

The SEED Public Charter School of Washington, D.C.

Financial Report
June 30, 2016

Contents

Independent auditor's report	1-2
Financial statements	
Balance sheets	3
Statement of activities – 2016	4
Statement of activities – 2015	5
Statements of cash flows	6
Notes to financial statements	7-18
Independent auditor's report on the supplementary information	19
Supplementary information	
Schedule of functional expenses	20
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>	21-22



RSM US LLP

Independent Auditor's Report

To the Board of Trustees
The SEED Public Charter School of Washington, D.C.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of The SEED Public Charter School of Washington, D.C. (the School), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of activities 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2016 and 2015, 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 reports dated November 30, 2015 and October 31, 2016, on our consideration of the 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 these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
October 31, 2016

The SEED Public Charter School of Washington, D.C.

Balance Sheets
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,805,901	\$ 1,993,142
Receivables	325,523	113,396
Promises to give	76,850	6,375
Prepaid expenses	138,696	144,363
Total current assets	2,346,970	2,257,276
Long-term assets:		
Investments	810,396	779,843
Restricted cash	987,919	1,097,741
Property and equipment, net	17,429,894	17,699,730
	\$ 21,575,179	\$ 21,834,590
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 611,664	\$ 658,702
Due to The SEED Foundation, Inc.	1,144	282,263
Current portion of capital lease obligation	36,556	34,569
Current portion of bonds payable	915,000	875,000
Total current liabilities	1,564,364	1,850,534
Long-term liabilities:		
Capital lease obligation, net of current portion	40,214	77,921
Bonds payable, net of current portion	3,165,687	4,066,712
Total long-term liabilities	3,205,901	4,144,633
Total liabilities	4,770,265	5,995,167
Commitments and contingencies (Notes 8, 11 and 14)		
Net assets:		
Unrestricted	15,745,127	14,793,588
Temporarily restricted	959,787	945,835
Permanently restricted	100,000	100,000
	16,804,914	15,839,423
	\$ 21,575,179	\$ 21,834,590

See notes to financial statements.

The SEED Public Charter School of Washington, D.C.

Statement of Activities
 Year Ended June 30, 2016
 (With Comparative Totals for 2015)

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Per-pupil allocation	\$ 14,450,868	\$ -	\$ -	\$ 13,812,343
Federal grants and awards	601,735	-	-	583,699
State grants and awards	36,283	-	-	26,793
Contributions from donors	178,159	71,782	-	220,539
In-kind contributions	-	-	-	2,751
Investment income	31,562	152	-	41,600
Gain on disposal of property and equipment	-	-	-	72,223
Other	30,058	-	-	65,859
Net assets released from restrictions	57,982	(57,982)	-	-
Total support and revenue	15,386,647	13,952	-	14,825,807
Expenses:				
Program	12,330,413	-	-	13,261,779
Management and general	1,885,764	-	-	1,359,323
Fundraising	218,931	-	-	184,213
Total expenses	14,435,108	-	-	14,805,315
Change in net assets	951,539	13,952	-	20,492
Net assets:				
Beginning	14,793,588	945,835	100,000	15,818,931
Ending	\$ 15,745,127	\$ 959,787	\$ 100,000	\$ 16,804,914

See notes to financial statements.

The SEED Public Charter School of Washington, D.C.

Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Per-pupil allocation	\$ 13,812,343	\$ -	\$ -	\$ 13,812,343
Federal grants and awards	583,699	-	-	583,699
State grants and awards	26,793	-	-	26,793
Contributions from donors	143,228	77,311	-	220,539
In-kind contributions	2,751	-	-	2,751
Investment income	41,449	151	-	41,600
Gain on disposal of property and equipment	72,223	-	-	72,223
Other	65,859	-	-	65,859
Net assets released from restrictions	108,514	(108,514)	-	-
Total support and revenue	14,856,859	(31,052)	-	14,825,807
Expenses:				
Program	13,261,779	-	-	13,261,779
Management and general	1,359,323	-	-	1,359,323
Fundraising	184,213	-	-	184,213
Total expenses	14,805,315	-	-	14,805,315
Change in net assets	51,544	(31,052)	-	20,492
Net assets:				
Beginning	14,742,044	976,887	100,000	15,818,931
Ending	\$ 14,793,588	\$ 945,835	\$ 100,000	\$ 15,839,423

See notes to financial statements.

