

**MUNDO VERDE
BILINGUAL PUBLIC CHARTER SCHOOL**

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

JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

	<u>Page No</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities, Year Ended June 30, 2017	4
Statement of Activities, Year Ended June 30, 2016	5
Statement of Functional Expense, Year Ended June 30, 2017	6
Statement of Functional Expense, Year Ended June 30, 2016	7
Statements of Cash Flows	8
Notes to the Financial Statements	9 - 17
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 <i>Government Auditing Standards</i>	18 - 19



JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

Independent Auditors' Report

To the Board of Directors of
Mundo Verde Bilingual Public Charter School
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Mundo Verde Bilingual Public Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Mundo Verde Bilingual Public Charter School
Independent Auditor's Report
Page 2

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mundo Verde Bilingual Public Charter School as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, on our consideration of Mundo Verde Bilingual Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the effectiveness of Mundo Verde Bilingual Public Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mundo Verde Bilingual Public Charter School's internal control over financial reporting and compliance.

Jane Marusa & McQuade PA

Washington, DC
November 29, 2017

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,017,634	\$ 1,570,639
Cash and cash equivalents restricted by debt agreement	9	262,101
Grants and accounts receivable, net	219,508	248,537
Prepaid expenses	34,879	130,326
Deposits	<u>540,000</u>	-
Total Current Assets	<u>1,812,030</u>	<u>2,211,603</u>
NON-CURRENT ASSETS		
Property and equipment, net	14,753,949	15,160,725
Deposits	<u>109,624</u>	<u>580</u>
Total Non-Current Assets	<u>14,863,573</u>	<u>15,161,305</u>
TOTAL ASSETS	<u><u>\$ 16,675,603</u></u>	<u><u>\$ 17,372,908</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 874,296	\$ 790,532
Line of credit	-	215,588
Deferred revenue	69,263	73,100
Capital lease obligation, current portion	7,296	6,941
Current maturity of long-term debt	<u>627,716</u>	<u>601,065</u>
Total Current Liabilities	<u>1,578,571</u>	<u>1,687,226</u>
NON-CURRENT LIABILITIES		
Capital lease obligation, non-current portion	8,984	16,280
Long-term debt, net	<u>11,246,483</u>	<u>11,852,599</u>
Deferred rent	<u>927,625</u>	<u>600,228</u>
Total Non-Current Liabilities	<u>12,183,092</u>	<u>12,469,107</u>
TOTAL LIABILITIES	13,761,663	14,156,333
NET ASSETS		
Unrestricted	2,695,487	3,004,332
Temporarily restricted	<u>218,453</u>	<u>212,243</u>
Total Net Assets	<u>2,913,940</u>	<u>3,216,575</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 16,675,603</u></u>	<u><u>\$ 17,372,908</u></u>

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

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 7,155,988	\$ -	\$ 7,155,988
Per pupil facility allowance	1,758,812	-	1,758,812
Federal entitlements and grants	267,598	-	267,598
Grants and contributions	163,205	285,636	448,841
In-kind donations	28,468	-	28,468
Activity fees and other income	1,106,591	-	1,106,591
Net assets released from restrictions	279,426	(279,426)	-
Total Revenue and Support	<u>10,760,088</u>	<u>6,210</u>	<u>10,766,298</u>
EXPENSES			
Educational programs	8,848,299	-	8,848,299
Management and general	2,078,375	-	2,078,375
Fundraising	142,122	-	142,122
Total Expenses	<u>11,068,796</u>	<u>-</u>	<u>11,068,796</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(308,708)	6,210	(302,498)
OTHER CHANGES			
Loss on disposal of property and equipment	(137)	-	(137)
CHANGE IN NET ASSETS	(308,845)	6,210	(302,635)
NET ASSETS, beginning of year	3,004,332	212,243	3,216,575
NET ASSETS, end of year	<u>\$ 2,695,487</u>	<u>\$ 218,453</u>	<u>\$ 2,913,940</u>

