

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

Financial Report
June 30, 2018

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RSM US LLP

Independent Auditor's Report

To the Board of Trustees
The SEED Public Charter School of 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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 3, 2018 and November 7, 2017, 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 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 the School's 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.
December 3, 2018

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

Balance Sheets
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,033,065	\$ 2,042,229
Receivables	553,648	325,390
Promises to give	7,731	6,375
Due from The SEED Foundation, Inc.	-	79
Prepaid expenses	136,534	105,279
Total current assets	5,730,978	2,479,352
Long-term assets:		
Investments	1,013,194	916,524
Restricted cash	-	996,154
Property and equipment, net	15,703,362	16,881,418
	\$ 22,447,534	\$ 21,273,448
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 596,556	\$ 544,822
Due to The SEED Foundation, Inc.	8,443	-
Current portion of capital lease obligation	4,074	37,253
Current portion of bonds payable	-	970,000
Current portion of note payable	300,000	-
Total current liabilities	909,073	1,552,075
Long-term liabilities:		
Capital lease obligation, net of current portion	-	2,962
Bonds payable, net of current portion	-	2,263,561
Note payable, net of current portion	2,525,000	-
Total long-term liabilities	2,525,000	2,266,523
Total liabilities	3,434,073	3,818,598
Commitments and contingencies (Notes 6, 9, 10 and 15)		
Net assets:		
Unrestricted	18,012,879	16,396,001
Temporarily restricted	900,582	958,849
Permanently restricted	100,000	100,000
	19,013,461	17,454,850
	\$ 22,447,534	\$ 21,273,448

See notes to financial statements.

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

Statement of Activities
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018			2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Per-pupil allocation	\$ 16,971,060	\$ -	\$ -	\$ 16,971,060
Federal grants and awards	672,756	-	-	672,756
State and local grants and awards	58,422	-	-	58,422
Contributions from donors	10,737	46,356	-	57,093
Investment income	103,828	254	-	104,082
Gain on disposal of property and equipment	-	-	-	-
Other	346,407	-	-	346,407
Net assets released from restrictions	104,877	(104,877)	-	-
Total support and revenue	18,268,087	(58,267)	-	18,209,820
Expenses:				
Program	14,546,367	-	-	14,546,367
Management and general	2,010,437	-	-	2,010,437
Fundraising	94,405	-	-	94,405
Total expenses	16,651,209	-	-	16,651,209
Change in net assets	1,616,878	(58,267)	-	1,558,611
Net assets:				
Beginning	16,396,001	958,849	100,000	17,454,850
Ending	\$ 18,012,879	\$ 900,582	\$ 100,000	\$ 19,013,461

See notes to financial statements.

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

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Per-pupil allocation	\$ 15,410,247	\$ -	\$ -	\$ 15,410,247
Federal grants and awards	578,317	-	-	578,317
Contributions from donors	29,553	68,210	-	97,763
Investment income	106,662	198	-	106,860
Gain on disposal of property and equipment	1,000	-	-	1,000
Other	135,614	-	-	135,614
Net assets released from restrictions	69,346	(69,346)	-	-
Total support and revenue	16,330,739	(938)	-	16,329,801
Expenses:				
Program	14,005,506	-	-	14,005,506
Management and general	1,475,183	-	-	1,475,183
Fundraising	199,176	-	-	199,176
Total expenses	15,679,865	-	-	15,679,865
Change in net assets	650,874	(938)	-	649,936
Net assets:				
Beginning	15,745,127	959,787	100,000	16,804,914
Ending	\$ 16,396,001	\$ 958,849	\$ 100,000	\$ 17,454,850

See notes to financial statements.