The SEED Public Charter School of Washington, D.C.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 965,491	\$ 20,492
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,053,798	967,630
Amortization of debt issuance costs	13,975	24,529
Net realized and unrealized gain on investments	(15,974)	(29,172)
Gain on disposal of property and equipment	-	(72,223)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(212,127)	26,965
Promises to give	(70,475)	76,333
Due from The SEED Foundation, Inc.	-	35,383
Prepaid expenses	5,667	(80,918)
(Decrease) increase in:		
Accounts payable and accrued expenses	(47,038)	232,573
Deferred revenue	-	(156,934)
Due to The SEED Foundation, Inc.	(281,119)	282,263
Net cash provided by operating activities	1,412,198	1,326,921
Cash flows from investing activities:		
Purchases of property and equipment	(783,962)	(487,926)
Proceeds on disposal of property and equipment	-	205,368
Purchase of investments	(14,579)	(9,090)
Increase in restricted cash	109,822	253,953
Net cash used in investing activities	(688,719)	(37,695)
Cash flows from financing activities:		
Debt acquisition costs	-	(14,444)
Principal payments on capital lease obligation	(35,720)	(31,571)
Principal payments on bonds payable	(875,000)	(825,000)
Net cash used in financing activities	(910,720)	(871,015)
Net (decrease) increase in cash and cash equivalents	(187,241)	418,211
Cash and cash equivalents:		
Beginning	1,993,142	1,574,931
Ending	<u>\$ 1,805,901</u>	<u>\$ 1,993,142</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 83,973</u>	<u>\$ 100,279</u>

See note to financial statements.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The SEED Public Charter School of Washington, D.C. (the School) is a corporation organized for the purpose of operating a public charter school for children residing in Washington, D.C. The School's two principal goals are first, to prepare the children attending the School for admission to colleges and universities and/or success in the professional world, and second, to develop a model for education targeted at inner-city children to be successfully replicated in urban areas throughout the country.

The School is under the control of The SEED Foundation, Inc. (the Foundation). The Foundation has both an economic interest in the School and controls membership of the School's Board of Trustees. The School is a component of the Foundation's consolidated financial statements.

Charter School Agreement: On September 4, 1998, the School entered into a 15-year Charter School Agreement with the District of Columbia Public Charter School Board. Under the terms of this agreement, the School will operate a charter school for students of certain ages in grades 6 through 12, in accordance with the mission established in the School's by-laws.

On September 19, 2013, the School renewed their Charter School Agreement with the District of Columbia Public Charter School Board for a 15-year period.

A summary of the School's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, the School is required to report 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.

Cash and cash equivalents: For purposes of reporting cash flows, the School considers all money market accounts and certificates of deposit with an original maturity of three months or less to be cash equivalents.

Restricted cash: Separate purpose-restricted cash accounts are held by the School for the uses of capital improvements and the payment of bond principal and interest.

Financial risk: The School maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to any significant financial risk on cash.

The School invests in mutual funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Receivables: Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management believes that an allowance was not required, based on its evaluation of the collectability of receivables at June 30, 2016 and 2015.

Promises to give: Contributions are recognized when the donor makes a written promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. The allowance for doubtful promises to give is based on management's evaluation of the status of existing promises to give and historical results. Management believes all promises were collectible, and no allowance was necessary at June 30, 2016 and 2015. At June 30, 2016 and 2015, all promises to give were expected to be collected during the next fiscal year.

