

**ST. COLETTA OF GREATER WASHINGTON, INC.
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
St. Coletta of Greater Washington, Inc. and Affiliate
Washington, DC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of St. Coletta of Greater Washington, Inc. (a nonprofit organization) and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of St. Coletta Special Education Public Charter School, Inc. and affiliate, which statements reflect total assets of \$3,433,013 and \$4,593,834 as of June 30, 2018 and 2017, respectively, and total revenues of \$18,100,697 and \$17,778,898, for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for St. Coletta Special Education Public Charter School, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Coletta of Greater Washington, Inc. and Affiliate as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, statement of activities, consolidated schedule of functional expenses, and schedule of functional expenses—St. Coletta Special Education Public Charter School, Inc. are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to St. Coletta Special Education Public Charter School, Inc. is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



CliftonLarsonAllen LLP

Greenbelt, Maryland
October 29, 2018

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 8,287,282	\$ 4,099,858
Investments at Fair Value	3,303,309	3,147,128
Accounts Receivable	3,865,833	5,157,054
Interest Rate Swap Asset	107,124	-
Prepaid Expenses	106,778	307,554
Total Current Assets	15,670,326	12,711,594
PROPERTY AND EQUIPMENT, NET	25,295,249	26,562,247
DEPOSITS	16,786	23,126
Total Assets	\$ 40,982,361	\$ 39,296,967
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,242,410	\$ 1,148,819
Accrued Bond Interest Payable	22,587	23,474
Interest Rate Swap Liability	-	146,218
Current Maturities of Capital Lease	39,636	37,707
Current Maturities of Long-Term Debt	290,097	278,908
Total Current Liabilities	1,594,730	1,635,126
DEFERRED RENT	289,764	301,992
CAPITAL LEASE	115,893	155,528
LONG-TERM DEBT, LESS CURRENT MATURITIES ABOVE AND UNAMORTIZED DEBT ISSUANCE COSTS	6,887,693	7,174,271
Total Liabilities	8,888,080	9,266,917
NET ASSETS		
Unrestricted	32,094,281	30,030,050
Total Liabilities and Net Assets	\$ 40,982,361	\$ 39,296,967

See accompanying Notes to Consolidated Financial Statements.

**ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
UNRESTRICTED REVENUES, GAINS, AND PUBLIC SUPPORT		
Tuition, Fees, and Related Services	\$ 19,460,821	\$ 19,301,321
Adult Revenues	5,387,489	5,226,983
Gain (Loss) on Interest Swap	253,342	(146,218)
Special Events	250,477	239,336
Net Investment Income	188,472	228,362
Contributions	182,090	113,828
Other Program Service Revenues	21,618	69,052
Rental Income	32,750	19,900
Interest Income - Operating Account	7,998	3,183
Total Unrestricted Revenues and Public Support	25,785,057	25,055,747
EXPENSES		
Program Services	21,021,025	20,857,528
Support Services:		
Management and General	2,045,565	2,011,654
Fundraising	654,236	634,206
Total Expenses	23,720,826	23,503,388
CHANGE IN UNRESTRICTED NET ASSETS	2,064,231	1,552,359
Net Assets - Beginning of Year	30,030,050	28,477,691
NET ASSETS - END OF YEAR	\$ 32,094,281	\$ 30,030,050

See accompanying Notes to Consolidated Financial Statements.

**ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,064,231	\$ 1,552,359
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,467,544	1,489,683
Amortization of Debt Issuance Costs	3,519	3,389
Net Realized and Unrealized Gain on Investments	(91,256)	(143,163)
Reinvested Investment Income and Fees	(34,828)	-
(Gain) Loss on Interest Rate Swap	(253,342)	146,218
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	1,291,221	(1,137,984)
Prepaid Expenses	200,776	203
Deposits	6,340	10,510
Accounts Payable and Accrued Expenses	93,591	63,697
Accrued Bond Interest Payable	(887)	(848)
Deferred Rent	(12,228)	(4,909)
Net Cash Provided by Operating Activities	4,734,681	1,979,155
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(200,546)	(166,675)
Purchase of Investments	(383,558)	(421,254)
Proceeds from Sale of Investments	353,461	365,946
Net Cash Used by Investing Activities	(230,643)	(221,983)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Debt Principal	(278,908)	(268,150)
Payments on Capital Lease	(37,706)	(12,157)
Net Cash Used by Financing Activities	(316,614)	(280,307)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,187,424	1,476,865
Cash and Cash Equivalents - Beginning of Year	4,099,858	2,622,993
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 8,287,282	\$ 4,099,858
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 293,027	\$ 300,721
Assets Acquired Through Capital Lease Obligations	\$ -	\$ 205,392

