advertising expenses were \$11,884 and \$16,526 for the years ended June 30, 2018 and 2017, respectively.

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17. RETIREMENT PLAN:

403(b) Retirement Plan

The Charter School provides pension benefits for its employees through a defined contribution 403(b) retirement plan which is currently administered by Principal Financial Group. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the plan allow for employees to contribute up to the statutory limits set by the Internal Revenue Code. On the plan effective date, which was September 1, 2007, all current employees were eligible to participate in the retirement plan. All future employees will be eligible to participate upon hiring. Plan provisions call for a dollar for dollar match up to six percent (6%). Plan provisions and contribution requirements are established and may be amended by the board members of the Charter School. There is no unfunded past service liability. The amount of employer contributions for the years ended June 30, 2018 and 2017 were \$59,272 and \$60,611, respectively.

Teachers Retirement Plan

As authorized by the Title 38 of the Code of the District of Columbia, teachers of the DC Public School System may participate in a defined benefit plan named the "Teacher's Retirement Plan". The District of Columbia Retirement Board (DCRB) is responsible for paying benefits attributable to teacher service.

An employee may elect to remain in the Teacher's Retirement Plan if that individual leaves employment with the District of Columbia Public School system and becomes an employee of a DC Public Charter School provided the election is made within 60 days of departure. To remain in the plan, the teacher must make the required employee retirement contributions and the school must make the match contributions that the District Government would have made to the plan. Employee contributions of 7% of annual salary are required to be made on a pre-tax basis to the plan. The amount of employer contributions for the years ended June 30, 2018 and 2017, was \$17,598 and \$17,740, respectively.

18. EMPLOYEE BENEFITS:

The cost of fringe benefits incurred consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Social Security/Medicare	\$ 191,060	\$ 171,305
Health and Dental Insurance	261,262	212,206
Retirement	76,870	78,351
Life	4,093	3,708
Disability	20,645	18,539
Unemployment	20,019	15,877
Workers Compensation	16,796	14,941
De Minimis	10,578	12,235
Benefit Fees	<u>4,713</u>	<u>4,361</u>
Total	<u>\$ 606,036</u>	<u>\$ 531,523</u>

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18. EMPLOYEE BENEFITS: (Continued)

Flexible Benefits Plan

The Early Childhood Academy Public Charter School adopted a Section 125 Flexible Benefits Plan (Cafeteria Plan). Under this plan, employees are permitted to use pre-tax benefit dollars through payroll deduction to pay for health and dental insurance premiums and dependent childcare.

Transportation Plan

The Early Childhood Academy Public Charter School adopted a Section 132(f) Commuter Expense Reimbursement Plan. Under this plan, employees receive reimbursement for commuting to and from work on a tax favored (pre-tax) basis. The Charter School reimburses for commuter vehicle expense and transit passes.

19. OTHER MATTERS:

New Markets Tax Credit

The New Markets Tax Credit (NMTC) was established for the purpose of encouraging investment in low-income community businesses, while also reducing the borrowing and financing costs to organizations such as the Early Childhood Academy Public Charter School. An NMTC is generated when a “qualified equity investment” (QEI) is made into a “community development entity” (CDE) that in turn, uses the proceeds of such investment to make loans or equity investments in “Qualified active low-income community businesses” (QALICB).

On September 11, 2018, the Early Childhood Academy Public Charter School obtained a master loan and disbursement agreement (the agreement) in the principal amount of \$15,600,000 by entering into a transaction structured to qualify for the New Markets Tax Credit, as outlined in Internal Revenue Code (IRC) Section 45D. As part of the transaction, the Charter School formed the ECA Support Corporation to meet the necessary structuring requirements to qualify for the NMTC. The ECA Support Corporation is a nonprofit corporation formed under the laws of the District of Columbia. The agreement was established to fund the development and construction of a new school facility adjacent to the current facility located at 885 Barnaby Street, SE.