Investments: Investments are carried at fair value, as determined based on quoted market prices. Changes in fair value are recorded as a component of investment income.

Property and equipment: Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the related asset, ranging from 3 to 40 years. Artwork is not being depreciated. Normal repairs and maintenance are expensed as incurred. The School capitalizes all property and equipment purchased with a cost of \$1,000 or more.

Valuation of long-lived assets: The School accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the FASB Accounting Standards Codification Topic Property, Plant and Equipment that address Impairment or Disposal of Long-Lived Assets. The accounting standard requires that property, plant and equipment and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Works of art: Works of art contributed to the School are recorded at the fair market value at the time of the accession.

Debt issuance costs: Legal and accounting costs, as well as other expenses associated with debt issuance, are being amortized on the effective interest rate method over the term of the debt acquired. Unamortized debt issuance costs are reported with bond payable.

Net assets: Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to these stipulations. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. At June 30, 2016 and 2015, temporarily restricted net assets represented amounts restricted for specific education-related expenses.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the School's actions. Permanently restricted net assets represent resources generating investment income used for scholarships.

Gifts in-kind: Gifts in-kind are reported at their fair value on the date of the gift.

Per-pupil allocation and federal funding: The School receives a student allocation from the District of Columbia, as well as federal entitlement funding, to cover the cost of residential and academic expenses. The student allocation is on a per-pupil basis and includes academic year funding, special education funding and a facilities allotment. The revenue is recognized in the period it is earned, which is the school year for which the allocation is made. Unearned per-pupil allocation received is recorded as deferred revenue. Federal grant entitlements are recognized as revenue and support based on allowable costs incurred. Many of the federal grant entitlements flow through from the Office of the State Superintendent of Education (OSSE).

Contributions: Contributions, including unconditional promises to give, are recognized at fair value as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is, at the time when the conditions on which they depend are substantially met.

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

Tax status: The School is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is not considered to be a private foundation. Under Section 501(c)(3) of the IRC, the School is exempt from federal taxes on income other than unrelated business income. The School did not have any net unrelated business income for the years ended June 30, 2016 and 2015.

The School follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed should be recorded in the financial statements. Under this guidance, the School may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

Management evaluated the School's tax positions and concluded that the School has taken no uncertain positions that require adjustments to the financial statements to comply with the provisions of this guidance. Generally, the School is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2013.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but that provide for the overall support and direction of the School.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adopted accounting pronouncement: In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs*. This ASU simplifies the presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. This ASU is effective for the School for the fiscal year beginning July 1, 2016. Early adoption is permitted. The School adopted the pronouncement during the year ended June 30, 2016.

Upcoming accounting pronouncement: In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier applicable is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management is currently evaluating the impact of this ASU on the financial statements.

Reclassifications: Certain items in the June 30, 2015, financial statements have been reclassified to conform with the current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

Subsequent events: The School evaluated subsequent events for disclosures through October 31, 2016, which is the date the financial statements were issued.

Note 2. Restricted Cash

Restricted cash represents the following purposes at June 30, 2016 and 2015:

	2016	2015
Principal sinking fund	\$ 450,028	\$ 435,016
Interest and program expense reserve	536,081	540,920
Capital reserve	1,810	121,805
	<u>\$ 987,919</u>	<u>\$ 1,097,741</u>

Note 3. Investments

At June 30, 2016 and 2015, the School held investments in mutual funds in the amounts of \$810,396 and \$779,843, respectively.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 3. Investments (Continued)

Investment income for the years ended June 30, 2016 and 2015, consists of the following:

	2016	2015
Interest and dividends	\$ 15,740	\$ 12,428
Realized and unrealized gain on investments	15,974	29,172
	<u>\$ 31,714</u>	<u>\$ 41,600</u>

Note 4. Property and Equipment

Property and equipment at June 30, 2016 and 2015, consist of the following:

Asset category:	2016	2015
Buildings and improvements on leased land	\$ 25,359,337	\$ 25,174,161
Furniture and fixtures	2,438,221	2,294,864
Computer equipment	2,482,283	2,034,058
Vans	161,869	154,664
Artwork	146,500	146,500
Books	102,662	102,662
	<u>30,690,872</u>	<u>29,906,909</u>
Less accumulated depreciation	13,260,978	12,207,179
	<u>\$ 17,429,894</u>	<u>\$ 17,699,730</u>

Note 5. Bonds Payable

The School, through the District of Columbia, issued \$8,105,000 of District of Columbia Pooled Loan Program Revenue Bonds in April 2001, and another \$6,000,000 of similar bonds in October 2001. The portion of the bonds attributable to the School mature on January 1, 2021, with principal due in variable semi-annual installments on July 1 and January 1. The interest rate is reset weekly based on a competitive auction. At June 30, 2016 and 2015, this rate was approximately .59% and .07%, respectively. The bondholders have the right to tender the bonds weekly consistent with the interest rate reset period. The bonds are supported by a bank letter of credit that expires in September 2020 and is guaranteed by the Foundation. The annual letter of credit fee is 1.50%, and the balance is reduced on a pro-rata basis with each principal payment. Substantially all of the assets of the School, as well as future pupil allocation revenue, are pledged as collateral for the letter of credit. The bonds require that certain financial covenants be met, including debt service coverage and limits on further indebtedness.

As a condition to the letter of credit, the School entered into a reimbursement agreement requiring the School to make monthly sinking fund payments to debt service escrow accounts for the payment of principal, interest, and any bond redemptions payable to the trustee for the bonds (see Note 2 for balance at June 30, 2016 and 2015).

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 5. Bonds Payable (Continued)

Bonds payable as of June 30, 2016 and 2015, consists of the following:

	2016	2015
Principal amount	\$ 4,165,000	\$ 5,040,000
Less unamortized debt issuance costs	(84,313)	(98,288)
	<u>\$ 4,080,687</u>	<u>\$ 4,941,712</u>

Principal maturities of the bonds payable at June 30, 2016, are due in future years as follows:

Years ending June 30:	
2017	\$ 915,000
2018	970,000
2019	1,020,000
2020	1,060,000
2021	200,000
	<u>\$ 4,165,000</u>

Interest expense on the bonds, including amortization of debt issuance costs, for the years ended June 30, 2016 and 2015, was \$92,721 and \$124,808, respectively.

Note 6. Capital Lease Obligation

The School is indebted under equipment leases entered into during the year ended June 30, 2014, which have been capitalized at the present value of future lease payments. The cost of the equipment approximated \$173,165 at June 30, 2016 and 2015. Depreciation expense of the leased assets amounted to \$34,633 and \$31,864 for the years ended June 30, 2016 and 2015, respectively. Accumulated depreciation amounted to \$100,363 and \$65,730 at June 30, 2016 and 2015, respectively.

The future minimum lease payments discounted to reflect their net present value at June 30, 2016, are as follows:

Years ending June 30:	
2017	\$ 39,796
2018	37,253
2019	4,090
	<u>81,139</u>
Less imputed interest	4,369
Present value of minimum lease payments	<u>\$ 76,770</u>

Interest expense payments on the capital lease for the years ended June 30, 2016 and 2015, were \$5,227 and \$7,074, respectively.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets activity for the year ended June 30, 2016, is as follows:

	Balance June 30, 2015	Additions/ Investment Income	Released From Restriction	Balance June 30, 2016
Purpose restriction:				
Seeds for Classics – Field Trips	\$ 639,366	\$ -	\$ 35,013	\$ 604,353
College Readiness/Technology	68,080	52,500	-	120,580
Summer Bridge MS/HS	15,870	-	-	15,870
CBA Awards	25,000	-	-	25,000
Junior League Washington (JLW)	20,840	-	14,840	6,000
Literacy Program	10,000	-	-	10,000
Science Fair	5,820	-	-	5,820
United Way	5,300	-	-	5,300
Science Books	3,659	-	-	3,659
Jamal Swinton Scholarship	1,380	-	-	1,380
Restoration of Art Work	2,000	-	-	2,000
Brown Hall-Girls with Gifts	1,240	-	-	1,240
Action For Kids	780	3,072	987	2,865
Ottaway Scholarship	-	10,000	3,000	7,000
School Garden	-	2,500	990	1,510
Writing Center	-	3,000	3,000	-
Aspen Challenge	-	500	-	500
Brazil	-	210	-	210
Time restriction:				
Artwork	146,500	-	-	146,500
	\$ 945,835	\$ 71,782	\$ 57,830	\$ 959,787

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 7. Temporarily and Permanently Restricted Net Assets (Continued)

Temporarily restricted net assets activity for the year ended June 30, 2015, is as follows:

	Balance June 30, 2014	Investment Income	From Restriction	Balance June 30, 2015
Purpose restriction:				
Seeds for Classics – Field Trips	\$ 645,904	\$ 38,262	\$ 44,800	\$ 639,366
College Readiness/Technology	68,080	-	-	68,080
Summer Bridge MS/HS	25,221	-	9,351	15,870
CBA Awards	25,000	-	-	25,000
Junior League Washington (JLW)	20,840	-	-	20,840
School Store Grant	13,663	-	13,663	-
Literacy Program	10,000	-	-	10,000
Science Fair	5,820	-	-	5,820
United Way	5,300	-	-	5,300
Science Books	3,659	-	-	3,659
Jamal Swinton Scholarship	2,880	-	1,500	1,380
Restoration of Art Work	2,000	-	-	2,000
Brown Hall-Girls with Gifts	1,240	-	-	1,240
Action For Kids	780	-	-	780
Why New Orleans Matters	-	6,000	6,000	-
Garden Supplies	-	300	300	-
Day of Service	-	900	900	-
Aspen Challenge	-	2,000	2,000	-
JFY Net	-	30,000	30,000	-
Time restriction:				
Artwork	146,500	-	-	146,500
	<u>\$ 976,887</u>	<u>\$ 77,462</u>	<u>\$ 108,514</u>	<u>\$ 945,835</u>

Permanently restricted net assets are restricted to investment in perpetuity. Investment income is restricted for use in the following program, which consists of permanently restricted balances at June 30, 2016 and 2015, as follows:

Ottaway Scholarship	<u>\$ 100,000</u>	<u>\$ 100,000</u>
---------------------	-------------------	-------------------

Interpretation of relevant law: The management of the School has interpreted the District of Columbia – enacted version of UPMIFA (Uniform Prudent Management of Institutional Funds Act) as requiring the preservation of original endowments as of the gift date, absent explicit donor stipulations to the contrary.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 7. Temporarily and Permanently Restricted Net Assets (Continued)

As a result of this interpretation, the School classifies as permanently restricted the original value of the donated endowments and the accumulations on such accounts as temporarily restricted, until those amounts are appropriated for expenditures consistent with the specific purpose of the endowment. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate funds:

- The preservation of the fund
- The purposes of the School
- General economic conditions
- Other resources of the School

Return objective and risk parameters: The School's objective is to earn a reasonable rate of return with minimum risk to principal to support the designated programs. The School recognizes and accepts that minimizing risk will limit potential capital appreciation. Absent explicit donor stipulations to the contrary, the School limits investments in the permanently restricted endowment accounts to fixed interest security type instruments, as opposed to equities. The School has a preference for simple investment structures, which will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending policy: Proceeds of earnings on original endowment amounts will be used for annual scholarship and award programs, as deemed consistent to the specific endowment purpose. The spending rate is based on maintaining the bulleted guidelines noted above.