See accompanying Notes to Consolidated Financial Statements.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 ORGANIZATION

St. Coletta of Greater Washington, Inc. (SCGW) is a nonprofit organization incorporated for the purpose of operating a school and adult programs for the education and training of children and adults with developmental disabilities. The organization operates from facilities owned and leased by SCGW in the District of Columbia, Alexandria, Virginia, and Rockville, Maryland. Services are provided under private tuition arrangements and under payment agreements with the District of Columbia and surrounding suburban jurisdictions.

St. Coletta Special Education Public Charter School, Inc. (the School) was incorporated as a nonstock and nonprofit organization on July 14, 2004, under the laws of the District of Columbia. The School was chartered by the District of Columbia Board of Education and began operations on July 1, 2006. During the years ended June 30, 2018 and 2017, the School served 247 and 250 charter students, respectively.

The mission of the School is to serve children and adults with cognitive disabilities and to support their families. St. Coletta believes in the immeasurable value of the individual human spirit and the right of each individual to live as full and independent a life as possible. The School respects the dignity of all persons entrusted to its care and its goal is to serve them in an atmosphere that encourages their talents, celebrates their successes, and builds their self-esteem. The School serves children living in the District of Columbia between the ages of 3 and 22.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of SCGW and its affiliate, the School, which is under common control of SCGW. Intercompany transactions and balances have been eliminated in consolidation.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

SCGW has presented its consolidated financial statements in accordance with U.S. Generally Accepted Accounting Principles. Under those principles, SCGW is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets

Represents the expendable resources that are available for operations at management's discretion.

Temporarily Restricted Net Assets

Represents resources restricted by donors as to purpose or by the passage of time.

Permanently Restricted Net Assets

Represents resources whose use by SCGW is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of SCGW. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

SCGW had no temporarily restricted or permanently restricted net assets at June 30, 2018 and 2017.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses and their functional allocation during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

SCGW classifies all highly liquid investments with an original maturity of three months or less as cash equivalents. At June 30, 2018 and 2017, cash and cash equivalents included checking account and money market deposits. Certificates of deposit held for investment and RBC Bank Program deposits are recorded and classified as investments. All cash held by investment advisors are considered investments.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances at year-end. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to allowance for doubtful accounts and a credit to accounts receivable. No allowance for uncollectible accounts receivables has been established since management believes all receivables, including contributions receivable, are fully collectible at June 30, 2018 and 2017.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at their market values based on the market price. Donated securities and other donated items held as investments are recorded at their fair market value on the date of the donation. The gains and losses on investments are reported in the statements of activities as increases or decreases in Unrestricted Net Assets, unless the income or loss is restricted temporarily or permanently by donor restrictions or law.

Property and Equipment

Property and equipment are reflected in the consolidated financial statements at cost, net of accumulated depreciation. Donated property and equipment is stated at fair value at the date of donation. Leasehold improvements are stated at cost and amortized using the straight-line method over the remaining term of the associated lease. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

Building	30 Years
Computer Equipment and Software	3 Years
Automobiles	5 Years
Office Equipment	3 to 10 Years
Furniture and Fixtures	3 to 10 Years
Leasehold Improvements	Life of Lease

SCGW's policy is to capitalize major additions and improvements over \$1,000. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

Impairment of Long-Lived Assets

SCGW requires that long-lived assets 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 asset exceeds the estimated fair value of the asset. Assets to be disposed of are reported as the lower of the carrying amount or fair value, less costs to sell.

