

**WASHINGTON YU YING
PUBLIC CHARTER SCHOOL**

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

JUNE 30, 2018 AND 2017

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Washington Yu Ying Public Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 Washington Yu Ying Public Charter 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 report dated October 15, 2018, on our consideration of Washington Yu Ying Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington Yu Ying Public Charter School's internal control over financial reporting and compliance.

Jane Marston & McQuade PA

Washington, DC
October 15, 2018

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,687,109	\$ 8,128,736
Investments	2,108,152	-
Grants receivable	224,915	87,765
Accounts receivable	27,298	7,668
Prepaid expenses	103,036	103,901
Security deposits	3,914	4,895
Interest rate swap	41,760	-
Total Current Assets	10,196,184	8,332,965
NONCURRENT ASSETS		
Property and equipment, net	15,206,258	15,605,871
TOTAL ASSETS	\$ 25,402,442	\$ 23,938,836
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 331,862	\$ 254,500
Accrued salaries and related expenses	310,610	342,494
Deferred revenue	5,110	555
Capital lease obligation, current	12,740	11,755
Current maturity of long-term debt	440,000	424,672
Total Current Liabilities	1,100,322	1,033,976
NONCURRENT LIABILITIES		
Interest rate swap	-	148,067
Capital lease obligation, net of current portion	8,629	21,286
Long-term debt, net	11,370,113	11,798,724
Total Noncurrent Liabilities	11,378,742	11,968,077
TOTAL LIABILITIES	12,479,064	13,002,053
NET ASSETS		
Unrestricted	12,833,895	10,909,777
Temporarily restricted	89,483	27,006
Total Net Assets	12,923,378	10,936,783
TOTAL LIABILITIES AND NET ASSETS	\$ 25,402,442	\$ 23,938,836

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil appropriations	\$ 7,983,249	\$ -	\$ 7,983,249	\$ 7,137,554	\$ -	\$ 7,137,554
Per pupil facility allowance	1,848,590	-	1,848,590	1,783,804	-	1,783,804
Federal entitlements and grants	460,396	-	460,396	254,635	-	254,635
Other grants and contributions	109,385	107,964	217,349	141,661	15,680	157,341
Donated services and materials	191,637	-	191,637	82,058	-	82,058
Program service fees	1,014,364	-	1,014,364	967,434	-	967,434
Investment income	9,393	-	9,393	1,820	-	1,820
Change in fair value of interest rate swap	189,827	-	189,827	291,476	-	291,476
Other revenues	31,658	-	31,658	31,848	-	31,848
Net assets released from restrictions	45,487	(45,487)	-	31,465	(31,465)	-
Total Revenue and Support	<u>11,883,986</u>	<u>62,477</u>	<u>11,946,463</u>	<u>10,723,755</u>	<u>(15,785)</u>	<u>10,707,970</u>
EXPENSES						
Program/Educational services	7,861,063	-	7,861,063	7,378,911	-	7,378,911
Management and general	1,812,072	-	1,812,072	1,514,217	-	1,514,217
Fundraising	286,733	-	286,733	151,600	-	151,600
Total Expenses	<u>9,959,868</u>	<u>-</u>	<u>9,959,868</u>	<u>9,044,728</u>	<u>-</u>	<u>9,044,728</u>
CHANGE IN NET ASSETS	1,924,118	62,477	1,986,595	1,679,027	(15,785)	1,663,242
NET ASSETS, beginning of year	<u>10,909,777</u>	<u>27,006</u>	<u>10,936,783</u>	<u>9,230,750</u>	<u>42,791</u>	<u>9,273,541</u>
NET ASSETS, end of year	<u>\$ 12,833,895</u>	<u>\$ 89,483</u>	<u>\$ 12,923,378</u>	<u>\$ 10,909,777</u>	<u>\$ 27,006</u>	<u>\$ 10,936,783</u>

