

**WASHINGTON YU YING
PUBLIC CHARTER SCHOOL**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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Independent Auditor's Report

The Board of Directors
Washington Yu Ying Public Charter School
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Washington Yu Ying Public Charter School ("Yu Ying"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of Washington Yu Ying Public Charter School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of June 30, 2014, were audited by McQuade Brennan, LLP, who merged with Jones, Maresca & McQuade, P.A. as of February 1, 2015 and whose report dated October 14, 2014, expressed an unmodified opinion on these statements.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015 on our consideration of Yu Ying's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Yu Ying's internal control over financial reporting and compliance.

Jane Maresca & McQuade PA

Washington, DC
October 15, 2015

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014**

	2015	2014
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,485,063	\$ 5,059,245
Cash and cash equivalents restricted by debt agreements	-	318,032
Grants receivable	183,719	217,105
Accounts receivable	9,516	2,407
Prepaid expenses	101,022	92,146
Security deposits	3,395	20,635
Total current assets	5,782,715	5,709,570
LONG TERM ASSETS		
Property and equipment, net	16,303,654	14,574,663
Unamortized loan costs, net	253,388	337,114
Total long term assets	16,557,042	14,911,777
TOTAL ASSETS	\$ 22,339,757	\$ 20,621,347
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 284,493	\$ 529,211
Accrued salaries and related expenses	289,835	258,302
Deferred revenue	5,665	260,348
Capital lease obligation, current	8,816	-
Current maturity of long-term debt	394,664	780,495
Total current liabilities	983,473	1,828,356
NONCURRENT LIABILITIES		
Interest rate swap	198,350	-
Capital lease obligation, net of current portion	35,463	-
Long-term debt, net of current portion	12,863,008	11,252,430
Total noncurrent liabilities	13,096,821	11,252,430
TOTAL LIABILITIES	14,080,294	13,080,786
NET ASSETS		
Unrestricted	8,207,464	7,389,162
Temporarily restricted	51,999	151,399
Total net assets	8,259,463	7,540,561
TOTAL LIABILITIES AND NET ASSETS	\$ 22,339,757	\$ 20,621,347

See Independent Auditor's Report and accompanying notes to the financial statements.

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil appropriations	\$ 6,644,718	\$ -	\$ 6,644,718	\$ 6,176,279	\$ -	\$ 6,176,279
Per pupil facility allowance	1,622,016	-	1,622,016	1,533,000	-	1,533,000
Federal entitlements and grants	602,084	-	602,084	377,577	-	377,577
Other grants and contributions	150,673	15,255	165,928	56,321	161,740	218,061
Donated services and materials	86,426	-	86,426	245,573	-	245,573
Program service fees	832,338	-	832,338	825,049	-	825,049
Interest	3,375	-	3,375	4,733	-	4,733
Change in fair value of interest rate swap	(198,350)	-	(198,350)	-	-	-
Other revenues	6,201	-	6,201	3,517	-	3,517
Net assets released from restrictions	114,655	(114,655)	-	43,603	(43,603)	-
Total revenue and support	<u>9,864,136</u>	<u>(99,400)</u>	<u>9,764,736</u>	<u>9,265,652</u>	<u>118,137</u>	<u>9,383,789</u>
EXPENSES						
Program/Educational services	7,252,473	-	7,252,473	6,259,486	-	6,259,486
Management and general	1,621,797	-	1,621,797	1,341,873	-	1,341,873
Fundraising	171,564	-	171,564	161,343	-	161,343
Total expenses	<u>9,045,834</u>	<u>-</u>	<u>9,045,834</u>	<u>7,762,702</u>	<u>-</u>	<u>7,762,702</u>
CHANGE IN NET ASSETS	818,302	(99,400)	718,902	1,502,950	118,137	1,621,087
NET ASSETS , beginning of year	<u>7,389,162</u>	<u>151,399</u>	<u>7,540,561</u>	<u>5,886,212</u>	<u>33,262</u>	<u>5,919,474</u>
NET ASSETS , end of year	<u>\$ 8,207,464</u>	<u>\$ 51,999</u>	<u>\$ 8,259,463</u>	<u>\$ 7,389,162</u>	<u>\$ 151,399</u>	<u>\$ 7,540,561</u>