Debt Issuance Costs

Costs associated with issuance of the Series 2005 tax-exempt bonds are deferred and amortized over the term of the bonds using the effective interest method. Unamortized debt issuance costs are presented as a reduction from the related bonds payable.

Derivative Financial Instruments

SCGW makes limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate swap agreements are used to convert the SCGW's floating rate long-term debt to a fixed rate (Note 6). The variable to fixed rate swap is recorded as either an asset or liability and changes in the fair value recorded in unrestricted net assets in the period in which the change in value occurs.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

For the years ended June 30, 2018 and 2017, there were no amounts that represent revenue that will be earned during a subsequent year.

Deferred Rent

SCGW received certain lease incentives with its leases. These incentives are recognized over the life of the leases and are reflected in the statements of financial position as Deferred Rent.

Expenses

Expenses are recognized during the period in which they are incurred. Expenses paid in advance are not yet incurred and are deferred to the applicable period.

Functional Allocation of Expenses

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

Advertising

Advertising costs are expensed when incurred or when donated to SCGW. Advertising expense for the years ended June 30, 2018 and 2017, was \$34,075 and \$48,865, respectively.

Restricted and Unrestricted Revenue Support

Unconditional promises to give are recorded as contributions at their net realizable value in the year in which the promise is made. All contributions are available for unrestricted purposes unless specifically restricted by the donor. Conditional promises to give are specifically restricted by the donor. There were no conditional promises to give at June 30, 2018 and 2017.

SCGW reports contributions as restricted support (temporarily restricted or permanently restricted, depending on the nature of the restriction) if they are received with donor stipulations that limit the use of the assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as Net Assets Released from Restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is recognized during the period in which it is earned. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the School's incurrence of donor-specified expenses, temporarily restricted net assets are reclassified to unrestricted net assets. Management fee revenue, tuition, and related services, and adult revenue are recognized when services are performed. Cash received in advance and not yet earned is deferred to the applicable period.

Revenues from the School are received primarily from the District of Columbia Public School System authorized under the District of Columbia Public Charter School Board (per pupil funding) and Board of Education, Medicaid, and other federal grants. These revenues are subject to audit by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying consolidated financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements. Reimbursement revenues payable by Medicaid are reported net of discounts and denials.

Income Taxes

SCGW is exempt from Federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on any net income derived from activities related to its exempt purpose. SCGW is taxed on net income from unrelated business activities. For the years ended June 30, 2018 and 2017, SCGW did not generate any net income from unrelated business activities.

The consolidated financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in Expenses in the statements of activities. As of June 30, 2018 and 2017, SCGW had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 INVESTMENTS

A fair value hierarchy prioritizes the input to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under accounting principles generally accepted in the United States of America, are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SCGW has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs, other than quoted prices that are observable for the assets or liabilities.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value at June 30, 2018 and 2017.

Mutual Funds, Common Stock, and Preferred Stock: Valued at the fair market value of shares held by SCGW at year-end as quoted in active markets.

RBC Bank Deposit Program: This consists of cash deposited in multiple banks in order to provide adequate FDIC coverage and maintain immediate cash liquidity, while also earning interest. This money is pooled with the cash of the other participants in the Program.

Certificates of Deposit: Valued at cost plus accrued interest based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 INVESTMENTS (CONTINUED)

Money Market Fund: Valued and transact at a stable \$1.00 net asset value, which approximates fair value.

Investment Grade Bonds: Valued using quoted market prices for similar assets and liabilities in active markets. Investment grade is defined as a BBB rating or higher.

