

**WASHINGTON YU YING
PUBLIC CHARTER SCHOOL**

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

JUNE 30, 2016 AND 2015

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Independent Auditor's Report

The Board of Directors
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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016 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 Marice & McQuade PA

Washington, DC
October 11, 2016

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,640,311	\$ 5,485,063
Grants receivable	146,382	183,719
Accounts receivable	7,154	9,516
Prepaid expenses	121,060	101,022
Security deposits	13,395	3,395
Total Current Assets	6,928,302	5,782,715
NONCURRENT ASSETS		
Property and equipment, net	15,923,824	16,303,654
Unamortized loan costs, net	242,000	253,388
Total Noncurrent Assets	16,165,824	16,557,042
TOTAL ASSETS	\$ 23,094,126	\$ 22,339,757
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 152,087	\$ 284,493
Accrued salaries and related expenses	320,316	289,835
Deferred revenue	1,490	5,665
Capital lease obligation, current	11,183	8,816
Current maturity of long-term debt	409,000	394,664
Total Current Liabilities	894,076	983,473
NONCURRENT LIABILITIES		
Interest rate swap	439,543	198,350
Capital lease obligation, net of current portion	32,958	35,463
Long-term debt, net of current portion	12,454,008	12,863,008
Total Noncurrent Liabilities	12,926,509	13,096,821
TOTAL LIABILITIES	13,820,585	14,080,294
NET ASSETS		
Unrestricted	9,230,750	8,207,464
Temporarily restricted	42,791	51,999
Total Net Assets	9,273,541	8,259,463
TOTAL LIABILITIES AND NET ASSETS	\$ 23,094,126	\$ 22,339,757

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil appropriations	\$ 6,522,031	\$ -	\$ 6,522,031	\$ 6,644,718	\$ -	\$ 6,644,718
Per pupil facility allowance	1,721,324	-	1,721,324	1,622,016	-	1,622,016
Federal entitlements and grants	741,916	-	741,916	602,084	-	602,084
Other grants and contributions	251,606	12,755	264,361	150,673	15,255	165,928
Donated services and materials	39,052	-	39,052	86,426	-	86,426
Program service fees	906,995	-	906,995	832,338	-	832,338
Interest	2,644	-	2,644	3,375	-	3,375
Change in fair value of interest rate swap	(241,193)	-	(241,193)	(198,350)	-	(198,350)
Other revenues	4,726	-	4,726	6,201	-	6,201
Net assets released from restrictions	21,963	(21,963)	-	114,655	(114,655)	-
Total Revenue and Support	<u>9,971,064</u>	<u>(9,208)</u>	<u>9,961,856</u>	<u>9,864,136</u>	<u>(99,400)</u>	<u>9,764,736</u>
EXPENSES						
Program/Educational services	7,378,120	-	7,378,120	7,252,473	-	7,252,473
Management and general	1,462,351	-	1,462,351	1,621,797	-	1,621,797
Fundraising	107,307	-	107,307	171,564	-	171,564
Total Expenses	<u>8,947,778</u>	<u>-</u>	<u>8,947,778</u>	<u>9,045,834</u>	<u>-</u>	<u>9,045,834</u>
CHANGE IN NET ASSETS	1,023,286	(9,208)	1,014,078	818,302	(99,400)	718,902
NET ASSETS , beginning of year	<u>8,207,464</u>	<u>51,999</u>	<u>8,259,463</u>	<u>7,389,162</u>	<u>151,399</u>	<u>7,540,561</u>
NET ASSETS , end of year	<u>\$ 9,230,750</u>	<u>\$ 42,791</u>	<u>\$ 9,273,541</u>	<u>\$ 8,207,464</u>	<u>\$ 51,999</u>	<u>\$ 8,259,463</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, 2016