See Independent Auditor's Report and accompanying notes to the financial statements.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program/ Educational	Supporting Services		Total
		Management and General	Fundraising	
Personnel Costs				
Salaries	\$ 4,015,330	\$ 745,915	\$ 108,977	\$ 4,870,222
Employee benefits	407,100	75,351	11,049	493,500
Payroll taxes	280,742	52,136	7,619	340,497
Professional development	116,190	21,577	3,153	140,920
Other staff-related expense	72,760	13,512	1,975	88,247
Total Personnel Costs	4,892,122	908,491	132,773	5,933,386
Direct Student Costs				
Supplies, materials, snacks	164,920	-	-	164,920
Fieldwork and other transportation	50,059	-	-	50,059
Contracted instruction fees	159,182	-	-	159,182
Textbooks	33,818	-	-	33,818
Student assessments	17,559	-	-	17,559
Student food service program	174,823	-	-	174,823
Other student costs	15,819	-	-	15,819
Total Direct Student Costs	616,180	-	-	616,180
Occupancy Expense				
Rent	14,942	2,774	406	18,122
Maintenance and repairs	53,732	9,979	1,458	65,169
Utilities and garbage removal	89,529	16,626	2,430	108,585
Contracted building services	131,309	24,384	3,564	159,257
Facilities consulting services	4,143	770	112	5,025
Janitorial supplies	15,027	2,791	408	18,226
Depreciation and amortization- facilities	568,388	105,552	15,426	689,366
Interest	206,753	38,395	5,611	250,759
Total Occupancy Expense	1,083,823	201,271	29,415	1,314,509
Office Expense				
Office supplies	37,394	6,945	1,015	45,354
Office expense and equipment rental	10,541	1,958	286	12,785
Telephone	17,312	3,215	470	20,997
Postage	3,429	637	93	4,159
Printing and copying	7,049	1,309	191	8,549
Computer support expenses	22,115	4,106	600	26,821
Total Office Expense	97,840	18,170	2,655	118,665
General Expense				
Insurance	39,561	7,346	1,074	47,981
Authorizer fees	-	95,646	-	95,646
Accounting, auditing and payroll	-	147,234	-	147,234
Legal fees	6,000	38,457	-	44,457
Other professional and fundraising fees	31,340	41,086	913	73,339
Dues, fees, and fines	189,024	44,831	4,294	238,149
Other general expense	197,986	15,136	-	213,122
Donated services	16,202	66,485	440	83,127
Donated materials	50	3,250	-	3,300
Depreciation - operating assets	82,345	34,394	-	116,739
Total General Expense	562,508	493,865	6,721	1,063,094
Total Expenses	\$ 7,252,473	\$ 1,621,797	\$ 171,564	\$ 9,045,834

See Independent Auditor's Report and accompanying notes to the financial statements.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program/ Educational	Supporting Services		Total
		Management and General	Fundraising	
Personnel Costs				
Salaries	\$ 3,594,524	\$ 535,154	\$ 105,698	\$ 4,235,376
Employee benefits	316,552	47,128	9,308	372,988
Payroll taxes	269,656	40,146	7,929	317,731
Professional development	76,164	11,339	2,240	89,743
Other staff-related expense	61,628	9,175	1,812	72,615
Total Personnel Costs	4,318,524	642,942	126,987	5,088,453
Direct Student Costs				
Supplies, materials, snacks	183,658	-	-	183,658
Fieldwork and other transportation	44,435	-	-	44,435
Contracted instruction fees	187,675	-	-	187,675
Textbooks	11,869	-	-	11,869
Student assessments	12,808	-	-	12,808
Student food service program	118,806	-	-	118,806
Other student costs	21,756	-	-	21,756
Total Direct Student Costs	581,007	-	-	581,007
Occupancy Expense				
Maintenance and repairs	73,506	10,944	2,161	86,611
Utilities and garbage removal	71,178	10,597	2,093	83,868
Contracted building services	112,644	16,770	3,312	132,726
Janitorial supplies	11,955	1,780	353	14,088
Depreciation and amortization - facilities	267,983	39,897	7,881	315,761
Interest	434,975	64,759	12,791	512,525
Total Occupancy Expense	972,241	144,747	28,591	1,145,579
Office Expense				
Office supplies	22,859	3,403	672	26,934
Office expense and equipment rental	18,904	2,814	556	22,274
Telephone	13,963	2,079	411	16,453
Postage	2,228	332	66	2,626
Printing and copying	29,360	4,371	863	34,594
Computer support expenses	23,731	3,533	698	27,962
Total Office Expense	111,045	16,532	3,266	130,843
General Expense				
Insurance	42,850	6,380	1,260	50,490
Authorizer fees	-	44,622	-	44,622
Accounting, auditing and payroll	-	142,469	-	142,469
Legal fees	5,500	8,764	-	14,264
Other professional and fundraising fees	13,543	40,880	603	55,026
Dues, fees, and fines	14,830	35,152	12	49,994
Other general expense	109,216	9,374	-	118,590
Donated services	21,517	223,431	624	245,572
Depreciation - operating assets	69,213	26,580	-	95,793
Total General Expense	276,669	537,652	2,499	816,820
Total Expenses	\$ 6,259,486	\$ 1,341,873	\$ 161,343	\$ 7,762,702