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

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 6,795,856	\$ -	\$ 6,795,856
Per pupil facility allowance	1,680,712	-	1,680,712
Federal entitlements and grants	643,646	-	643,646
Grants and contributions	290,077	228,206	518,283
In-kind donations	46,506	-	46,506
Activity fees and other income	1,267,895	-	1,267,895
Net assets released from restrictions	147,915	(147,915)	-
Total Revenue and Support	<u>10,872,607</u>	<u>80,291</u>	<u>10,952,898</u>
EXPENSES			
Educational programs	8,038,847	-	8,038,847
Management and general	2,074,605	-	2,074,605
Fundraising	130,620	-	130,620
Total Expenses	<u>10,244,072</u>	<u>-</u>	<u>10,244,072</u>
CHANGE IN NET ASSETS FROM OPERATIONS	628,535	80,291	708,826
OTHER CHANGES			
Loss on disposal of property and equipment	(9,560)	-	(9,560)
CHANGE IN NET ASSETS	618,975	80,291	699,266
NET ASSETS, beginning of year	<u>2,385,357</u>	<u>131,952</u>	<u>2,517,309</u>
NET ASSETS, end of year	<u>\$ 3,004,332</u>	<u>\$ 212,243</u>	<u>\$ 3,216,575</u>

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

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Educational Programs	Management and General	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 4,591,522	\$ 872,543	\$ 90,102	5,554,167
Employee benefits	605,884	115,137	11,890	732,911
Payroll taxes	365,399	69,439	7,170	442,008
Professional development	270,467	51,398	-	321,865
Total Personnel, Salaries and Benefits	5,833,272	1,108,517	109,162	7,050,951
DIRECT STUDENT COSTS				
Supplies and materials	140,148	-	-	140,148
Transportation	135,381	-	-	135,381
Food service	491,206	-	-	491,206
Contracted instruction fees	351,461	-	-	351,461
Textbooks	18,512	-	-	18,512
Student assessments	26,094	-	-	26,094
Other student costs	166,382	-	-	166,382
Total Direct Student Costs	1,329,184	-	-	1,329,184
OCCUPANCY EXPENSES				
Rent	275,998	52,449	-	328,447
Maintenance and repairs	28,278	5,374	-	33,652
Utilities	44,456	8,447	-	52,903
Janitorial services	24,078	4,575	-	28,653
Contracted building services	237,382	45,110	-	282,492
Total Occupancy Expenses	610,192	115,955	-	726,147
OFFICE EXPENSES				
Office supplies and materials	23,069	4,384	-	27,453
Equipment rental	42,560	8,088	-	50,648
Telecommunications	15,102	2,869	-	17,971
Professional fees	260,684	47,900	-	308,584
Printing and publications	8,603	1,635	-	10,238
Postage and shipping	2,313	439	-	2,752
Computer and related	58,210	11,062	-	69,272
Total Office Expenses	410,541	76,377	-	486,918
GENERAL EXPENSES				
Insurance	52,951	10,062	-	63,013
Interest	-	535,826	-	535,826
Authorizer fee	-	106,924	-	106,924
Depreciation and amortization	547,986	104,136	-	652,122
Fees and licenses	50,135	9,528	-	59,663
Bad debt expenses	-	8,523	-	8,523
Other general expense	14,038	2,527	32,960	49,525
Total General Expenses	665,110	777,526	32,960	1,475,596
Total Expenses	\$ 8,848,299	\$ 2,078,375	\$ 142,122	\$ 11,068,796