The following summarizes SCGW's investments using fair value measurements at June 30:

	2018		
	Fair Value		
	Level 1	Level 2	Total
RBC Bank Deposit Program	\$ -	\$ 107,237	\$ 107,237
Mutual Funds:			
Money Market Fund	152,519	-	152,519
Large Cap Growth	107,930	-	107,930
Large Cap Value	154,139	-	154,139
Large Cap Blend	531,151	-	531,151
Utilities	22,083	-	22,083
Fixed Income	577,624	-	577,624
Total Mutual Funds	1,545,446	-	1,545,446
Common Stocks:			
Large Cap Growth	273,540	-	273,540
Large Cap Value	151,323	-	151,323
Mid Cap Growth	24,095	-	24,095
Mid Cap Value	47,205	-	47,205
International	207,493	-	207,493
Other	73,828	-	73,828
Total Common Stocks	777,484	-	777,484
Preferred Stocks	64,217	-	64,217
Bonds:			
Government	-	204,095	204,095
Corporate	-	114,830	114,830
Total Bonds	-	318,925	318,925
Certificate Of Deposit	-	490,000	490,000
Total Investments	<u>\$ 2,387,147</u>	<u>\$ 916,162</u>	<u>\$ 3,303,309</u>

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 INVESTMENTS (CONTINUED)

	2017		
	Fair Value		
	Level 1	Level 2	Total
RBC Bank Deposit Program	\$ -	\$ 330,989	\$ 330,989
Mutual funds:			
Money market fund	149,655	-	149,655
Large cap growth	94,401	-	94,401
Large cap value	146,986	-	146,986
Large cap blend	489,332	-	489,332
Utilities	22,083	-	22,083
Fixed income	576,636	-	576,636
Total mutual funds	<u>1,479,093</u>	<u>-</u>	<u>1,479,093</u>
Common stocks:			
Large cap growth	210,933	-	210,933
Large cap value	138,568	-	138,568
Large cap core	-	-	-
Mid cap growth	33,560	-	33,560
Mid cap value	42,004	-	42,004
Mid cap core	-	-	-
Small cap core	2,582	-	2,582
International	190,569	-	190,569
Other	66,579	-	66,579
Total common stocks	<u>684,795</u>	<u>-</u>	<u>684,795</u>
Preferred stocks	76,270	-	76,270
Bonds:			
Government	-	219,049	219,049
Corporate	-	106,932	106,932
Total bonds	<u>-</u>	<u>325,981</u>	<u>325,981</u>
Certificate of deposit	<u>-</u>	<u>250,000</u>	<u>250,000</u>
Total investments	<u>\$ 2,240,158</u>	<u>\$ 906,970</u>	<u>\$ 3,147,128</u>

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

	2018	2017
Realized gain on investments	\$ 42,507	\$ 16,668
Unrealized gain on investments	48,749	126,495
Interest and dividends	97,216	85,199
Total investment income	<u>\$ 188,472</u>	<u>\$ 228,362</u>

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment held as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Building - District of Columbia	\$ 33,659,302	\$ 33,539,523
Building - Alexandria	3,924,268	3,908,464
Leasehold Improvements	1,096,590	1,094,682
Land	1,176,046	1,176,046
Furniture and Equipment	964,707	901,652
Capitalized Interest	856,400	856,400
Vehicles	330,571	330,571
Artwork	79,523	79,523
Software	225,905	225,905
Total Property and Equipment	<u>42,313,312</u>	<u>42,112,766</u>
Less: Accumulated Depreciation and Amortization	<u>(17,018,063)</u>	<u>(15,550,519)</u>
Property and Equipment, Net	<u>\$ 25,295,249</u>	<u>\$ 26,562,247</u>

Depreciation and amortization of property and equipment for the years ended June 30, 2018 and 2017, was \$1,467,544 and \$1,489,683, respectively.

NOTE 5 LONG-TERM DEBT

In April 2011, SCGW refinanced its Series 2005 Bond and entered into a financing agreement with The District of Columbia (the District). The total repurchasing proceeds of \$14,400,900 resulted in a taxable bank loan amount of \$1,414,790 plus the cost of issuance of \$122,684 for a total of \$1,537,474 and a tax-exempt bond reissuance amount of \$12,863,426. The taxable portion of the loan proceeds has a fixed rate of 4.00% with principal and interest payments due each April 1 and matured on April 1, 2016. The nontaxable portion requires interest only payments through April 1, 2015, then principal and interest payments each April 1 maturing April 1, 2036. The agreement fixes an annual interest rate of 4.23%.