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program/ Educational	Supporting Services		Total
		Management and General	Fundraising	
Personnel Costs				
Salaries	\$ 4,630,557	\$ 865,613	\$ 100,183	\$ 5,596,353
Employee benefits	485,887	90,829	10,512	587,228
Payroll taxes	346,156	64,709	7,489	418,354
Professional development	132,978	24,858	2,877	160,713
Other staff-related expense	69,231	12,942	1,498	83,671
Total Personnel Costs	5,664,809	1,058,951	122,559	6,846,319
Direct Student Costs				
Supplies, materials, snacks	151,511	-	-	151,511
Fieldwork and other transportation	62,792	-	-	62,792
Contracted instruction fees	392,091	-	-	392,091
Textbooks	29,951	-	-	29,951
Student assessments	22,410	-	-	22,410
Student food service program	148,430	-	-	148,430
Other student costs	34,886	-	-	34,886
Total Direct Student Costs	842,071	-	-	842,071
Occupancy Expense				
Rent	2,088	392	45	2,525
Maintenance and repairs	55,981	10,466	1,211	67,658
Utilities and garbage removal	104,937	19,617	2,270	126,824
Contracted building services	166,010	31,033	3,592	200,635
Janitorial supplies	17,866	3,341	386	21,593
Depreciation and amortization - facilities	319,982	59,815	6,923	386,720
Interest	385,971	72,152	8,350	466,473
Total Occupancy Expense	1,052,835	196,816	22,777	1,272,428
Office Expense				
Office supplies	37,616	7,032	814	45,462
Office expense and equipment rental	3,130	584	68	3,782
Telephone	23,680	4,428	512	28,620
Postage	2,702	506	58	3,266
Printing and copying	5,583	1,043	121	6,747
Computer support	34,040	6,364	736	41,140
Total Office Expense	106,751	19,957	2,309	129,017
General Expense				
Insurance	50,172	9,379	1,085	60,636
Authorizer fees	-	103,605	-	103,605
Accounting, auditing and payroll	-	155,331	-	155,331
Legal fees	7,222	13,656	-	20,878
Other professional and fundraising fees	-	72,673	102,671	175,344
Dues, fees, and fines	38,248	21,800	-	60,048
Other general expense	40,103	19,629	-	59,732
Donated services	-	129,311	34,063	163,374
Donated materials	200	-	-	200
Depreciation - operating assets	58,652	10,964	1,269	70,885
Total General Expense	194,597	536,348	139,088	870,033
Total Expenses	\$ 7,861,063	\$ 1,812,072	\$ 286,733	\$ 9,959,868

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program/ Educational	Supporting Services		Total
		Management and General	Fundraising	
Personnel Costs				
Salaries	\$ 4,451,444	\$ 743,760	\$ 74,291	\$ 5,269,495
Employee benefits	482,223	80,572	8,048	570,843
Payroll taxes	303,742	50,750	5,069	359,561
Professional development	83,741	13,992	1,398	99,131
Other staff-related expense	54,487	9,104	909	64,500
Total Personnel Costs	5,375,637	898,178	89,715	6,363,530
Direct Student Costs				
Supplies, materials, snacks	176,433	-	-	176,433
Fieldwork and other transportation	23,728	-	-	23,728
Contracted instruction fees	308,913	-	-	308,913
Textbooks	9,259	-	-	9,259
Student assessments	31,382	-	-	31,382
Student food service program	160,618	-	-	160,618
Other student costs	25,533	-	-	25,533
Total Direct Student Costs	735,866	-	-	735,866
Occupancy Expense				
Maintenance and repairs	44,344	7,409	740	52,493
Utilities and garbage removal	100,339	16,764	1,675	118,778
Contracted building services	156,131	26,087	2,606	184,824
Janitorial supplies	19,982	3,339	333	23,654
Depreciation and amortization - facilities	325,987	54,250	5,657	385,894
Interest	338,934	56,846	5,440	401,220
Total Occupancy Expense	985,717	164,695	16,451	1,166,863
Office Expense				
Office supplies	33,809	5,649	564	40,022
Office expense and equipment rental	3,739	625	62	4,426
Telephone	21,640	3,616	361	25,617
Postage	763	127	13	903
Printing and copying	2,682	447	45	3,174
Computer support	33,579	5,610	560	39,749
Total Office Expense	96,212	16,074	1,605	113,891
General Expense				
Insurance	47,124	7,873	786	55,783
Authorizer fees	-	102,120	-	102,120
Accounting, auditing and payroll	-	150,159	-	150,159
Legal fees	7,993	10,272	-	18,265
Other professional and fundraising fees	-	103,864	41,690	145,554
Dues, fees, and fines	34,127	22,053	-	56,180
Other general expense	1,586	14,884	-	16,470
Donated services	13,312	10,500	-	23,812
Donated materials	272	-	-	272
Depreciation - operating assets	81,065	13,545	1,353	95,963
Total General Expense	185,479	435,270	43,829	664,578
Total Expenses	\$ 7,378,911	\$ 1,514,217	\$ 151,600	\$ 9,044,728