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

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Educational Programs	Management and General	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 4,092,609	\$ 818,022	\$ 84,448	\$ 4,995,079
Employee benefits	497,090	99,357	10,257	606,704
Payroll taxes	333,295	66,619	6,877	406,791
Professional development	369,604	34,144	-	403,748
Total Personnel, Salaries and Benefits	5,292,598	1,018,142	101,582	6,412,322
DIRECT STUDENT COSTS				
Supplies and materials	156,234	-	-	156,234
Transportation	126,375	-	-	126,375
Food service	365,496	73,054	-	438,550
Contracted instruction fees	316,464	-	-	316,464
Textbooks	39,190	-	-	39,190
Student assessments	24,282	-	-	24,282
Other student costs	139,482	-	-	139,482
Total Direct Student Costs	1,167,523	73,054	-	1,240,577
OCCUPANCY EXPENSES				
Rent	274,234	54,813	-	329,047
Maintenance and repairs	34,877	6,972	-	41,849
Utilities	31,436	6,284	-	37,720
Janitorial services	26,851	5,367	-	32,218
Contracted building services	169,684	33,916	-	203,600
Total Occupancy Expenses	537,082	107,352	-	644,434
OFFICE EXPENSES				
Office supplies and materials	27,956	5,588	-	33,544
Equipment rental	29,936	5,984	-	35,920
Telecommunications	15,692	3,137	-	18,829
Professional fees	157,624	58,976	7,343	223,943
Printing and publications	202	40	-	242
Postage and shipping	932	186	-	1,118
Computer and related	107,964	21,580	-	129,544
Total Office Expenses	340,306	95,491	7,343	443,140
GENERAL EXPENSES				
Insurance	59,371	11,867	-	71,238
Interest	19,356	523,883	-	543,239
Authorizer fee	-	105,997	-	105,997
Depreciation and amortization	484,164	96,677	-	580,841
Fees and licenses	59,529	11,899	-	71,428
Bad debt expenses	-	14,079	-	14,079
Other general expense	78,918	16,164	21,695	116,777
Total General Expenses	701,338	780,566	21,695	1,503,599
Total Expenses	\$ 8,038,847	\$ 2,074,605	\$ 130,620	\$ 10,244,072

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

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (302,635)	\$ 699,266
Adjustments to reconcile change in net assets provided by operating activities:		
Depreciation and amortization	652,122	580,841
Loss on disposal of property and equipment	137	9,560
Amortization of deferred financing costs	23,320	23,321
Deferred rent	327,397	327,397
(Increase) decrease in assets:		
Cash and cash equivalents restricted by debt agreements	262,092	(130)
Grants and accounts receivable, net	29,029	(147,648)
Prepaid expenses	95,447	(33,192)
Deposits	(649,044)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	83,764	(298,370)
Deferred revenue	(3,837)	(25,947)
Net Cash Provided by Operating Activities	<u>517,792</u>	<u>1,135,098</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(245,483)	(445,941)
Net Cash Used for Investing Activities	<u>(245,483)</u>	<u>(445,941)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payment) borrowing on line of credit	(215,588)	137,061
Principal payments of capital lease obligations	(6,941)	(6,603)
Principal payments on long-term debt	(602,785)	(52,600)
Net Cash Provided by (Used for) Financing Activities	<u>(825,314)</u>	<u>77,858</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(553,005)</u>	<u>767,015</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,570,639</u>	<u>803,624</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,017,634</u>	<u>\$ 1,570,639</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	<u>\$ 514,549</u>	<u>\$ 557,662</u>

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

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE A – ORGANIZATION AND PURPOSE

Mundo Verde Bilingual Public Charter School (the “School”) is a not-for-profit school which was incorporated under the laws of the District of Columbia in 2008. The School has been approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The charter agreement was signed in July 2011 and remains in effect for 15 years unless terminated sooner in accordance with contract. The School is DC’s first “green” public charter school. The School is dedicated to educating young people to become global stewards in an increasingly complex world.

The School is located at 30 P Street NW, Washington, DC. The School currently teaches preschool (3 year-olds) through fifth grade. The School is free to DC residents and admits students by lottery.

During June of 2014, the School entered into an operation agreement to become part of a consortium of schools which include: the District of Columbia Bilingual Public Charter Schools; Elsie Whitlow Stokes Community Freedom Public Charter School; Latin American Montessori Bilingual Public Charter School; and Washington Yu Ying Public Charter School. The consortium formed the District of Columbia International School (“DCI”). DCI operates a public charter school for middle and high school students focusing on language immersion and inquiry-based learning.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit-Entities*. In accordance with the topic, the School is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the School and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by the School. There were no permanently restricted net assets as of June 30, 2017 and 2016.