	Program/ Educational	Supporting Services		Total
		Management and General	Fundraising	
Personnel Costs				
Salaries	\$ 4,172,260	\$ 706,737	\$ 49,562	\$ 4,928,559
Employee benefits	433,719	73,468	5,152	512,339
Payroll taxes	284,274	48,152	3,377	335,803
Professional development	94,082	15,937	1,118	111,137
Other staff-related expense	65,473	11,090	778	77,341
Total Personnel Costs	5,049,808	855,384	59,987	5,965,179
Direct Student Costs				
Supplies, materials, snacks	176,450	-	-	176,450
Fieldwork and other transportation	40,313	-	-	40,313
Contracted instruction fees	204,187	-	-	204,187
Textbooks	12,896	-	-	12,896
Student assessments	16,414	-	-	16,414
Student food service program	187,133	-	-	187,133
Other student costs	20,820	-	-	20,820
Total Direct Student Costs	658,213	-	-	658,213
Occupancy Expense				
Maintenance and repairs	54,038	9,154	642	63,834
Utilities and garbage removal	95,971	16,256	1,140	113,367
Contracted building services	154,628	26,192	1,837	182,657
Janitorial supplies	19,529	3,309	232	23,070
Depreciation and amortization - facilities	334,098	56,592	3,969	394,659
Interest	322,955	54,705	3,836	381,496
Total Occupancy Expense	981,219	166,208	11,656	1,159,083
Office Expense				
Office supplies	32,538	5,511	387	38,436
Office expense and equipment rental	3,256	552	39	3,847
Telephone	19,094	3,234	227	22,555
Postage	920	156	11	1,087
Printing and copying	6,347	1,075	75	7,497
Computer support	22,909	3,880	272	27,061
Total Office Expense	85,064	14,408	1,011	100,483
General Expense				
Insurance	51,794	8,774	615	61,183
Authorizer fees	-	99,581	-	99,581
Accounting, auditing and payroll	-	137,370	-	137,370
Legal fees	6,564	9,406	-	15,970
Other professional and fundraising fees	-	96,763	31,987	128,750
Dues, fees, and fines	27,411	16,709	-	44,120
Other general expense	414,727	16,339	-	431,066
Donated services	6,450	25,000	900	32,350
Depreciation - operating assets	96,870	16,409	1,151	114,430
Total General Expense	603,816	426,351	34,653	1,064,820
Total Expenses	\$ 7,378,120	\$ 1,462,351	\$ 107,307	\$ 8,947,778

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, 2015

	Program/ Educational	Supporting Services		Total
		Management and General	Fundraising	
Personnel Costs				
Salaries	\$ 4,015,330	\$ 745,915	\$ 108,977	\$ 4,870,222
Employee benefits	407,100	75,351	11,049	493,500
Payroll taxes	280,742	52,136	7,619	340,497
Professional development	116,190	21,577	3,153	140,920
Other staff-related expense	72,760	13,512	1,975	88,247
Total Personnel Costs	4,892,122	908,491	132,773	5,933,386
Direct Student Costs				
Supplies, materials, snacks	164,920	-	-	164,920
Fieldwork and other transportation	50,059	-	-	50,059
Contracted instruction fees	159,182	-	-	159,182
Textbooks	33,818	-	-	33,818
Student assessments	17,559	-	-	17,559
Student food service program	174,823	-	-	174,823
Other student costs	15,819	-	-	15,819
Total Direct Student Costs	616,180	-	-	616,180
Occupancy Expense				
Rent	14,942	2,774	406	18,122
Maintenance and repairs	53,732	9,979	1,458	65,169
Utilities and garbage removal	89,529	16,626	2,430	108,585
Contracted building services	131,309	24,384	3,564	159,257
Facilities consulting services	4,143	770	112	5,025
Janitorial supplies	15,027	2,791	408	18,226
Depreciation and amortization - facilities	568,388	105,552	15,426	689,366
Interest	206,753	38,395	5,611	250,759
Total Occupancy Expense	1,083,823	201,271	29,415	1,314,509
Office Expense				
Office supplies	37,394	6,945	1,015	45,354
Office expense and equipment rental	10,541	1,958	286	12,785
Telephone	17,312	3,215	470	20,997
Postage	3,429	637	93	4,159
Printing and copying	7,049	1,309	191	8,549
Computer support	22,115	4,106	600	26,821
Total Office Expense	97,840	18,170	2,655	118,665
General Expense				
Insurance	39,561	7,346	1,074	47,981
Authorizer fees	-	95,646	-	95,646
Accounting, auditing and payroll	-	147,234	-	147,234
Legal fees	6,000	38,457	-	44,457
Other professional and fundraising fees	31,340	41,086	913	73,339
Dues, fees, and fines	189,024	44,831	4,294	238,149
Other general expense	197,986	15,136	-	213,122
Donated services	16,202	66,485	440	83,127
Donated materials	50	3250	-	3,300
Depreciation - operating assets	82,345	34,394	-	116,739
Total General Expense	562,508	493,865	6,721	1,063,094
Total Expenses	\$ 7,252,473	\$ 1,621,797	\$ 171,564	\$ 9,045,834