In August 2015, SCGW paid down the bond due in 2036 in the amount of approximately \$5,000,000 and refinanced the remaining loan payable balance of \$7,863,426 with a due date of August 2025 with monthly interest only payments for the first six months followed by monthly principal and interest payments based on a 20-year amortization period of the loan and a fixed interest rate of 3.76%. The loan is secured by all personal property of SCGW.

SCGW has a line of credit allowing it to draw up to \$500,000 at an adjustable rate based on British Bankers Association monthly LIBOR rate plus 2.00%. The line of credit matures April 1, 2019. As of June 30, 2018 and 2017, there have been no draws made on the line of credit.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 LONG-TERM DEBT (CONTINUED)

Notes payable and related maturities consist of the following:

	<u>2018</u>	<u>2017</u>
Bond Payable	\$ 7,206,476	\$ 7,485,384
Less: Unamortized Debt Issuance Costs	(28,686)	(32,205)
Total Bond Payable	<u>7,177,790</u>	<u>7,453,179</u>
Less: Current Portion	(290,097)	(278,908)
Total Noncurrent Portion - Notes Payable	<u>\$ 6,887,693</u>	<u>\$ 7,174,271</u>

Interest expense for the years ended June 30, 2018 and 2017, was \$292,140 and \$299,873, respectively.

Aggregate future maturities of bonds payable are as follows for fiscal year ending:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 290,097
2020	301,736
2021	313,841
2022	326,433
2023	339,528
Thereafter	<u>5,634,841</u>
Total	<u>\$ 7,206,476</u>

Under the financing agreements, SCGW is required to meet certain covenant ratios and SCGW is in compliance with these covenants.

NOTE 6 DERIVATIVE INSTRUMENTS

SCGW is exposed to certain risks relating to its ongoing activities. The primary risk managed by using derivative instruments is interest rate risk. Interest rate swaps are entered into to manage interest rate risk associated with the SCGW's fixed-rate borrowings.

On August 11, 2015, SCGW refinanced its long-term debt with interest rate swap clause, which SCGW designated as a hedge against the variability in future interest rate with a fixed rate of 3.76% ends on August 1, 2025.

SCGW is required under accounting principles generally accepted in the United States of America to recognize all derivative instruments as either assets or liabilities at fair value in their consolidated statement of financial position. SCGW designates interest rate swaps as cash flow hedges of fixed-rate borrowings.

The fair value of the interest rate swap has been calculated by discounting the future cash flows of both the fixed rate and variable rate interest payments. The fair value of the interest rate swap was in an asset position of \$107,124 and a liability position of \$146,218 as of June 30, 2018 and 2017, respectively. The gain (loss) with the interest rate swap was \$253,342 and (\$146,218) for the years ended June 30, 2018 and 2017, respectively, and was reported as revenue within the consolidated statements of activities. The interest rate swap is reported as Level 2 within the fair value hierarchy described in Note 3.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 COMMITMENTS AND CONTINGENCIES

Operating Leases

SCGW entered into a lease agreement for facility space in Rockville, Maryland that commenced August 24, 2011, and expires September 30, 2026. The lease requires minimum monthly rental payments of \$19,500, with an annual increase of 2.75%. The lease includes two months' rent abatement. Effective during the last 36 months of the initial term, SCGW has the right to terminate the lease by delivering no less than 18 months prior written notice to the landlord.

SCGW has other miscellaneous rent, such as storage space that does not have any long-term obligations, but are included in the total rent expense for the year. SCGW also includes property tax and insurance for the building in total rent expense.

Total rent expense for the years ended June 30, 2018 and 2017, was \$318,465 and \$360,127, respectively.