The endowment is invested with the School's investments of mutual funds at June 30, 2016 and 2015. Change in endowment net assets consists of the following:

	Temporarily Restricted	Permanently Restricted	2016 Total
Endowment net assets, beginning of year	\$ -	\$ 100,000	\$ 100,000
Investment income, net of expenses	152	-	152
Appropriated for expenditures	(152)	-	(152)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

	Temporarily Restricted	Permanently Restricted	2015 Total
Endowment net assets, beginning of year	\$ -	\$ 100,000	\$ 100,000
Investment income, net of expenses	114	-	114
Appropriated for expenditures	(114)	-	(114)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 8. Lease Commitments

The School entered into a 15-year operating lease for land use with the District of Columbia, beginning on February 4, 2000. The School has the right to renew the lease for three additional 15-year terms. During 2015, management exercised its first renewal option under the lease agreement in order to fully enjoy the buildings constructed on the site for their economic useful lives.

The lease agreement provides for rent credits relating to capital improvements at the site. The School will receive a dollar-for-dollar credit based on capital improvements, except that the School shall pay a minimum rental of at least \$1,000 per month. The School made improvements in excess of the total rent provided over the term of the lease. The future minimum lease payments under this arrangement at June 30, 2016, are as follows:

Years ending June 30:

2017	\$	12,000
2018		12,000
2019		12,000
2020		12,000
2021		12,000
Thereafter		96,000
	\$	<u>156,000</u>

Rent expense under the above leasing arrangements was \$12,000 for each of the years ended June 30, 2016 and 2015, respectively.

Note 9. Defined Contribution Retirement Plan

The School participates in a defined contribution retirement plan covering eligible employees. The School contributes an amount equal to 3% of all eligible participants' pay. A one-year eligibility period was established during the year ended June 30, 2015, for a new full-time hire to receive the 3% contribution. For every 1% of salary that each employee contributes to their retirement account through payroll deductions up to 6%, the School will add another 0.5%. The maximum total contribution, including matching contributions made by the School, would be 6% of employee pay. During the year ended June 30, 2015, the School discontinued the employer match, which was previously capped at 3%. Total expense under this plan amounted to \$151,780 and \$169,170 for the years ended June 30, 2016 and 2015, respectively.

Note 10. Related Party Transactions

The School paid the Foundation \$400,000 and \$505,000 per year for management and other services during the years ended June 30, 2016 and 2015, respectively.

Note 11. Economic Dependency

During the years ended June 30, 2016 and 2015, the School was heavily dependent on pupil allocations from the District of Columbia. These funds aggregated 94% and 93% of the School's support and revenue for the years ended June 30, 2016 and 2015, respectively. Reduction of funding from the District of Columbia would have a significant impact on the operations of the School.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 12. Per-Pupil Allocation

The School's per-pupil allocation for the years ended June 30, 2016 and 2015, are as follows:

Category:	2016	2015
General education	\$ 9,354,366	\$ 8,898,180
Summer and special education	2,141,462	2,093,443
Facility allowance	2,955,040	2,820,720
	\$ 14,450,868	\$ 13,812,343

Note 13. Fair Value Measurements

The School follows the Fair Value Measurement Topic of the FASB Codification, which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1:** Quoted market prices in active markets for identical assets or liabilities
- Level 2:** Observable market-based inputs or unobservable inputs corroborated by market data
- Level 3:** Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the School performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 2 or Level 3 inputs for any assets held by the School at June 30, 2016 and 2015.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at June 30, 2016 and 2015:

Description	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Large blend equity mutual funds	\$ 603,291	\$ -	\$ -	\$ 603,291
Intermediate bond funds	207,105	-	-	207,105
	\$ 810,396	\$ -	\$ -	\$ 810,396

Description	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Large blend equity mutual funds	\$ 582,354	\$ -	\$ -	\$ 582,354
Intermediate bond funds	197,489	-	-	197,489
	\$ 779,843	\$ -	\$ -	\$ 779,843

The School's mutual and bond funds are publicly traded on the New York Stock Exchange and are considered Level 1 items.