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - continued

Cash and Cash Equivalents

For purposes of the statements of cash flows, the School considers all highly liquid debt 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 are comprised of cash and cash equivalents held by a trustee or the authority to fund the current portion of debt service and hold unspent loan proceeds and required project fund.

Grants and Accounts Receivable

The School's grants receivable consist of unsecured amounts due from public funding sources whose ability to pay are subject to appropriations. Other accounts receivable are related to program service fees and are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Management determines if an allowance for doubtful accounts is necessary based upon review of outstanding receivables, historical collection experience and existing economic conditions. Accounts deemed uncollectible are charged off based on this review. The School has established an allowance for doubtful accounts for potentially uncollectible receivables. As of June 30, 2017 and 2016, the allowance of doubtful accounts totaled \$2,815 and \$9,621, respectively.

Property and Equipment

Purchases of property and equipment over \$1,000 are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment are depreciated using the straight line method over the estimated useful lives of the underlying assets, which range from 3 to 40 years. Leasehold improvements are amortized over the lesser of their useful life or the lease term. 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 expensed when incurred

Debt Issuance Costs

Cost incurred in the issuance of debt have been capitalized and are reported on the statement of financial position as a direct deduction from the related debt liability. Debt issuance costs are amortized as interest expense using the straight-line method over the remaining period of the debt, which approximates the effective interest method.

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred Revenue

Deferred revenue results from summer school fees and other income received in advance of services to be provided.

Deferred Rent

The School records rent expense including rent abatement on a straight line basis over the term of the lease. Deferred rent is recorded for the difference in the rent expense recognized on a straight-line basis and the rent payments.

Per Pupil Appropriations

The School receives a student allocation on a per pupil basis from the District of Columbia to cover the cost of academic expenses. Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriation revenue includes \$1,150,436 and \$1,030,224 for enhancements such as special education, English language learners, and at-risk students for the years ended June 30, 2017 and 2016, respectively.

Federal Entitlements

Federal entitlement revenue is grants 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.

Grants and Contributions

Grants and 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 statements of activities as net assets released from restrictions.

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

In-Kind Contributions

Donated facilities, goods and services are recorded at fair value at the date of donation. Donated services are recognized in the financial statements at their fair value if the services require specialized skills and the services would typically need to be purchased if not donated. During the years ended June 30, 2017 and 2016, the School received \$300 and \$4,744 of donated goods, respectively. For the years ended June 30, 2017 and 2016, the School received donated legal services totaling \$28,168 and \$41,762, respectively.

Activity Fees

Activity fees are amounts earned from students for field trips, before and after care, summer camps, and other school related activities. These fees are recognized at the time the activity is held.

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.

Functional Expenses

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

NOTE C – INCOME TAXES

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

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

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE C – INCOME TAXES - continued

The School 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 (2013-2015), or expected to be taken in its 2016 tax return. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

NOTE D – PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Computers and related	\$ 277,186	\$ 250,410
Furniture and equipment	441,978	271,958
Renovation and leasehold improvements	15,632,912	15,589,626
Website	9,240	5,600
	<u>16,361,316</u>	<u>16,117,594</u>
Less: accumulated depreciation and amortization	(1,607,367)	(956,869)
Property and Equipment, Net	<u>\$ 14,753,949</u>	<u>\$ 15,160,725</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016, totaled \$652,122 and \$580,841, respectively. Interest capitalized by the School for the years ended June 30, 2017 and 2016 totaled \$0 and \$27,553. Capitalized interest related to construction activities and includes the relevant portion of applicable interest payments. Construction was completed during the year ended June 30, 2016.

NOTE E – LINE OF CREDIT

On January 5, 2015, the School entered into a line of credit agreement with United Bank for up to \$500,000. The line of credit bears an interest rate of 4.5% per annum. The line of credit is secured by the School's accounts receivable, equipment, and bank deposit accounts. As of June 30, 2017 and 2016, the balance due on the line of credit totaled \$0 and \$215,588, respectively.

NOTE F – LONG-TERM DEBT

The proceeds of the financing discussed below were used to acquire and renovate the building currently used by the School.