See Independent Auditor's Report and accompanying notes to the financial statements.

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 718,902	\$ 1,621,087
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	806,105	411,554
Change in fair value of interest rate swap	198,350	-
Decrease (increase) in assets:		
Cash and cash equivalents restricted by debt agreements	318,032	(5,714)
Grants receivable	33,386	(117,626)
Accounts receivable	(7,109)	2,387
Prepaid expenses	(8,876)	(26,838)
Security deposits	17,240	(17,240)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(244,718)	418,928
Accrued salaries and expenses	31,533	37,977
Deferred revenue	(254,683)	3,696
Net cash provided by operating activities	1,608,162	2,328,211
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,141,617)	(895,762)
Net cash used by investing activities	(2,141,617)	(895,762)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease obligation payments	(3,545)	-
Proceeds from issuance of debt	13,515,000	-
Principal payments on debt	(749,640)	(420,641)
Refinancing of debt	(11,540,613)	-
Loan costs incurred	(261,929)	-
Net cash provided by (used by) financing activities	959,273	(420,641)
NET INCREASE IN CASH AND CASH EQUIVALENTS	425,818	1,011,808
CASH AND CASH EQUIVALENTS, beginning of year	5,059,245	4,047,437
CASH AND CASH EQUIVALENTS, end of year	\$ 5,485,063	\$ 5,059,245
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 249,608	\$ 500,057
SUPPLEMENTAL DISCLOSURE OF NON CASH INFORMATION		
Acquisition of equipment under capital lease	\$ 47,824	\$ -

See Independent Auditor's Report and accompanying notes to the financial statements.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE A – ORGANIZATION AND NATURE OF BUSINESS

Washington Yu Ying Public Charter School (“Yu Ying”), a District of Columbia not-for-profit Corporation, was incorporated on March 10, 2006, exclusively for educational purposes. Yu Ying operates as part of the District of Columbia Public School system. Yu Ying aims to spark the fire of lifelong learning by providing a world class education for students in our nation’s capital. As the first public school in Washington, DC to offer Chinese language immersion, Yu Ying combines language immersion with the inquiry-based curricula of the International Baccalaureate Organization.

Yu Ying was founded on the premise that fluency in more than one language develops a greater ability to communicate with, and to understand other cultures and that Chinese is a language of the future. Chinese is spoken by one in five people on the planet. As our economic connections to China strengthen and our political destinies become more intertwined, Chinese is increasingly being identified as an important international language. Yu Ying students who graduate speaking Chinese fluently will be well-positioned to enter college and the job market.

Yu Ying’s primary sources of support are local appropriations for Charter Schools from the District of Columbia Government.

Basic Programs

Yu Ying is on the leading edge of elementary education by combining a Chinese language immersion program with the state-of-the-art International Baccalaureate curriculum framework. Translated, Yu Ying means “nurturing excellence.”

In January 2008, Yu Ying was granted its charter by the District of Columbia Public Charter School Board. When the school opened its doors to 130 students in September 2008, it was the only school of its kind, public or private, in the city and wider metropolitan area. That group of students, representing Pre-K, Kindergarten and First Grade, were the first to experience Yu Ying's innovative Chinese language immersion program: students learn all subjects in both languages. Each day they alternate between their Chinese and English classrooms which are led by native speakers of both languages.