The SEED Public Charter School of Washington, D.C.

Notes to Financial Statements

Note 14. Contingencies

The School participates in federally-assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

In February 2014, the School executed a new employment agreement contract with the Head of School, beginning on July 1, 2014, with an expiration date of June 30, 2019. The contract provides for severance payments equal to 12 months of the employee's salary upon termination without cause. The agreement also includes a contract completion bonus contingent upon his successful completion of the term of his five-year employment agreement.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Trustees
The SEED Public Charter School of Washington, D.C.
Washington, D.C.

We have audited the financial statements of The SEED Public Charter School of Washington, D.C. (the School) as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon, dated October 31, 2016, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information 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 audits 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.

RSM US LLP

Washington, D.C.
October 31, 2016

The SEED Public Charter School of Washington, D.C.

Schedule of Functional Expenses
Year Ended June 30, 2016

	Program Services	General and Administrative	Fundraising	Total
Personnel salaries and benefits:				
Principal/administrative salary	\$ -	\$ 405,332	\$ -	\$ 405,332
Teachers salaries	3,238,785	-	-	3,238,785
Special education salaries	953,817	-	-	953,817
Teacher aides/assistants salaries	74,795	-	-	74,795
Before/after care salaries	1,528,148	-	-	1,528,148
Other education professionals salaries	491,021	-	-	491,021
Business/operations salaries	-	250,220	139,172	389,392
Custodial salaries	164,868	-	-	164,868
Other staff salaries	31,714	-	-	31,714
Employee benefits	1,134,939	139,334	25,435	1,299,708
Contracted staff	136,139	228,489	4,813	369,441
Staff development expense	144,012	-	-	144,012
Total personnel salaries and benefits	7,898,238	1,023,375	169,420	9,091,033
Direct student costs:				
Textbooks	15,508	-	-	15,508
Student supplies and material	74,255	-	-	74,255
Library and Media Center materials	12,988	-	-	12,988
Student assessment fees	32,133	-	-	32,133
Contracted instructional fees	263,731	-	-	263,731
Food service	961,968	-	-	961,968
Other direct student costs	43,588	-	-	43,588
Total direct student costs	1,404,171	-	-	1,404,171
Occupancy expenses:				
Rent	11,749	1,442	263	13,454
Maintenance and repairs	454,414	55,787	10,184	520,385
Utilities	324,595	39,850	7,275	371,720
Contracted building services	417,029	51,198	9,346	477,573
Total occupancy expenses	1,207,787	148,277	27,068	1,383,132
Office expenses:				
Office supplies and materials	37,922	-	-	37,922
Office equipment rental and maintenance	7,905	968	177	9,050
Telephone/telecommunication	160,831	-	-	160,831
Legal, accounting and payroll services	-	191,170	-	191,170
Printing and copying	15,610	-	-	15,610
Postage and shipping	6,777	-	-	6,777
Total office expenses	229,045	192,138	177	421,360
General expenses:				
Insurance	173,355	-	-	173,355
Transportation	36,169	-	-	36,169
Administrative fee (to PCSB)	147,627	-	-	147,627
Management fee	-	400,000	-	400,000
Interest and amortization	87,302	9,003	1,643	97,948
Other general expense	226,515	-	-	226,515
Total general expenses	670,968	409,003	1,643	1,081,614
Depreciation expense	920,204	112,971	20,623	1,053,798
Total	\$ 12,330,413	\$ 1,885,764	\$ 218,931	\$ 14,435,108

**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 Trustees
The SEED Public Charter School of Washington, D.C.
Washington, D.C.

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 The SEED Public Charter School of Washington, D.C. (the School), which comprise the balance sheet as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2016.

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 School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

RSM US LLP

Washington, D.C.
October 31, 2016