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, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,014,078	\$ 718,902
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	509,089	806,105
Change in fair value of interest rate swap	241,193	198,350
Decrease (increase) in assets:		
Cash and cash equivalents restricted by debt agreements	-	318,032
Grants receivable	37,337	33,386
Accounts receivable	2,362	(7,109)
Prepaid expenses	(20,038)	(8,876)
Security deposits	(10,000)	17,240
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(132,406)	(244,718)
Accrued salaries and related expenses	30,481	31,533
Deferred revenue	(4,175)	(254,683)
Net Cash Provided by Operating Activities	1,667,921	1,608,162
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(107,737)	(2,141,617)
Net Cash Used for Investing Activities	(107,737)	(2,141,617)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease obligation payments	(10,272)	(3,545)
Proceeds from issuance of debt	-	13,515,000
Principal payments on debt	(394,664)	(749,640)
Refinancing of debt	-	(11,540,613)
Loan costs incurred	-	(261,929)
Net Cash (Used for) Provided by Financing Activities	(404,936)	959,273
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,155,248	425,818
CASH AND CASH EQUIVALENTS, beginning of year	5,485,063	5,059,245
CASH AND CASH EQUIVALENTS, end of year	\$ 6,640,311	\$ 5,485,063
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 378,598	\$ 249,608
SUPPLEMENTAL DISCLOSURE OF NON CASH INFORMATION		
Acquisition of equipment under capital lease	\$ 10,134	\$ 47,824

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 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, 2016 and 2015, Yu Ying educated 551 and 528 students, respectively, in grades pre-k 3 through 5th.

Yu Ying had a successful enrollment process in Spring 2016. Demand for this innovative program resulted in about 1,600 applications for about 45 spots for new families for the 2016-17 school year. Yu Ying welcomed 571 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, 2016 AND 2015
(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, 2016 and 2015.

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, 2016 AND 2015
(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.

Unamortized Loan Costs

Loan costs incurred in securing debt have been capitalized. These costs are amortized over the remaining period of the loan, which approximates the 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, 2016 AND 2015
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Per Pupil Appropriations

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 \$704,194 and \$1,104,997 for the years ended June 30, 2016 and 2015, 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 \$6,702 and \$3,300 for the years ended June 30, 2016 and 2015, 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, and communication services in the amount of \$32,350 and \$83,127 for the years ended June 30, 2016 and 2015, respectively.

NOTE C – INCOME TAXES

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

Yu Ying has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years (2012-2014), or expected to be taken in its 2015 tax return. Yu Ying is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE D – PROPERTY AND EQUIPMENT

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

	2016	2015
Land	\$ 3,070,000	\$ 3,070,000
Building	14,154,934	14,118,736
Furniture and equipment	377,306	352,195
Computer equipment	332,284	291,966
Equipment under capital lease	57,959	47,824
	17,992,483	17,880,721
Less: allowance for depreciation	2,078,036	1,583,415
	15,914,447	16,297,306
Construction in progress	9,377	6,348
Property and Equipment, Net	\$ 15,923,824	\$ 16,303,654

Construction in progress includes on-going renovation, construction, and improvement projects at Yu Ying. During 2015, renovation and construction of the building was completed. As of June 30, 2016, construction in progress includes costs to implement a video camera system. Depreciation and amortization expense for the years ended June 30, 2016 and 2015 was \$497,701 and \$460,450, respectively. During 2016 and 2015, Yu Ying entered into capital lease agreements for copier equipment.

Accumulated depreciation includes accumulated amortization of capital leased equipment in the amount of \$15,408 and \$3,985 as of June 30, 2016 and 2015, respectively. Amortization expense related to capital leased equipment was \$11,423 and \$3,985 for the years ended June 30, 2016 and 2015, respectively.

During 2016 and 2015, Yu Ying capitalized interest of \$0 and \$155,611, respectively, related to construction activities and is reported as a component of the building.

NOTE E – UNAMORTIZED LOAN COSTS

The following is a summary of unamortized loan costs as of June 30:

	2016	2015
Loan costs	\$ 261,929	\$ 261,929
Less: allowance for amortization	(19,929)	(8,541)
Unamortized Loan Costs, Net	\$ 242,000	\$ 253,388

Amortization expense for the years ended June 30, 2016 and 2015 was \$11,388 and \$345,655, respectively.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE F – 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, were purchased by the owner of the Series 2014 Bond. Due to the purchase of the Series 2012 Bond, Yu Ying incurred a prepayment fee of \$191,871 which is expensed in the accompanying statements of activities.