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

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 1,558,611	\$ 649,936
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,563,482	1,248,797
Amortization of debt issuance costs	14,443	69,870
Net realized and unrealized gain on investments	(44,545)	(81,392)
Gain on disposal of property and equipment	-	(1,000)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(228,258)	133
Promises to give	(1,356)	70,475
Due from The SEED Foundation, Inc.	79	(79)
Prepaid expenses	(31,255)	33,417
Increase (decrease) in:		
Accounts payable and accrued expenses	51,734	(66,842)
Due to The SEED Foundation, Inc.	8,443	(1,144)
Net cash provided by operating activities	2,891,378	1,922,171
Cash flows from investing activities:		
Purchases of property and equipment	(385,426)	(699,321)
Purchase and reinvestment of investments	(52,125)	(24,736)
Decrease (increase) in restricted cash	996,154	(8,235)
Net cash provided by (used in) investing activities	558,603	(732,292)
Cash flows from financing activities:		
Principal payments on capital lease obligation	(36,141)	(36,555)
Principal payments on bonds payable	(3,248,004)	(916,996)
Proceeds from note payable	3,000,000	-
Principal payments on note payable	(175,000)	-
Net cash used in financing activities	(459,145)	(953,551)
Net increase in cash and cash equivalents	2,990,836	236,328
Cash and cash equivalents:		
Beginning	2,042,229	1,805,901
Ending	\$ 5,033,065	\$ 2,042,229
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 99,045	\$ 105,660

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 were 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, 2018 and 2017.

Promises to give: Contributions receivable 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, 2018 and 2017. At June 30, 2018 and 2017, 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 \$500 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 reclassified to unrestricted net assets when the donor restriction is accomplished and reported as net assets released from restrictions.

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

Notes to Financial Statements

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

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, 2018 and 2017, temporarily restricted net assets represented amounts restricted for specific education-related expenses.

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: Unconditional contributions, including unconditional promises to give, are recognized at fair value as support 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, 2018 and 2017.

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.

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.

Upcoming accounting pronouncements: In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. The School should apply the amendments for transactions in which the entity serves as the resource recipient to fiscal years beginning July 1, 2019. The School should apply the amendments for transactions in which the entity serves as the resource provider to fiscal years beginning July 1, 2020. The School is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

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 is effective for the School for the fiscal year ending June 30, 2019. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The School is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In February 2016, the FASB issues ASU No. 2016-12, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheets for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the School for the fiscal year beginning July 1, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of this ASU on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for the School for the fiscal year ending June 30, 2020. Management is currently evaluating the impact of this ASU on the financial statements.

Subsequent events: The School evaluated subsequent events for disclosures through December 3, 2018, which is the date the financial statements were available to be issued.

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

Notes to Financial Statements

Note 2. Restricted Cash

Restricted cash represents the following purposes at June 30, 2018 and 2017:

	2018	2017
Principal sinking fund	\$ -	\$ 480,028
Interest and program expense reserve	-	514,313
Capital reserve	-	1,813
	<u>\$ -</u>	<u>\$ 996,154</u>

Note 3. Investments

At June 30, 2018 and 2017, the School held investments in mutual funds in the amounts of \$1,013,194 and \$916,524, respectively.

Investment income for the years ended June 30, 2018 and 2017, consists of the following:

	2018	2017
Interest and dividends	\$ 59,537	\$ 25,468
Realized and unrealized gain on investments	44,545	81,392
	<u>\$ 104,082</u>	<u>\$ 106,860</u>

Note 4. Property and Equipment

Property and equipment at June 30, 2018 and 2017, consist of the following:

	2018	2017
Asset category:		
Buildings and improvements on leased land (see Note 9)	\$ 25,528,745	\$ 25,456,264
Furniture and fixtures	2,654,380	2,553,268
Computer equipment	1,872,868	1,808,358
Campus equipment	1,204,358	1,111,033
Vans	150,590	150,590
Artwork	146,500	146,500
Books	102,662	102,662
	<u>31,660,103</u>	<u>31,328,675</u>
Less accumulated depreciation	15,956,741	14,447,257
	<u>\$ 15,703,362</u>	<u>\$ 16,881,418</u>

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

Notes to Financial Statements

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 were due to mature on January 1, 2021, with principal due in variable semi-annual installments on July 1 and January 1. During the fiscal year ended June 30, 2018, the School paid off the bonds payable with proceeds of a note payable (Note 6).