On September 11, 2018, the Early Childhood Academy Public Charter School also obtained a loan in the amount of \$2,000,000 from the District of Columbia through the Office of Public Charter School Financing within the Office of the State Superintendent of Education.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
COMPARATIVE CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>				<u>June 30, 2017</u>			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Personnel, Salaries and Benefits:</u>								
Principal/Executive Salaries	\$ 287,256	\$ 226,962	\$ 43,829	\$ 16,465	\$ 263,477	\$ 205,981	\$ 54,861	\$ 2,635
Teachers' Salaries	981,046	981,046	-	-	900,151	900,151	-	-
Teachers' Aides/Assistants' Salaries	448,803	448,803	-	-	332,912	332,912	-	-
Other Educational Professional Salaries	257,569	231,812	25,757	-	217,714	195,943	21,771	-
Substitute Teacher Salaries	18,254	18,254	-	-	40,301	40,301	-	-
Clerical Salaries	182,114	160,737	19,549	1,828	173,947	173,947	-	-
Custodial/Food Service Staff	113,258	92,940	20,318	-	109,835	90,725	19,110	-
Before and After Care Salaries	109,189	109,189	-	-	136,135	136,135	-	-
Business Operation Salaries	289,729	145,126	144,603	-	216,211	101,618	114,593	-
Employee Benefits	394,957	354,976	37,292	2,689	344,341	313,665	30,296	380
Payroll Taxes	211,079	189,686	19,956	1,437	187,182	170,508	16,468	206
Staff Development Costs	62,094	56,183	5,911	-	57,077	52,050	5,027	-
Total Personnel, Salaries and Benefits	\$ 3,355,348	\$ 3,015,714	\$ 317,215	\$ 22,419	\$ 2,979,283	\$ 2,713,936	\$ 262,126	\$ 3,221
<u>Direct Student Costs:</u>								
Food Service	\$ 253,636	\$ 253,636	\$ -	\$ -	\$ 229,828	\$ 229,828	\$ -	\$ -
Student Supplies and Materials	55,131	55,131	-	-	85,247	85,247	-	-
Contracted Instructional/Student Services	152,755	152,755	-	-	108,095	108,095	-	-
Transportation	20,174	20,174	-	-	23,499	23,499	-	-
Other Student Costs	20,176	20,176	-	-	17,913	17,913	-	-
Total Direct Student Costs	\$ 501,872	\$ 501,872	\$ -	\$ -	\$ 464,582	\$ 464,582	\$ -	\$ -
<u>Occupancy Costs:</u>								
Rent	\$ 595,808	\$ 535,423	\$ 56,329	\$ 4,056	\$ 575,357	\$ 524,102	\$ 50,621	\$ 634
Utilities	47,269	42,478	4,469	322	48,190	43,897	4,240	53
Cleaning and Maintenance	14,107	12,677	1,334	96	21,071	19,194	1,854	23
Depreciation	3,498	3,144	330	24	6,503	5,924	572	7
Contracted Building Services	79,030	71,020	7,472	538	71,591	65,213	6,299	79
Total Occupancy Costs	\$ 739,712	\$ 664,742	\$ 69,934	\$ 5,036	\$ 722,712	\$ 658,330	\$ 63,586	\$ 796

(See Accompanying Notes and Auditor's Report)