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,986,595	\$ 1,663,242
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	457,605	481,857
Change in fair value of interest rate swap	(189,827)	(291,476)
Amortization of debt issuance costs	11,391	11,388
Investment income	(8,152)	-
Decrease (increase) in assets:		
Grants receivable	(137,150)	58,617
Accounts receivable	(19,630)	(514)
Prepaid expenses	865	17,159
Security deposits	981	8,500
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	77,362	102,413
Accrued salaries and related expenses	(31,884)	22,178
Deferred revenue	4,555	(935)
Net Cash Provided by Operating Activities	2,152,711	2,072,429
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,100,000)	-
Purchase of property and equipment	(69,383)	(163,904)
Net Cash Used for Investing Activities	(2,169,383)	(163,904)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease obligation payments	(11,672)	(11,100)
Principal payments on debt	(413,283)	(409,000)
Net Cash Used for Financing Activities	(424,955)	(420,100)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(441,627)	1,488,425
CASH AND CASH EQUIVALENTS, beginning of year	8,128,736	6,640,311
CASH AND CASH EQUIVALENTS, end of year	\$ 7,687,109	\$ 8,128,736
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 466,473	\$ 386,458

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE A – ORGANIZATION AND NATURE OF BUSINESS

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

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

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

Basic Programs

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

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

Each year since its inception Yu Ying’s student population has increased. During the year ending June 30, 2018 and 2017, Yu Ying educated 579 and 571 students, respectively, in grades pre-k 3 through 5th.

Yu Ying had a successful enrollment process in Spring 2018. Demand for this innovative program resulted in more than 1,800 applications for about 70 spots for new families for the 2018-19 school year. Yu Ying welcomed 569 students for the upcoming school year.

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Yu Ying. Yu Ying had no permanently restricted net assets during the years ended June 30, 2018 and 2017.

Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts and Grants Receivable

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Accounts and Grants Receivable – continued

Accounts receivables related to program service fees are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Accounts receivables are written off as uncollectible when payment has not been received after 180 days.

Property and Equipment

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

Debt Issuance Costs

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

Contributions

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

Grants

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

Program Service Fees

Program service fee revenue is primarily from before and after care programs, paid meals, and other programs and is recognized when the service is provided.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Per Pupil Appropriations

Yu Ying receives a student allocation on a per-pupil basis from the District of Columbia to cover the cost of academic expenses. Deferred revenue result from per pupil appropriated revenue and other income received in the current fiscal year and deferred until the next fiscal year in which the service is provided. Per pupil appropriated revenue is recognized during the period for which the associated educational services are provided. Per pupil appropriation revenue includes \$1,178,359 and \$917,822 for the years ended June 30, 2018 and 2017, respectively, for enhancements, such as special education, English language learners, and at risk students.

Functional Expenses

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

Donated Services and Materials

Donated materials are recorded at fair market value at the date of donation. Yu Ying received donated materials in the amount of \$10,987 and \$7,336 for the years ended June 30, 2018 and 2017, respectively. Donated services are recognized at their fair value if the service requires specialized skills and the services would typically need to be purchased, if not donated. Contributed services and promises to give services that do not meet the above criteria are not recognized. Yu Ying received donated legal, construction, silent auction, and communication services in the amount of \$180,650 and \$74,722 for the years ended June 30, 2018 and 2017, respectively.