The interest rate was reset weekly based on a competitive auction. At June 30, 2017, this rate was approximately 0.59%. The bondholders had the right to tender the bonds weekly consistent with the interest rate reset period. The bonds were supported by a bank letter of credit that expires in September 2020 and is guaranteed by the Foundation.

The annual letter of credit fee was 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, were pledged as collateral for the letter of credit. The bonds required 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, 2017).

Bonds payable as of June 30, 2018 and 2017, consists of the following:

	2018	2017
Principal amount	\$ -	\$ 3,248,004
Less unamortized debt issuance costs	-	(14,443)
	<u>\$ -</u>	<u>\$ 3,233,561</u>

Interest expense on the bonds, including amortization of debt issuance costs, for the years ended June 30, 2018 and 2017, was \$47,380 and \$172,290, respectively.

Note 6. Note Payable

On October 30, 2017, the School refinanced the above bonds payable by entering into a delayed draw-down term loan with a maximum borrowing capacity of \$6,000,000. After paying off the bonds, the School may utilize the additional borrowing capacity to finance future capital expenditures.

The principal balance under the loan bears interest at the Adjusted LIBOR Rate, which is defined as the One-Month LIBOR rate plus 2.75%. At June 30, 2018, the interest rate was 4.73%.

Monthly payments of accrued interest plus principal payments of \$25,000 commence on December 1, 2017 for the initial draw of approximately \$3,000,000. The loan matures on November 1, 2024. The note requires that certain financial covenants be met, including debt service coverage and limits on further indebtedness.

Note payable as of June 30, 2018 was \$2,825,000.

Interest expense on the note for the year ended June 30, 2018 was \$64,996.

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

Notes to Financial Statements

Note 6. Note Payable (Continued)

Principal maturities of the note payable at June 30, 2018, are due in future years as follows:

Years ending June 30:	
2019	\$ 300,000
2020	300,000
2021	300,000
2022	300,000
2023	300,000
Thereafter	1,325,000
	<u>\$ 2,825,000</u>

Note 7. 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, 2018 and 2017. Depreciation expense of the leased assets amounted to \$32,631 and \$34,633 for the years ended June 30, 2018 and 2017, respectively. Accumulated depreciation amounted to \$169,395 and \$136,764 at June 30, 2018 and 2017, respectively.

The future minimum lease payments discounted to reflect their net present value at June 30, 2018, are as follows:

Year ending June 30:	
2019	\$ 4,090
Less imputed interest	(16)
Present value of minimum lease payments	<u>\$ 4,074</u>

Interest expense payments on the capital lease for the years ended June 30, 2018 and 2017, were \$1,112 and \$3,240, respectively.

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

Notes to Financial Statements

Note 8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets activity for the year ended June 30, 2018, is as follows:

	Balance June 30, 2017	Additions/ Investment Income	Released From Restriction	Balance June 30, 2018
Purpose restriction:				
Seeds for Classics – Field Trips	\$ 559,587	\$ -	\$ 55,134	\$ 504,453
College Readiness/Technology	173,080	-	-	173,080
CBA Awards	25,000	-	-	25,000
Summer Bridge MS/HS	15,870	-	-	15,870
Literacy Program	10,000	-	-	10,000
Science Fair	5,820	-	-	5,820
United Way	5,300	-	-	5,300
Ottaway Scholarship	4,000	254	3,254	1,000
Science Books	3,659	-	-	3,659
Action For Kids	3,515	-	133	3,382
Restoration of Art Work	2,000	-	-	2,000
Jamal Swinton Scholarship	1,380	-	-	1,380
Brown Hall - Girls with Gifts	1,240	-	-	1,240
Aspen Challenge	1,000	-	-	1,000
School Garden	898	-	-	898
United Way - Out of School Program	-	46,356	46,356	-
Time restriction:				
Artwork	146,500	-	-	146,500
	<u>\$ 958,849</u>	<u>\$ 46,610</u>	<u>\$ 104,877</u>	<u>\$ 900,582</u>