Each year since its inception Yu Ying’s student population has increased. During the year ending June 30, 2014, Yu Ying educated 511 students in grades pre-k 4 through 6th. During the year ending June 30, 2015, Yu Ying educated 528 students in grades pre-k 3 through 5th.

Yu Ying had a successful enrollment process in Spring 2015. Demand for this innovative program resulted in over 1,500 applications for about 67 spots for new families for the 2015-16 school year. Yu Ying welcomed 551 students for the upcoming school year.

Yu Ying’s permanent campus includes a 44,000 square foot facility on three acres. Yu Ying originally financed the purchase of the building in 2011 and has many amenities, including a large nature center and a Chinese/English library. During 2014 and 2015, Yu Ying constructed additional classrooms, administrative space, and small group space to keep up with the growing demand and high student retention.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic Not-for-Profit Entities. In accordance with the topic, Yu Ying reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of Yu Ying and/or the passage of time

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Yu Ying. Yu Ying had no permanently restricted net assets during the years ended June 30, 2015 and 2014.

Basis of Accounting

Yu Ying's financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, Yu Ying considers all highly liquid instruments purchased with an original maturity of less than three months and money market funds to be cash equivalents.

Cash and Cash Equivalents Restricted by Debt Agreements

Cash and cash equivalents restricted by debt agreements is comprised of cash and cash equivalents held by trustee or authority to fund the current portion of debt service and a required financing reserve account.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Accounts and Grants Receivable

Yu Ying's grants receivable consist of unsecured amounts due from public funding sources whose ability to pay are subject to appropriations. Yu Ying performs ongoing credit evaluations of its funding sources and generally does not require collateral. Due to the nature of funding from the federal government and the District of Columbia, management believes that all grants receivable will be collected; therefore, no allowance for bad debt has been recorded.

Accounts receivables related to program service fees 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. Accounts receivables are written off as uncollectible when payment has not been received after 180 days.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Yu Ying capitalizes all expenditures for property and equipment over \$1,000. Depreciation is computed using the straight line method over the estimated useful lives of the assets, which ranges from 3 to 40 years. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred.

Unamortized Loan Costs

Loan costs incurred in securing debt have been capitalized. These costs are amortized over the remaining period of the loan, which approximates the interest method.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted contributions.

Grants

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Program Service Fees

Program Service Fee revenue is primarily from before and after care programs, paid meals, and other programs and is recognized when earned.

Deferred Revenues

Deferred revenues result from per pupil appropriated income and other income received in the current fiscal year and deferred until the next fiscal year in which the service is provided.

Functional Expenses

The costs of providing Yu Ying's various programs and supporting services have been summarized on a functional basis in the accompanying Statements of Activities. Accordingly, certain costs have been allocated among the programs, management and general, and fundraising services benefited.

Donated Services and Materials

Donated materials are recorded at fair market value at the date of donation. Yu Ying received donated materials in the amount of \$3,300 and \$0 for the years ended June 30, 2015 and 2014, respectively. Donated services are recognized at their fair value if the service requires specialized skills and the services would typically need to be purchased, if not donated. Contributed services and promises to give services that do not meet the above criteria are not recognized. Yu Ying received donated legal, construction, and communication services in the amount of \$83,126 and \$245,573 for the years ended June 30, 2015 and 2014, respectively.

NOTE C – INCOME TAXES

Yu Ying qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, Yu Ying is classified as an entity that is not a private foundation under Section 509(a)(1).

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

Yu Ying has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years (2011-2013), or expected to be taken in its 2014 tax return. Yu Ying is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE D – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

	2015	2014
Land	\$ 3,070,000	\$ 3,070,000
Building	14,118,736	11,318,308
Furniture and equipment	352,195	297,871
Computer equipment	291,966	196,246
Equipment under capital lease	47,824	-
	17,880,721	14,882,425
Less: allowance for depreciation	1,583,415	1,126,812
	16,297,306	13,755,613
Construction in progress	6,348	819,050
Property and equipment, net	\$ 16,303,654	\$ 14,574,663

Construction in progress includes on-going renovation, construction, and building improvement projects at Yu Ying as of June 30, 2015 and 2014. During fiscal year 2016, renovation and construction of the building was completed. Depreciation expense for the years ended June 30, 2015 and 2014 was \$456,465 and \$385,589, respectively. During 2015, Yu Ying entered into a capital lease for copier equipment. Accumulated depreciation includes accumulated amortization of capital leased equipment in the amount of \$3,985 as of June 30, 2015. Amortization expense related to capital leased equipment was \$3,985 for the year ended June 30, 2015.