NOTE C – INCOME TAXES

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

Yu Ying believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

Yu Ying’s information returns are subject to examination by the Internal Revenue Service for a period of three years from the date they were filed, except under certain circumstances. Yu Ying’s information returns for the years 2014 through 2016 are open for examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE D – PROPERTY AND EQUIPMENT

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

	2018	2017
Land	\$ 3,070,000	\$ 3,070,000
Building	14,263,233	14,257,833
Furniture and equipment	411,794	412,141
Computer equipment	388,256	358,905
Equipment under capital lease	57,959	57,959
	18,191,242	18,156,838
Less: allowance for depreciation	2,984,984	2,550,967
Property and Equipment, Net	\$ 15,206,258	\$ 15,605,871

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$457,605 and \$481,857, respectively. During 2016, Yu Ying entered into capital lease agreements for copier equipment. Accumulated depreciation includes accumulated amortization of capital leased equipment in the amount of \$38,592 and \$27,000 as of June 30, 2018 and 2017, respectively. Amortization expense related to capital leased equipment was \$11,591 and \$11,592 for the years ended June 30, 2018 and 2017, respectively.

NOTE E – LONG-TERM DEBT

Revenue Bonds

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

On October 1, 2014, the Series 2012 Bond agreement was amended and restated to make certain modifications to the terms of the Series 2012 Bonds and issue \$3,921,433 of tax-exempt District of Columbia Revenue Bonds, Series 2014 (“Series 2014 Bond”). The Series 2012 Bond, with a remaining principal balance of \$9,593,567, was purchased by the owner of the Series 2014 Bond. The Series 2014 Bond was issued to refinance existing debts, finance approved construction costs, and pay approved loan costs related to the tax-exempt debt.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE E – LONG-TERM DEBT – continued

Revenue Bonds – continued

The amended Series 2012 Bond and Series 2014 Bond (collectively, the “Bonds”) are collateralized by all assets of Yu Ying located or used in connection with operations at Yu Ying’s current location. The Bonds are scheduled to mature October 1, 2044, and are paid over a 23 year amortization schedule. Interest plus principal payments are due monthly at a variable rate of 78% of the one-month LIBOR rate plus 1.75%, adjusted monthly, through December 31, 2017. Effective January 1, 2018, the interest rate was modified per the terms of the bonds to reflect the federal tax rate change and the rate was increased to 94.8% of LIBOR plus 2.13%. The variable interest rate, adjusted monthly, of subsequent periods will be determined by a market agent in accordance with the Bonds’ documents. As of June 30, 2018 and 2017, the variable rate at which interest accrued was 3.64% and 2.66% per annum, respectively.

The debt agreements contain certain restrictive, financial, and nonfinancial covenants. In the opinion of management, Yu Ying has complied with the required covenants for 2018 and 2017.

Derivative Instrument

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

Net settlement payments, which are made monthly, are recorded as interest expense in the accompanying financial statements. The fair value of the interest rate swap as of June 30, 2018 and 2017 is an asset and a liability of \$41,760 and (\$148,067), respectively. Changes in the fair value of the interest rate swap are reported in the statement of activities.

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

	<u>2018</u>	<u>2017</u>
District of Columbia Revenue Bonds (Washington Yu Ying Public Charter School Issue) Series 2012	\$ 8,539,239	\$ 8,840,575
District of Columbia Revenue Bonds (Washington Yu Ying Public Charter School Issue) Series 2014	3,490,097	3,613,433
Total	<u>12,029,336</u>	<u>12,454,008</u>
Less: current maturity	(440,000)	(424,672)
Less: debt issuance costs, net of accumulated amortization	<u>(219,223)</u>	<u>(230,612)</u>
Long-Term Debt, Net	<u>\$ 11,370,113</u>	<u>\$ 11,798,724</u>

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
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(continued)

NOTE E – LONG-TERM DEBT – continued

Yu Ying reports debt issuance costs as a direct deduction from the carrying amount of the related debt and amortization of debt issuance costs as interest expense. The amortization of debt issuance costs as interest expense for the years ended June 30, 2018 and 2017 was \$11,391 and \$11,388, respectively.