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

Notes to Financial Statements

Note 8. Temporarily and Permanently Restricted Net Assets (Continued)

Temporarily restricted net assets activity for the year ended June 30, 2017, is as follows:

	Balance June 30, 2016	Additions/ Investment Income	Released From Restriction	Balance June 30, 2017
Purpose restriction:				
Seeds for Classics – Field Trips	\$ 604,353	\$ -	\$ 44,766	\$ 559,587
College Readiness/Technology	120,580	52,500	-	173,080
CBA Awards	25,000	-	-	25,000
Summer Bridge MS/HS	15,870	-	-	15,870
Literacy Program	10,000	-	-	10,000
Science Fair	5,820	-	-	5,820
United Way	5,300	-	-	5,300
Ottaway Scholarship	7,000	198	3,198	4,000
Science Books	3,659	-	-	3,659
Action For Kids	2,865	650	-	3,515
Restoration of Art Work	2,000	-	-	2,000
Jamal Swinton Scholarship	1,380	-	-	1,380
Brown Hall - Girls with Gifts	1,240	-	-	1,240
Aspen Challenge	500	500	-	1,000
School Garden	1,510	-	612	898
Junior League Washington (JLW)	6,000	-	6,000	-
Library Supplies	-	10,000	10,000	-
Writing Center	-	4,500	4,500	-
Brazil	210	60	270	-
Time restriction:				
Artwork	146,500	-	-	146,500
	<u>\$ 959,787</u>	<u>\$ 68,408</u>	<u>\$ 69,346</u>	<u>\$ 958,849</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, 2018 and 2017, as follows:

	2018	2017
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 8. 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, 2018 and 2017. Change in endowment net assets consists of the following:

	Temporarily Restricted	Permanently Restricted	2018 Total
Endowment net assets, beginning of year	\$ -	\$ 100,000	\$ 100,000
Investment income, net of expenses	254	-	254
Appropriated for expenditures	(254)	-	(254)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

	Temporarily Restricted	Permanently Restricted	2017 Total
Endowment net assets, beginning of year	\$ -	\$ 100,000	\$ 100,000
Investment income, net of expenses	198	-	198
Appropriated for expenditures	(198)	-	(198)
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 9. 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, 2018, are as follows:

Years ending June 30:	
2019	\$ 12,000
2020	12,000
2021	12,000
2022	12,000
2023	12,000
Thereafter	72,000
	<u>\$ 132,000</u>

Rent expense under the above leasing arrangements was \$12,000 for each of the years ended June 30, 2018 and 2017.

Note 10. 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 \$178,775 and \$140,246 for the years ended June 30, 2018 and 2017, respectively.

Note 11. Related Party Transactions

The School paid the Foundation \$463,312 and \$400,000 for management and other services during the years ended June 30, 2018 and 2017, respectively.

Note 12. Economic Dependency

During the years ended June 30, 2018 and 2017, the School was heavily dependent on pupil allocations from the District of Columbia. These funds aggregated 93% and 94% of the School's support and revenue for the years ended June 30, 2018 and 2017, 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 13. Per-Pupil Allocation

The School's per-pupil allocation for the years ended June 30, 2018 and 2017, are as follows:

	2018	2017
Category:		
General education	\$ 10,468,807	\$ 9,806,995
Summer and special education	3,372,961	2,572,657
Facility allowance	3,129,292	3,030,595
	\$ 16,971,060	\$ 15,410,247

Note 14. 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, 2018 and 2017.