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
COMPARATIVE CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>				<u>June 30, 2017</u>			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Office Expenses:</u>								
Office Supplies and Materials	\$ 11,065	\$ 9,944	\$ 1,046	\$ 75	\$ 13,234	\$ 12,056	\$ 1,163	\$ 15
Consulting	71,773	48,318	23,455	-	103,075	94,249	8,717	109
Equipment Rental and Maintenance	4,636	4,167	438	31	1,871	1,704	165	2
Telecommunications	34,689	31,173	3,280	236	32,496	29,601	2,859	36
Postage and Shipping	826	742	78	6	531	483	47	1
Printing and Copying	11,854	10,652	1,121	81	10,712	9,758	942	12
Marketing and Promotion	<u>11,884</u>	<u>11,653</u>	<u>231</u>	<u>-</u>	<u>16,526</u>	<u>16,526</u>	<u>-</u>	<u>-</u>
Total Office Expenses	<u>\$ 146,727</u>	<u>\$ 116,649</u>	<u>\$ 29,649</u>	<u>\$ 429</u>	<u>\$ 178,445</u>	<u>\$ 164,377</u>	<u>\$ 13,893</u>	<u>\$ 175</u>
<u>General Expenses:</u>								
Insurance	\$ 19,771	\$ 17,720	\$ 1,917	\$ 134	\$ 20,132	\$ 18,359	\$ 1,773	\$ -
Licenses and Fees	2,022	1,817	191	14	663	604	58	1
Accounting and Legal Services	29,306	-	29,306	-	28,239	-	28,239	-
Payroll Service Fees	22,499	20,219	2,127	153	20,214	18,414	1,778	22
Administrative Fees	49,453	44,441	4,676	336	47,414	43,237	4,177	-
Depreciation	54,036	48,559	5,109	368	56,442	51,414	4,966	62
Dues and Subscriptions	17,733	15,936	1,676	121	19,173	17,484	1,689	-
Office Expense	9,842	8,845	930	67	9,412	8,573	829	10
Bad Debt Expense	4,500	-	4,500	-	-	-	-	-
Interest Expense	<u>843</u>	<u>843</u>	<u>-</u>	<u>-</u>	<u>852</u>	<u>852</u>	<u>-</u>	<u>-</u>
Total General Expenses	<u>\$ 210,005</u>	<u>\$ 158,380</u>	<u>\$ 50,432</u>	<u>\$ 1,193</u>	<u>\$ 202,541</u>	<u>\$ 158,937</u>	<u>\$ 43,509</u>	<u>\$ 95</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 4,953,664</u>	<u>\$ 4,457,357</u>	<u>\$ 467,230</u>	<u>\$ 29,077</u>	<u>\$ 4,547,563</u>	<u>\$ 4,160,162</u>	<u>\$ 383,114</u>	<u>\$ 4,287</u>

(See Accompanying Notes and Auditor's Report)

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

<u>ASSETS</u>	<u>Total</u>	<u>Early Charter Academy</u>	<u>ECA Support Corporation</u>
<u>Current Assets:</u>			
Cash and Cash Equivalents	\$ 4,040,093	\$ 4,040,093	\$ -
Accounts Receivable	76,101	76,101	-
Due From/(to) Related Organization	-	180	(180)
Grants Receivable	171,768	171,768	-
Promises Receivable	-	-	-
Prepaid Expenses	<u>14,249</u>	<u>14,249</u>	<u>-</u>
Total Current Assets	<u>\$ 4,302,211</u>	<u>\$ 4,302,391</u>	<u>\$ (180)</u>
<u>Fixed Assets:</u>			
Furniture and Equipment	\$ 174,358	\$ 174,358	\$ -
Computer Equipment	258,491	258,491	-
Leasehold Improvements	75,235	75,235	-
Construction in Progress	1,786,191	1,786,191	-
Land - Deposit	50,000	50,000	-
Less: Accumulated Depreciation and Amortization	<u>(448,000)</u>	<u>(448,000)</u>	<u>-</u>
Total Fixed Assets	<u>\$ 1,896,275</u>	<u>\$ 1,896,275</u>	<u>\$ -</u>
<u>Other Assets:</u>			
Deposits	\$ 57,517	\$ 57,517	\$ -
Loan Acquisition Costs	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total Other Assets	<u>\$ 97,517</u>	<u>\$ 97,517</u>	<u>\$ -</u>
TOTAL ASSETS	<u>\$ 6,296,003</u>	<u>\$ 6,296,183</u>	<u>\$ (180)</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>Current Liabilities:</u>			
Accounts Payable	\$ 558,069	\$ 558,069	\$ -
Accrued Salary and Vacation	151,735	151,735	-
Payroll Withholdings and Related Liabilities	19,599	19,599	-
Deferred Revenues	126	126	-
Current Portion: Long-Term Debt	<u>2,931</u>	<u>2,931</u>	<u>-</u>
Total Current Liabilities	<u>\$ 732,460</u>	<u>\$ 732,460</u>	<u>\$ -</u>
<u>Long Term Liabilities:</u>			
Capital Lease Payable	\$ 2,931	\$ 2,931	\$ -
Less: Current Portion	<u>(2,931)</u>	<u>(2,931)</u>	<u>-</u>
Total Long Term Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 732,460</u>	<u>\$ 732,460</u>	<u>\$ -</u>
<u>Net Assets:</u>			
Unrestricted	\$ 5,563,543	\$ 5,563,723	\$ (180)
Temporarily Restricted	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 5,563,543</u>	<u>\$ 5,563,723</u>	<u>\$ (180)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,296,003</u>	<u>\$ 6,296,183</u>	<u>\$ (180)</u>