During January 2014, the School secured tax exempt District of Columbia Revenue Bonds, Series 2014, issued for \$11,480,000 (Revenue Bond). The Revenue Bond is collateralized by all assets of the School. The Revenue Bond is scheduled to mature February 1, 2030. Revenue Bond interest only payments were due monthly at 4.00% interest per annum through February 1, 2015.

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE F – LONG-TERM DEBT – continued

Interest plus principal payments are due monthly from March 1, 2015 at 4.00% interest per annum through January 1, 2020. The interest rate of subsequent periods will be the greater of the sum of the five year swap rate for the thirty day LIBOR rate plus 3.00% multiplied by one minus the bank tax rate (currently 38%) and a factor based on the average cost of deposits of the bank and bank tax rate, or 4% per annum. Prepayment of the Revenue Bond in whole or in part is subject to a redemption percentage and additional fees and expenses.

According to the terms of the debt, the School is required to maintain financial and nonfinancial covenants. As of June 30, 2017, the School did not meet the debt service coverage ratio. However, the School obtained a one-time waiver with respect to the debt service coverage ratio.

During January 2014, the School obtained a loan from the Office of Public Charter School Financing and Support in the amount of \$2,000,000 (PCSFS Loan). The PCSFS Loan is paid by quarterly principal and interest payments at 4.5% per annum over a term of five years based on a 25-year amortization schedule. A balloon payment of \$1,986,798 is due at maturity of January 15, 2019. PCSFS has provided a \$1,000,000 debt service enhancement guaranty in favor of the School to United Bank, which is scheduled to terminate January 15, 2019. The collateral for the PCSFS Loan is a second lien on all assets of the School and all improvements to the property.

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

	<u>2017</u>	<u>2016</u>
District of Columbia Revenue Bonds (Series 2014)	\$ 10,117,583	\$ 10,716,871
Public Charter School Financing and Support	<u>1,992,346</u>	<u>1,995,843</u>
	<u>12,109,929</u>	<u>12,712,714</u>
Less: current maturity	(627,716)	(601,065)
Less: Debt issuance costs, net of accumulated amortization	<u>(235,730)</u>	<u>(259,050)</u>
	<u>\$ 11,246,483</u>	<u>\$ 11,852,599</u>

In prior years, the School reported debt issuance costs as a deferred charge in the statement of financial position and amortization of such costs in the statement of activities as depreciation and amortization. To comply with new GAAP presentation requirements, in 2017 the School began reporting such costs as a direct deduction from the carrying amount of the related debt and reclassified prior year amounts, resulting in a reduction of total June 30, 2016 assets by \$259,050. The change did not affect net assets.

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE F – LONG-TERM DEBT – continued

Debt issuance costs and accumulated amortization are as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Debt issuance costs	\$ 322,353	\$ 322,353
Accumulated amortization	(86,623)	(63,303)
	<u>\$ 235,730</u>	<u>\$ 259,050</u>

Similarly, the School now reports amortization of debt issuance costs as interest expense and reclassified 2016 amounts accordingly. As a result, reported interest expense in 2016 was increased (and depreciation and amortization decreased) by \$23,321, with no effect on the change in net assets. The amortization of debt issuance costs as interest expense for the year ended June 30, 2017 was \$23,320.

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

2018	\$ 627,716
2019	2,638,532
2020	675,751
2021	704,614
2022	764,044
2023 and thereafter	<u>6,699,272</u>
Total	<u>\$ 12,109,929</u>

NOTE G – LEASE COMMITMENTS

During 2014, the School entered into a lease agreement with the District of Columbia as the lessor for a thirty year period. The lease term began on August 1, 2014, and is classified as an operating lease. Twelve months rent abatement is available to the School for every \$1 million spent for leasehold improvements; however, no more than a total of 180 months of rent shall be abated. The School met the minimum requirements to fully realize the available rent abatement.

The lease contains escalation clauses and charges for other costs related to the leased space. Due to rent abatements earned, minimum required payments begin in fiscal year 2029, and total \$9,821,907 through fiscal year 2045.