Aggregate future minimum lease payments, not including the last 36 months, are as follows for fiscal year ending in:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 281,043
2020	288,772
2021	296,713
2022	304,873
2023	313,257
Thereafter	569,357
Total	<u>\$ 2,054,015</u>

Capital Leases

SCGW entered into a five-year capital lease agreement for copier machines during February 2017. The lease will expire in February 2022. The capital lease obligation and asset were recorded at the present value of future minimum lease payments of \$205,392. Accumulated depreciation on the capital asset totaled \$51,347 and \$10,269 at June 30, 2018 and 2017, respectively. Amortization expense associated with the leased equipment, included in depreciation expense, was \$41,078 and \$10,269 for the years ended June 30, 2018 and 2017, respectively.

The future minimum lease payments due under these obligations and the net present value of those payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 39,636	\$ 6,876	\$ 46,512
2020	41,664	4,848	46,512
2021	43,795	2,717	46,512
2022	30,434	573	31,007
Total	<u>\$ 155,529</u>	<u>\$ 15,014</u>	<u>\$ 170,543</u>

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject SCGW to concentration of credit risk, include cash and cash equivalents and investments. It is SCGW's practice to place its cash and cash equivalents and investments in high credit quality institutions to mitigate this risk. SCGW maintains its cash balances at several financial institutions which at times, may exceed federally insured limits.

NOTE 9 ACCRUED VACATION

At June 30, 2018 and 2017, \$196,730 and \$180,009, respectively, was included in accrued expenses as a provision for accrued vacations.

NOTE 10 RETIREMENT EXPENSE

SCGW maintains a 403(b) defined contribution plan. All employees of SCGW are eligible to participate in the plan upon hire, except employees who normally work less than 20 hours per week and employees who are enrolled as students. Employees are eligible for employer contributions after completion of one year of service, defined by the plan as having worked 1,000 hours. Entry dates into the plan are on the first day of the month after meeting eligibility. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Participants may elect to defer a portion of their annual eligible compensation to the plan provided that the election does not exceed annual Internal Revenue Service (IRS) limits. Participants who have attained the age 50 before the end of the plan year are eligible to make catch-up contributions up to annual limits set by the IRS. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans (rollovers). SCGW will make a safe harbor matching contribution equal to 100% of the participants' elective deferrals, up to 3% of their eligible compensation and 50% of the participants' elective deferrals that exceeds 3%, but not more than 5% of their eligible compensation.

The employer contributions for the years ended June 30, 2018 and 2017, were \$242,446 and \$220,679, respectively.

NOTE 11 CONCENTRATION OF REVENUE

The School is supported primarily through local and federal appropriations and grants. For the years ended June 30, 2018 and 2017, 57% and 54%, respectively, of total revenue was provided by per pupil funding.

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 SUBSEQUENT EVENTS

Management evaluated subsequent events through October 29, 2018, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to October 29, 2018, that provided additional evidence about conditions that existed after June 30, 2018, have been recognized in the consolidated financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2018.

**ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

JUNE 30, 2018

(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	<u>SCGW</u>	<u>The School</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 8,287,282	\$ 3,000,000	\$ (3,000,000)	\$ 8,287,282
Investments at Fair Value	3,303,309	-	-	3,303,309
Accounts Receivable	3,865,833	433,013	(433,013)	3,865,833
Interest Rate Swap Asset	107,124	-	-	107,124
Prepaid Expenses	106,778	-	-	106,778
Total Current Assets	<u>15,670,326</u>	<u>3,433,013</u>	<u>(3,433,013)</u>	<u>15,670,326</u>
PROPERTY AND EQUIPMENT, NET	25,295,249	-	-	25,295,249
DEPOSITS	<u>16,786</u>	<u>-</u>	<u>-</u>	<u>16,786</u>
Total Assets	<u>\$ 40,982,361</u>	<u>\$ 3,433,013</u>	<u>\$ (3,433,013)</u>	<u>\$ 40,982,361</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 1,242,410	\$ -	\$ -	\$ 1,242,410
Accrued Bond Interest Payable	22,587	-	-	22,587
Deferred Revenue	-	167,948	(167,948)	-
Due to Related Party	-	3,265,065	(3,265,065)	-
Current Maturities of Capital Lease	39,636	-	-	39,636
Current Maturities of Long-Term Debt	290,097	-	-	290,097
Total Current Liabilities	<u>1,594,730</u>	<u>3,433,013</u>	<u>(3,433,013)</u>	<u>1,594,730</u>
DEFERRED RENT	289,764	-	-	289,764
LONG-TERM CAPITAL LEASE - LESS CURRENT MATURITIES ABOVE	115,893	-	-	115,893
LONG-TERM DEBT - LESS CURRENT MATURITIES ABOVE, NET	<u>6,887,693</u>	<u>-</u>	<u>-</u>	<u>6,887,693</u>
Total Liabilities	8,888,080	3,433,013	(3,433,013)	8,888,080
NET ASSETS				
Unrestricted	<u>32,094,281</u>	<u>-</u>	<u>-</u>	<u>32,094,281</u>
Total Liabilities and Net Assets	<u>\$ 40,982,361</u>	<u>\$ 3,433,013</u>	<u>\$ (3,433,013)</u>	<u>\$ 40,982,361</u>

**ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>SCGW</u>	<u>The School</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED REVENUES, GAINS, AND PUBLIC SUPPORT				
Management Fee Revenues	\$ 18,100,697	\$ -	\$ (18,100,697)	\$ -
Tuition, Fees, and Related Services	1,360,124	14,767,470	-	16,127,594
DCPS Supplemental Funding	-	1,492,078	-	1,492,078
Federal Grants and Contracts	-	1,588,035	-	1,588,035
Federal Entitlements	-	253,114	-	253,114
Adult Revenues	5,387,489	-	-	5,387,489
Gain on Interest Rate Swap	253,342	-	-	253,342
Special Events	250,477	-	-	250,477
Net Investment Income	188,472	-	-	188,472
Contributions	182,090	-	-	182,090
Other Program Service Revenues	21,618	-	-	21,618
Rental Income	32,750	-	-	32,750
Interest Income - Operating Account	7,998	-	-	7,998
Total Unrestricted Revenues, Gains, and Public Support	<u>25,785,057</u>	<u>18,100,697</u>	<u>(18,100,697)</u>	<u>25,785,057</u>
EXPENSES				
Program Services	21,021,025	16,037,217	(16,037,217)	21,021,025
Support Services:				
Management and General	2,045,565	1,556,660	(1,556,660)	2,045,565
Fundraising	654,236	506,820	(506,820)	654,236
Total Expenses	<u>23,720,826</u>	<u>18,100,697</u>	<u>(18,100,697)</u>	<u>23,720,826</u>
CHANGE IN UNRESTRICTED NET ASSETS	2,064,231	-	-	2,064,231
Net Assets - Beginning of Year	<u>30,030,050</u>	<u>-</u>	<u>-</u>	<u>30,030,050</u>
NET ASSETS - END OF YEAR	<u><u>\$ 32,094,281</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 32,094,281</u></u>

ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017)

	2018			2017	
	Program Services	Management and General	Fundraising	Total	Total
FUNCTIONAL EXPENSES					
Salaries and payroll tax	\$ 12,482,934	\$ 1,140,667	\$ 429,726	\$ 14,053,327	\$ 14,084,100
Employee benefits	1,429,005	136,584	51,551	1,617,140	1,581,442
Depreciation and amortization	1,405,189	62,355	-	1,467,544	1,489,683
Consultants and outside services	1,693,919	374,884	47,693	2,116,496	1,773,114
Equipment and maintenance	955,105	35,901	-	991,006	1,100,682
Food service	814,209	340	84	814,633	846,739
Classroom and office supplies	428,675	104,540	1,433	534,648	503,652
Utilities	483,428	18,940	-	502,368	441,139
Interest	277,533	14,607	-	292,140	299,874
Rent	317,670	795	-	318,465	360,127
Communications	141,243	3,025	1,565	145,833	135,991
Dues and subscriptions	174,031	7,677	860	182,568	197,161
Insurance	93,293	47,676	-	140,969	143,063
Professional fees	15,670	63,254	-	78,924	77,003
Travel and transportation	78,499	148	667	79,314	78,000
Staff recruitment and development	141,693	-	7,906	149,599	151,408
Special events	-	-	106,815	106,815	108,490
Advertising	34,075	-	-	34,075	48,864
Investment expense	-	32,388	-	32,388	29,891
Bank fees	22,838	-	-	22,838	17,584
Awards and grants	10,963	-	-	10,963	10,976
Postage and shipping	12,388	1,580	4,471	18,439	14,006
Program Activities	6,134	-	-	6,134	9,205
Printing	2,484	204	1,465	4,153	991
Taxes	47	-	-	47	203
	<u>47</u>	<u>-</u>	<u>-</u>	<u>47</u>	<u>203</u>
Total Functional Expenses	<u>\$ 21,021,025</u>	<u>\$ 2,045,565</u>	<u>\$ 654,236</u>	<u>\$ 23,720,826</u>	<u>\$ 23,503,388</u>