During 2015, Yu Ying capitalized interest of \$155,611 related to construction activities and is reported as a component of the building.

NOTE E – UNAMORTIZED LOAN COSTS

The following is a summary of unamortized loan costs as of June 30:

	2015	2014
Loan costs	\$ 261,929	\$ 414,065
Less: allowance for amortization	(8,541)	(76,951)
Unamortized loan costs, net	\$ 253,388	\$ 337,114

Amortization expense for the years ended June 30, 2015 and 2014 was \$345,655 and \$25,965, respectively.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE F – LONG-TERM DEBT

Revenue Bonds

During February 2012, an outstanding construction line of credit balance with Eagle Bank was converted into tax-exempt District of Columbia Revenue Bonds, Series 2012, issued for \$10,275,000 (“Series 2012 Bond”). The Series 2012 Bond was collateralized by Yu Ying’s real estate, Yu Ying’s per pupil facility allowance, and all future unrestricted philanthropic pledges. The Series 2012 Bond was scheduled to mature March 1, 2037. The Series 2012 Bond payments were payable monthly and comprised of principal plus interest at 4.00% per annum through March 1, 2017. Prepayment of the Series 2012 Bond, in whole or in part, was subject to a redemption percentage and additional fees and expenses.

On October 1, 2014, the Series 2012 Bond agreement was amended and restated to make certain modifications to the terms of the Series 2012 Bonds and issue \$3,921,433 of tax-exempt District of Columbia Revenue Bonds, Series 2014 (“Series 2014 Bond”). The Series 2012 Bond, with a remaining principal balance of \$9,593,567, were purchased by the owner of the Series 2014 Bond. Due to the purchase of the Series 2012 Bond, Yu Ying incurred a prepayment fee of \$191,871 which is expensed in the accompanying Statements of Activities.

The Series 2014 Bond was issued to refinance existing debts, finance approved construction costs, and pay approved loan costs related to the tax-exempt debt.

The amended Series 2012 Bond and Series 2014 Bond (collectively, the “Bonds”) are collateralized by all assets of Yu Ying located or used in connection with operations at Yu Ying’s current location. The Bonds are scheduled to mature October 1, 2044, and are paid over a 23 year amortization schedule. Interest plus principal payments are due monthly at a variable rate of 78% of the one-month LIBOR rate plus 1.75%, adjusted monthly, through October 1, 2021. The variable interest rate, adjusted monthly, of subsequent periods will be determined by a market agent in accordance with the Bonds’ documents.

Other Financing

On April 4, 2011, Yu Ying obtained a loan from the Charter Schools Development Corporation (“CSDC Loan”) in the amount of \$800,000 to acquire the land and building. The CSDC Loan was payable in monthly interest payments at 6.50% per annum and annual accelerated principal payments. Annual accelerated principal payments were based on a formula of net cash flow defined by the loan agreement. The CSDC loan was scheduled to mature on April 1, 2017. The CSDC Loan was fully repaid from the proceeds of the Series 2014 Bond.

On May 20, 2011, Yu Ying obtained a loan from the Office of Public Charter School Financing and Support in the amount of \$2,000,000 (“PCSFS Loan”) to renovate the land and building. The PCSFS Loan was payable in quarterly principal, plus annual accelerated principal, plus interest payments at 4.00% per annum through April 1, 2017. Annual accelerated principal payments were based on a formula of net cash flow defined by the loan agreement. PCSFS provided a \$700,000 debt service enhancement guaranty in favor of Eagle Bank, which was scheduled to terminate during February 2017. The PCSFS Loan was fully repaid from the proceeds of the Series 2014 Bond.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE F – LONG-TERM DEBT – continued

The collateral for the CSDC Loan and PCSFS Loan was a second lien (on a parity with the security for the PCSFS Loan and CSDC Loan, respectively) on the real estate, subordinate assignment to the Per Pupil Facility allowance, and subordinate priority UCC lien on all fixed assets of Yu Ying.

The debt agreements contain certain restrictive, financial, and nonfinancial covenants. In the opinion of management, Yu Ying has complied with the required covenants for 2015 and 2014.