Facility rent expense for the years ended June 30, 2017 and 2016, totaled \$327,397 and \$327,397, respectively. Equipment rental expense for the years ended June 30, 2017 and 2016, totaled \$50,648 and \$35,920, respectively.

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE H – CAPITAL LEASE

During 2015, the School entered into a capital lease for equipment that may be purchased at the expiration of the lease. The interest rate implicit in the lease is 5% per annum. The monthly payment is \$662 and the lease expires on August 31, 2019. The capitalized cost of the equipment lease totaled \$35,080. Accumulated amortization on the equipment totaled \$19,879 and \$12,863 as of June 30, 2017 and 2016, respectively. Amortization expense related to the equipment totaled \$7,016 and \$7,016 for the years ended June 30, 2017 and 2016, respectively.

Minimum future lease payments under the capital lease are as follows for the years ending June 30:

2018	\$ 7,944
2019	7,944
2020	<u>1,324</u>
	17,212
Less interest	<u>(932)</u>
Total	<u><u>\$ 16,280</u></u>

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

For the years ended June 30, 2017 and 2016, temporarily restricted net assets were designated for the following:

	2017	2016
Additional school location	\$ 215,000	\$ -
Academic support	2,547	-
Green school	906	-
Campus campaign	-	158,020
Play spaces	-	54,223
	<u><u>\$ 218,453</u></u>	<u><u>\$ 212,243</u></u>

NOTE J – RETIREMENT PLAN

The School established a 401(k) qualified retirement plan (the Plan), under which employees who attain the age of 21 years or older and complete one consecutive month of employment are eligible to participate.

Under the Plan, the School will match a discretionary percentage of each participant's salary. A discretionary profit sharing contribution is also available. The total matching, discretionary contributions, and fees incurred by the School for the years ended June 30, 2017 and 2016, totaled \$156,392 and \$129,077, respectively.

MUNDO VERDE BILINGUAL PUBLIC CHARTER SCHOOL
NOTE TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE K – CONCENTRATIONS OF RISK

The School is dependent on funding from the District of Columbia, as authorized by the District of Columbia Public Charter Board. During the years ended June 30, 2017 and 2016, approximately 83% and 77% of total support was received from the District of Columbia, respectively.

The School is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the School must compete for students against the DC Public School system and other DC Public Charter Schools. Uniform Per-Student Funding received from the District of Columbia is based upon actual student enrollment determined by an annual enrollment audit. As a result, actual revenue may vary materially from budgeted revenue if under-enrollment were to occur.

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

NOTE L – LITIGATION

The School has a pending litigation in the United States District Court for the District of Columbia. The case is an appeal by the School of an adverse administrative decision pursuant to the Individuals with Disabilities Education Act. If the School does not succeed in the appeal or the appeal does not move forward, the estimated cost to the School would be \$30,000 to \$80,000. The School believes it will be successful in the appeal, and therefore no related liability has been recognized in the accompanying financial statements.

NOTE M – SUBSEQUENT EVENTS

During September 2017, the School entered into a lease agreement for an additional school location with an unrelated private party. The term of the lease agreement commences on June 1, 2017 and expires on June 15, 2047. Base rent under the terms of the lease totals \$1,119,490 with escalations thereafter and beginning on the base rent commencement date, the later of the date the landlords work is substantially complete or July 1, 2019. Additionally, the lease agreement allows for certain rent abatements. In conjunction with this lease, the School obtained a \$540,000 letter of credit with a bank.

In preparing these financial statements, the School's management has evaluated events and transactions for potential recognition or disclosure through November 29, 2017, the date the financial statements were available to be issued. Except as noted above, there were no events or transactions discovered during the evaluation that required recognition or further disclosure.



JONES, MARESCA & MCQUADE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1730 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036
(202) 296-3306
Fax: (202) 296-0059

**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***

To the Board of Directors of
Mundo Verde Bilingual Public Charter School
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mundo Verde Bilingual Public Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

To the Board of Directors
Mundo Verde Bilingual Public Charter School

Compliance and Other Matters

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

Purpose of this Report

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

Jane Wallace & McRae PA

Washington, DC
November 29, 2017