**ST. COLETTA OF GREATER WASHINGTON, INC. AND AFFILIATE
SCHEDULE OF FUNCTIONAL EXPENSES—ST. COLETTA SPECIAL
EDUCATION PUBLIC CHARTER SCHOOL, INC.
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

	Program	Management and General	Fundraising	Total
PERSONNEL, SALARIES, AND BENEFITS				
Salaries	\$ 8,090,563	\$ 790,833	\$ 298,596	\$ 9,179,992
Payroll Taxes and Employee Benefits	1,665,431	159,442	59,474	1,884,347
Professional Development	126,138	-	5,882	132,020
Other Staff Related Expenses	21,764	-	-	21,764
Total Personnel, Salaries, and Benefits	<u>9,903,896</u>	<u>950,275</u>	<u>363,952</u>	<u>11,218,123</u>
DIRECT STUDENT COSTS				
Supplies - Materials	256,399	-	-	256,399
Transportation - Community Integration	26,943	-	-	26,943
Contracted Instruction Fees	1,268,401	-	-	1,268,401
Printed Materials	64,554	-	-	64,554
Student Food Service	701,838	-	-	701,838
Other Student Costs	3,634	-	-	3,634
Total Direct Student Costs	<u>2,321,769</u>	<u>-</u>	<u>-</u>	<u>2,321,769</u>
OCCUPANCY EXPENSE				
Maintenance and Repairs	570,526	30,028	-	600,554
Utilities and Trash Removal	334,163	14,091	-	348,254
Contracted Building Services	217,661	9,179	-	226,840
Supplies	56,423	2,379	-	58,802
Interest	257,717	10,868	-	268,585
Depreciation - Building	988,217	52,011	-	1,040,228
Total Occupancy Expense	<u>2,424,707</u>	<u>118,556</u>	<u>-</u>	<u>2,543,263</u>
OFFICE EXPENSE				
Office Supplies	706	75,399	1,066	77,171
Telecommunications	50,206	2,250	1,164	53,620
Postage	8,994	1,175	3,326	13,495
Printing and Copying	361	173	1,090	1,624
Offsite Storage Expenses	14,027	738	-	14,765
Total Office Expense	<u>74,294</u>	<u>79,735</u>	<u>6,646</u>	<u>160,675</u>
GENERAL EXPENSE				
Insurance	69,410	35,471	-	104,881
Authorizer Fee	162,906	-	-	162,906
Accounting, Audit, PR, and Legal	13,909	47,061	-	60,970
Management Fees	924,089	19,764	20,628	964,481
Other Professional and Fundraising Fees	-	269,735	35,484	305,219
Dues, Fees, Licenses, and Subscriptions	5,453	5,711	640	11,804
Other General Expenses	24,843	24,461	79,470	128,774
Depreciation - Operating Assets	111,941	5,891	-	117,832
Total General Expense	<u>1,312,551</u>	<u>408,094</u>	<u>136,222</u>	<u>1,856,867</u>
Total Functional Allocation	<u>\$ 16,037,217</u>	<u>\$ 1,556,660</u>	<u>\$ 506,820</u>	<u>\$ 18,100,697</u>