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, 2018 and 2017:

Description	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Large blend equity mutual funds	\$ 806,127	\$ -	\$ -	\$ 806,127
Intermediate bond funds	207,067	-	-	207,067
	\$ 1,013,194	\$ -	\$ -	\$ 1,013,194

Description	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Large blend equity mutual funds	\$ 707,933	\$ -	\$ -	\$ 707,933
Intermediate bond funds	208,591	-	-	208,591
	\$ 916,524	\$ -	\$ -	\$ 916,524

The School's equity and bond mutual 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 15. 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 December 2016, the School executed an employment agreement contract with the new Head of School, beginning on January 1, 2017, with an expiration date of August 15, 2018. The School is currently negotiating an extension. The existing contract provides for severance payments equal to six months of the employee's salary upon termination without cause.

In the normal course of business, the School is subject to certain claims and assessments that arise in the ordinary course of business. The School records a liability when the School believes that it is both probable that a loss has been incurred and that the amount of that loss can be reasonably estimated. Significant judgment is required to determine the outcome and the estimated amounts of a loss related to such matters, and estimates are subject to revision in the near term. Management currently believes that there are no claims or assessments outstanding that would materially affect the activities or financial position of the School.



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.

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, 2018 and 2017, and have issued our report thereon, dated December 3, 2018, 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.
December 3, 2018

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

Schedule of Functional Expenses
Year Ended June 30, 2018

	Program Services	General and Administrative	Fundraising	Total
Personnel salaries and benefits:				
Principal/Administrative Salary	\$ -	\$ 734,949	\$ -	\$ 734,949
Teachers Salaries	3,445,110	-	-	3,445,110
Special Education Salaries	1,675,747	-	-	1,675,747
Summer School Salaries	69,515	-	-	69,515
Before/After Care Salaries	1,505,477	-	-	1,505,477
Other Education Professionals Salaries	275,377	-	-	275,377
Business/Operations Salaries	391,221	-	60,000	451,221
Custodial Salaries	261,145	-	-	261,145
Other Staff Salaries	4,552	-	-	4,552
Employee Benefits	1,444,844	139,289	11,371	1,595,504
Contracted Staff	291,717	15,000	-	306,717
Staff Development Expense	191,903	-	-	191,903
Total personnel salaries and benefits	9,556,608	889,238	71,371	10,517,217
Direct student costs:				
Textbooks	6,538	-	-	6,538
Student Supplies and Materials	103,430	-	-	103,430
Library and Media Center Materials	1,578	-	-	1,578
Student Assessment Materials	18,756	-	-	18,756
Contracted Student Services	256,155	-	-	256,155
Food Service	995,146	-	-	995,146
Miscellaneous Student Expense	34,277	-	-	34,277
Total direct student costs	1,415,880	-	-	1,415,880
Occupancy expenses:				
Rent	10,866	1,048	86	12,000
Building Maintenance and Repairs	382,118	36,838	3,007	421,963
Utilities	331,949	32,001	2,613	366,563
Contracted Building Services	579,296	55,847	4,559	639,702
Total occupancy expenses	1,304,229	125,734	10,265	1,440,228
Office expenses:				
Office Supplies and Materials	60,131	-	-	60,131
Office Equipment Rental and Maintenance	14,475	1,395	114	15,984
Telephone/Telecommunications	186,793	-	-	186,793
Legal, Accounting and Payroll Services	-	375,746	-	375,746
Printing and Copying	7,198	-	-	7,198
Postage and Shipping	5,676	-	-	5,676
Total office expenses	274,273	377,141	114	651,528
General expenses:				
Insurance	202,072	-	-	202,072
Transportation	31,064	-	-	31,064
Administrative Fee (to PCSB)	154,307	-	-	154,307
Management Fee	-	463,312	-	463,312
Interest and Amortization	102,771	9,908	809	113,488
Other General Expense	89,318	8,610	703	98,631
Total general expenses	579,532	481,830	1,512	1,062,874
Depreciation Expense	1,415,845	136,494	11,143	1,563,482
Total	\$ 14,546,367	\$ 2,010,437	\$ 94,405	\$ 16,651,209

**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.

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, 2018, 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 December 3, 2018.

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.
December 3, 2018