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

	2018	2017
Debt issuance costs	\$ 261,931	\$ 261,929
Less: accumulated amortization	(42,708)	(31,317)
Debt Issuance Costs, Net	\$ 219,223	\$ 230,612

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

2019	\$	440,000
2020		454,332
2021		471,664
2022		489,996
2023		507,332
Thereafter		9,666,012
Total	\$	12,029,336

NOTE F – FAIR VALUE MEASUREMENTS

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

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE F – FAIR VALUE MEASUREMENTS – continued

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

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

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

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

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

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

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

	<u>2018</u>	<u>2017</u>
Fair Value, beginning of year	\$ (148,067)	\$ (439,543)
Changes in interest rate swap	<u>189,827</u>	<u>291,476</u>
Fair Value, end of year	<u>\$ 41,760</u>	<u>\$ (148,067)</u>

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE F – FAIR VALUE MEASUREMENTS – continued

In April 2018, Yu Yung transferred \$2,100,000, of its cash into money market and fixed income funds. These are valued at the closing price reported in the active market in which the individual securities are traded. The fair values of corporate bonds have been provided by Yu Ying’s investments managers and custodian banks and use a variety of pricing sources to determine market valuations, including indexes for each sector of the market. The fair value of money market funds is valued by carrying amount, which approximates fair value.

The following table presents Yu Ying’s fair value hierarchy for investments measured at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Cash	\$ 221,329	\$ -	\$ -	\$ 221,329
Money Market	18,696	-	-	18,696
Corporate bonds	362,188	-	-	362,188
Mutual funds	1,165,506	-	-	1,165,506
Bonds	340,433	-	-	340,433
Total	<u>\$ 2,108,152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,108,152</u>

Net investment income (loss) consists of the following for the years ended June 30, 2018:

Net realized and unrealized loss	\$ 2,436
Investment fee	(1,080)
Dividends and interest	6,796
Net investment income	<u>\$ 8,152</u>

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
Talent retention	\$ 71,780	\$ -
Technology	1,321	20,399
Other	16,382	6,607
Total	<u>\$ 89,483</u>	<u>\$ 27,006</u>

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017
(continued)

NOTE H – RETIREMENT PLAN

During January 2014, a qualified 401(k) Plan was established for eligible employees after one year of employment. The 401(k) Plan allows participants to make voluntary contributions up to the maximum amount allowable by the Internal Revenue Code. Yu Ying matches the employee's contribution up to 3% of the employee's salary, subject to a vesting schedule. Total expenses related to the Plan for the years ended June 30, 2018 and 2017 totaled \$97,943 and \$101,177, respectively.

NOTE I – CONTINGENCIES

Yu Ying receives revenue from government grants and contracts that are subject to inspection and audit by the appropriate funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funding program costs. Yu Ying is of the opinion that disallowance, if any, arising from such audits will not have a material effect on the financial statements. Yu Ying has no provisions for the possible disallowance of program costs on its financial statements,

NOTE J – CONCENTRATIONS

Yu Ying is dependent on per-pupil funding from the District of Columbia Public School System, as authorized by the District of Columbia Public Charter School Board. During the years ended June 30, 2018 and 2017, 83% and 83% of total support was provided by per-pupil funding, respectively.

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

NOTE K – RELATED PARTIES

The Yu Ying Center for Global Citizenship (the "Center") was incorporated as a non-profit corporation on April 4, 2018 to assist with initiatives for the School by advancing the field of Chinese language acquisition, by developing and selling Chinese education materials and services, providing training, workshops and conferences and other similar endeavors. As of June 30, 2018, the Center's Board of Trustees were the Executive Director, Chief Operating Officer and the Chair of the School. There were no activities related to the Center during the fiscal year ending June 30, 2018.

NOTE L - SUBSEQUENT EVENTS

In preparing these financial statements, Yu Ying's management has evaluated events and transactions for potential recognition or disclosure through October 15, 2018, which is the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further recognition or disclosure.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Washington Yu Ying Public Charter School (a nonprofit organization) ("Yu Ying"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Jane Marusa & McQuade PA

Washington, DC
October 15, 2018