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.

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 October 1, 2021. The variable interest rate, adjusted monthly, of subsequent periods will be determined by a market agent in accordance with the Bonds’ documents.

Other Financing

On April 4, 2011, Yu Ying obtained a loan from the Charter Schools Development Corporation (“CSDC Loan”) in the amount of \$800,000 to acquire the land and building. The CSDC Loan was payable in monthly interest payments at 6.50% per annum and annual accelerated principal payments. Annual accelerated principal payments were based on a formula of net cash flow defined by the loan agreement. The CSDC loan was scheduled to mature on April 1, 2017. The CSDC Loan was fully repaid from the proceeds of the Series 2014 Bond.

On May 20, 2011, Yu Ying obtained a loan from the Office of Public Charter School Financing and Support in the amount of \$2,000,000 (“PCSFS Loan”) to renovate the land and building. The PCSFS Loan was payable in quarterly principal, plus annual accelerated principal, plus interest payments at 4.00% per annum through April 1, 2017. Annual accelerated principal payments were based on a formula of net cash flow defined by the loan agreement. PCSFS provided a \$700,000 debt service enhancement guaranty in favor of Eagle Bank, which was scheduled to terminate during February 2017. The PCSFS Loan was fully repaid from the proceeds of the Series 2014 Bond.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE F – LONG-TERM DEBT – continued

The debt agreements contain certain restrictive, financial, and nonfinancial covenants. In the opinion of management, Yu Ying has complied with the required covenants for 2016 and 2015.

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, 2016 and 2015 is a liability of \$439,543 and \$198,350, 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>2016</u>	<u>2015</u>
District of Columbia Revenue Bonds (Washington Yu Ying Public Charter School Issue) Series 2012	\$ 9,130,907	\$ 9,410,903
District of Columbia Revenue Bonds (Washington Yu Ying Public Charter School Issue) Series 2014	3,732,101	3,846,769
Total	<u>12,863,008</u>	<u>13,257,672</u>
Less: current maturity	<u>(409,000)</u>	<u>(394,664)</u>
 Total Long-Term Debt, Net of Current Portion	 <u><u>\$ 12,454,008</u></u>	 <u><u>\$ 12,863,008</u></u>

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE F – LONG-TERM DEBT – continued

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

2017	\$	409,000
2018		424,672
2019		440,000
2020		454,332
2021		471,664
Thereafter		10,663,340
Total	\$	12,863,008

NOTE G – 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.

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.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE G – FAIR VALUE MEASUREMENTS – continued

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>2016</u>	<u>2015</u>
Fair Value, beginning of year	\$ (198,350)	\$ -
Changes in interest rate swap	<u>(241,193)</u>	<u>(198,350)</u>
Fair Value, end of year	<u>\$ (439,543)</u>	<u>\$ (198,350)</u>

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Technology	\$ 33,786	\$ 48,024
Mandarin immersion early childhood education	6,445	-
Other	<u>2,560</u>	<u>3,975</u>
Total	<u>\$ 42,791</u>	<u>\$ 51,999</u>

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015
(continued)

NOTE I – DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT

Yu Ying has been approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The original contract, dated January 10, 2008, was amended on September 2, 2014. The amendment allows Yu Ying the ability to enroll students in additional grades through an agreement with District of Columbia International School.

NOTE J – RETIREMENT PLAN

During January 2014, a qualified 401(k) Plan was established for eligible employees after one year of employment. Prior to the 401(k) Plan, Yu Ying offered a Simple IRA Plan to eligible employees after one year of service. Both the Simple IRA and the 401(k) Plans allow the 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 Plans for the years ended June 30, 2016 and 2015 totaled \$87,548 and \$74,592, respectively.

NOTE K – 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, 2016 and 2015, 83% and 85% of total support was provided by per-pupil funding, respectively.

Yu Ying maintains its cash in several 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 L – AVERAGE COST PER STUDENT

For the years ended June 30, 2016 and 2015 the average cost per student was \$16,239 and \$17,132, respectively. This is calculated by dividing total noncapital expenditures, by Yu Ying's full-time student enrollment.

NOTE M - SUBSEQUENT EVENTS

As required by the Subsequent Events topic of the FASB ASC, management evaluated subsequent events through the date of the auditor's report, which is the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.



**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 Directors
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, 2016, 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 11, 2016.

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 Maruca & McQuade PA

Washington, DC
October 11, 2016