(See Accompanying Notes and Auditor's Report)

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Total</u>			<u>Early Childhood Academy</u>			<u>ECA Support Corporation</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues and Other Support:</u>									
Per-Pupil Funding Allocation	\$ 3,941,922	\$ -	\$ 3,941,922	\$ 3,941,922	\$ -	\$ 3,941,922	\$ -	\$ -	\$ -
Per-Pupil Funding - Facilities Allowance	785,411	-	785,411	785,411	-	785,411	-	-	-
Federal Entitlements and Grants	596,110	-	596,110	596,110	-	596,110	-	-	-
Donated Federal Commodities	16,796	-	16,796	16,796	-	16,796	-	-	-
State Grants	18,456	-	18,456	18,456	-	18,456	-	-	-
Private Grants and Contributions	38,634	-	38,634	38,634	-	38,634	-	-	-
Service Fees	42,589	-	42,589	42,589	-	42,589	-	-	-
Student Fees	59,283	-	59,283	59,283	-	59,283	-	-	-
Interest	5,257	-	5,257	5,257	-	5,257	-	-	-
Special Events (Net)	4,340	-	4,340	4,340	-	4,340	-	-	-
Loss on Disposal of Fixed Assets	(669)	-	(669)	(669)	-	(669)	-	-	-
Net Assets Released from Restrictions (Satisfaction of Program Restrictions)	-	-	-	-	-	-	-	-	-
Total Revenues and Other Support	\$ 5,508,129	\$ -	\$ 5,508,129	\$ 5,508,129	\$ -	\$ 5,508,129	\$ -	\$ -	\$ -
<u>Expenses and Losses:</u>									
Educational Services	\$ 4,457,357	\$ -	\$ 4,457,357	\$ 4,457,357	\$ -	\$ 4,457,357	\$ -	\$ -	\$ -
Fundraising	29,077	-	29,077	29,077	-	29,077	-	-	-
General and Administrative	467,230	-	467,230	467,050	-	467,050	180	-	180
Total Expenses	\$ 4,953,664	\$ -	\$ 4,953,664	\$ 4,953,484	\$ -	\$ 4,953,484	\$ 180	\$ -	\$ 180
Changes in Net Assets	\$ 554,465	\$ -	\$ 554,465	\$ 554,645	\$ -	\$ 554,645	\$ (180)	\$ -	\$ (180)
Net Assets, Beginning of Year	5,009,078	-	5,009,078	5,009,078	-	5,009,078	-	-	-
Net Assets, End of Year	<u>\$ 5,563,543</u>	<u>\$ -</u>	<u>\$ 5,563,543</u>	<u>\$ 5,563,723</u>	<u>\$ -</u>	<u>\$ 5,563,723</u>	<u>\$ (180)</u>	<u>\$ -</u>	<u>\$ (180)</u>

(See Accompanying Notes and Auditor's Report)

Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Trustees
Early Childhood Academy Public Charter School
and Subsidiary
4025 9th Street, SE
Washington, DC 20032

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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 consolidated financial statements of the Early Childhood Academy Public Charter School (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Early Childhood Academy Public Charter School and Subsidiary'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Early Childhood Academy Public Charter School and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Early Childhood Academy Public Charter School and Subsidiary's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 9, 2018

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

There were no audit findings in the prior year.

EARLY CHILDHOOD ACADEMY
PUBLIC CHARTER SCHOOL AND SUBSIDIARY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of the Early Childhood Academy Public Charter School and Subsidiary were prepared in accordance with generally accepted accounting principles.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. No instances of noncompliance material to the financial statements of the Early Childhood Academy Public Charter School and Subsidiary, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

II. Findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*

There were no findings in the current year.