Derivative Instrument

Yu Ying entered into an interest rate swap agreement effective October 3, 2014 with a termination date of October 1, 2021. The interest rate swap instrument, which has been designated as a cash flow hedge, was not determined to be fully effective. Yu Ying’s interest rate swap has a notional amount of \$6,757,500, which is one half of the outstanding debt principal at October 1, 2014. Under the interest rate swap agreement, Yu Ying is to pay a fixed rate of 3.64% per annum on a monthly basis, while receiving a variable rate of 78% of the one-month LIBOR rate plus 1.75%, adjusted monthly. Subject to the terms of the agreement, upon an event of default or termination, the non-defaulting party has the option to terminate the agreement prior to the termination date.

Net settlement payments, which are made monthly, are recorded as interest expense in the accompanying financial statements. The fair value of the interest rate swap as of June 30, 2015 is a liability of \$198,350. Changes in the fair value of the interest rate swap are reported in the Statement of Activities.

The following summarizes long-term debt as of June 30:

	2015	2014
District of Columbia Revenue Bonds (Washington Yu Ying Public Charter School Issue) Series 2012	\$ 9,410,903	\$ 9,700,898
District of Columbia Revenue Bonds (Washington Yu Ying Public Charter School Issue) Series 2014	3,846,769	-
Charter Schools Development Corporation	-	708,531
Public Charter School Financing and Support	-	1,623,496
Total	13,257,672	12,032,925
Less: current maturity	(394,664)	(780,495)
Total long-term debt, net of current portion	\$ 12,863,008	\$ 11,252,430

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE F – LONG-TERM DEBT – continued

Aggregate annual maturities of the debt are as follows for the years ending June 30:

2016	\$	394,664
2017		409,000
2018		424,672
2019		440,000
2020		454,332
Thereafter		11,135,004
Total	\$	13,257,672

NOTE G – FAIR VALUE MEASUREMENTS

Fair value, as defined in the fair value measurement accounting guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price.

The guidance on fair value measurement accounting requires that Yu Ying make assumptions market participants would use in pricing an asset or liability based on the best information available. Yu Ying considers factors that were not previously measured when determining the fair value of financial instruments. These factors include nonperformance risk (the risk that the obligation will not be fulfilled) and credit risk, of the reporting entity (for liabilities) and of the counterparty (for assets). The fair value measurement guidance prohibits inclusion of transaction costs and any adjustments for blockage factors in determining the instruments' fair value. The principal or most advantageous market should be considered from the perspective of the reporting entity.

Fair value, where available, is based on observable quoted market prices. Where observable prices or inputs are not available, several valuation models and techniques are applied. These models and techniques attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The process involves varying levels of management judgment, the degree of which is dependent on the price transparency of the instruments or market and the instruments' complexity.

To increase consistency and enhance disclosure of the fair value of financial instruments, the fair value measurement accounting guidance established a fair value of inputs to the valuation technique, into a three-level fair value hierarchy. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where level 1 is the highest and level 3 is the lowest. The three levels are defined as follows:

Level 1 – Observable inputs such as quoted prices in active markets. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE G – FAIR VALUE MEASUREMENTS – (continued)

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities or default rates observable at commonly quoted intervals or inputs derived from observable market data by correlation or other means.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect certain assumptions by management about the assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

The fair value of Yu Ying’s interest rate swap (level 3) is based on a calculated mathematical approximation of market values derived from proprietary models of a third party specialist. These valuations are determined on mid market basis and do not include bid/offered spread that would be reflected in an actual price quotation. These valuations and models rely on certain assumptions regarding past, present, and future market conditions.

The following table summarizes the activity for fair value measurements of assets (liabilities) using significant unobservable inputs (level 3):

	2015
Fair value, beginning of year	\$ -
Changes in interest rate swap	(198,350)
Fair value, end of year	\$ (198,350)

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes as of June 30:

	2015	2014
Technology	\$ 48,024	\$ 89,563
Mandarin immersion early childhood education	-	60,260
Other	3,975	1,576
Total	\$ 51,999	\$ 151,399

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE I – DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT

Yu Ying has been approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The original contract, dated January 10, 2008, was amended on December 17, 2012. The amendment allows Yu Ying the ability to enroll students in additional grades through a contract with a management company, District of Columbia International School. The contract provides for a 15 year charter unless sooner terminated in accordance with the contract.

NOTE J – RETIREMENT PLAN

During January 2014, a qualified 401(k) Plan was established for eligible employees after one year of employment. Prior to the 401(k) Plan, Yu Ying offered a Simple IRA Plan to eligible employees after one year of service. Both the Simple IRA and the 401(k) Plans allow the participants to make voluntary contributions up to the maximum amount allowable by the Internal Revenue Code. Yu Ying matches the employee's contribution up to 3% of the employee's salary, subject to a vesting schedule. Total expenses related to the Plans for the years ended June 30, 2015 and 2014 totaled \$74,592 and \$53,770, respectively.

NOTE K – CONCENTRATIONS

Yu Ying is dependent on per-pupil funding from the District of Columbia Public School System, as authorized by the District of Columbia Public Charter School Board. During the years ended June 30, 2015 and 2014, 85% and 83% of total support was provided by per-pupil funding, respectively.

Yu Ying maintains its cash in several financial institutions. The cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Yu Ying's cash routinely exceeds the FDIC limit. Management does not believe Yu Ying is exposed to any significant credit risk on its cash and cash equivalents.

NOTE L – AVERAGE COST PER STUDENT

For the years ended June 30, 2015 and 2014 the average cost per student was \$17,132 and \$15,191, respectively. This is calculated by dividing total noncapital expenditures, by Yu Ying's full-time student enrollment.

NOTE M - SUBSEQUENT EVENTS

As required by the Subsequent Events topic of the FASB Accounting Standards Codification, management evaluated subsequent events through the date of the auditor's report, which is the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.



**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***

Board of Directors
Washington Yu Ying Public Charter School
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Washington Yu Ying Public Charter School (a nonprofit organization) ("Yu Ying"), which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Yu Ying'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Yu Ying's internal control. Accordingly, we do not express an opinion on the effectiveness of Yu Ying's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Yu Ying'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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jane Marston & McQuade PA

Washington, DC
October 15, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

Board of Directors
Washington Yu Ying Public Charter School
Washington, DC

Report on Compliance for Each Major Federal Program

We have audited Washington Yu Ying Public Charter School's ("Yu Ying") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Yu Ying's major federal programs for the year ended June 30, 2015. Yu Ying's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Yu Ying's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Yu Ying's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Yu Ying's compliance.

Opinion on Each Major Federal Program

In our opinion, Yu Ying complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Yu Ying is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Yu Ying's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Yu Ying's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Jane Marston & M^oQuade PA

Washington, DC
October 15, 2015

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U.S. Department of Education			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Improving Teacher Quality State Grants	84.367	52367A	\$ 20,722
Race to the Top - ARRA	84.395	U370C120001	92,589
DC School Choice Incentive Program	84.370	U370C130001	370,579
Special Education Cluster			
Special Education Grants to States	84.027	52027A	55,586
Special Education Preschool Grants	84.173	52173A	462
Total U.S. Department of Education			539,938
U.S. Department of Agriculture			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Child Nutrition Cluster			
National School Lunch Program	10.555		53,601
National School Breakfast Program	10.553		3,701
Total U.S. Department of Agriculture			57,302
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ 597,240

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Washington Yu Ying Public Charter School, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in *OMB Circular A-122, Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or limited as to reimbursements. Pass-through amounts, programs, agencies, and entity identifying numbers are presented where available.

NOTE C – SUBRECIPIENT AWARDS

Of the federal expenditures presented in the Schedule \$195,118, under CFDA 84.370, were paid to a subrecipient.

NOTE D – RECONCILIATION TO THE FINANCIAL STATEMENTS

Expenditures per the Schedule exclude \$4,844 of federal funds provided under the Federal Communications Commission E-Rate program, which are reported as federal entitlements and grant revenue in the statement of activities. Funding under the E-Rate program is considered to be federal funds, however, does not qualify as direct financial support, and therefore, is exempt from Single Audit requirements.

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified	No
Significant deficiency(ies) identified that are not considered to be material weaknesses reported	None Reported
Noncompliance material to the financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified	No
Significant deficiency(ies) identified that are not considered to be material weaknesses reported	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	No

Major Program

Program or Cluster Title	DC School Choice Incentive Program
Federal CFDA Number	84.370
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

(continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

SECTION IV - SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None