

**WASHINGTON YU YING
PUBLIC CHARTER SCHOOL**

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

JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 November 14, 2017, 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 Maruca & McQuade PA

Washington, DC
November 14, 2017

**WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,128,736	\$ 6,640,311
Grants receivable	87,765	146,382
Accounts receivable	7,668	7,154
Prepaid expenses	103,901	121,060
Security deposits	4,895	13,395
Total Current Assets	8,332,965	6,928,302
NONCURRENT ASSETS		
Property and equipment, net	15,605,871	15,923,824
TOTAL ASSETS	\$ 23,938,836	\$ 22,852,126
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 254,500	\$ 152,087
Accrued salaries and related expenses	342,494	320,316
Deferred revenue	555	1,490
Capital lease obligation, current	11,755	11,183
Current maturity of long-term debt	424,672	409,000
Total Current Liabilities	1,033,976	894,076
NONCURRENT LIABILITIES		
Interest rate swap	148,067	439,543
Capital lease obligation, net of current portion	21,286	32,958
Long-term debt, net	11,798,724	12,212,008
Total Noncurrent Liabilities	11,968,077	12,684,509
TOTAL LIABILITIES	13,002,053	13,578,585
NET ASSETS		
Unrestricted	10,909,777	9,230,750
Temporarily restricted	27,006	42,791
Total Net Assets	10,936,783	9,273,541
TOTAL LIABILITIES AND NET ASSETS	\$ 23,938,836	\$ 22,852,126

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Per pupil appropriations	\$ 7,137,554	\$ -	\$ 7,137,554	\$ 6,522,031	\$ -	\$ 6,522,031
Per pupil facility allowance	1,783,804	-	1,783,804	1,721,324	-	1,721,324
Federal entitlements and grants	254,635	-	254,635	741,916	-	741,916
Other grants and contributions	141,661	15,680	157,341	251,606	12,755	264,361
Donated services and materials	82,058	-	82,058	39,052	-	39,052
Program service fees	967,434	-	967,434	906,995	-	906,995
Interest	1,820	-	1,820	2,644	-	2,644
Change in fair value of interest rate swap	291,476	-	291,476	(241,193)	-	(241,193)
Other revenues	31,848	-	31,848	4,726	-	4,726
Net assets released from restrictions	31,465	(31,465)	-	21,963	(21,963)	-
Total Revenue and Support	<u>10,723,755</u>	<u>(15,785)</u>	<u>10,707,970</u>	<u>9,971,064</u>	<u>(9,208)</u>	<u>9,961,856</u>
EXPENSES						
Program/Educational services	7,378,911	-	7,378,911	7,378,120	-	7,378,120
Management and general	1,514,217	-	1,514,217	1,462,351	-	1,462,351
Fundraising	151,600	-	151,600	107,307	-	107,307
Total Expenses	<u>9,044,728</u>	<u>-</u>	<u>9,044,728</u>	<u>8,947,778</u>	<u>-</u>	<u>8,947,778</u>
CHANGE IN NET ASSETS	1,679,027	(15,785)	1,663,242	1,023,286	(9,208)	1,014,078
NET ASSETS , beginning 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>
NET ASSETS , end 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>

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
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	324,458	54,959	3,854	383,271
Interest	332,595	56,338	3,951	392,884
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
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,663,242	\$ 1,014,078
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	481,857	497,701
Change in fair value of interest rate swap	(291,476)	241,193
Amortization of debt issuance costs	11,388	11,388
Decrease (increase) in assets:		
Grants receivable	58,617	37,337
Accounts receivable	(514)	2,362
Prepaid expenses	17,159	(20,038)
Security deposits	8,500	(10,000)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	102,413	(132,406)
Accrued salaries and related expenses	22,178	30,481
Deferred revenue	(935)	(4,175)
Net Cash Provided by Operating Activities	2,072,429	1,667,921
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(163,904)	(107,737)
Net Cash Used for Investing Activities	(163,904)	(107,737)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease obligation payments	(11,100)	(10,272)
Principal payments on debt	(409,000)	(394,664)
Net Cash Used for Financing Activities	(420,100)	(404,936)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,488,425	1,155,248
CASH AND CASH EQUIVALENTS, beginning of year	6,640,311	5,485,063
CASH AND CASH EQUIVALENTS, end of year	\$ 8,128,736	\$ 6,640,311
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 386,458	\$ 378,598
SUPPLEMENTAL DISCLOSURE OF NON CASH INFORMATION		
Acquisition of equipment under capital lease	\$ -	\$ 10,134

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

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016, Yu Ying educated 571 and 551 students, respectively, in grades pre-k 3 through 5th.

Yu Ying had a successful enrollment process in Spring 2017. Demand for this innovative program resulted in more than 1,400 applications for about 40 spots for new families for the 2017-18 school year. Yu Ying welcomed 579 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, 2017 AND 2016
(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, 2017 and 2016.

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, 2017 AND 2016
(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, 2017 AND 2016
(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 \$896,786 and \$704,194 for the years ended June 30, 2017 and 2016, 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 \$7,336 and \$6,702 for the years ended June 30, 2017 and 2016, 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 \$74,722 and \$32,350 for the years ended June 30, 2017 and 2016, respectively.

NOTE C – INCOME TAXES

Yu Ying qualifies as a 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 2013 through 2015 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, 2017 AND 2016
(continued)

NOTE D – PROPERTY AND EQUIPMENT

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

	2017	2016
Land	\$ 3,070,000	\$ 3,070,000
Building	14,257,833	14,154,934
Furniture and equipment	412,141	377,306
Computer equipment	358,905	332,284
Equipment under capital lease	57,959	57,959
	18,156,838	17,992,483
Less: allowance for depreciation	2,550,967	2,078,036
	15,605,871	15,914,447
Construction in progress	-	9,377
Property and Equipment, Net	\$ 15,605,871	\$ 15,923,824

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, 2017 and 2016 was \$481,857 and \$497,701, 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 \$27,000 and \$15,408 as of June 30, 2017 and 2016, respectively. Amortization expense related to capital leased equipment was \$11,592 and \$11,423 for the years ended June 30, 2017 and 2016, 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, were 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, 2017 AND 2016
(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 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. As of June 30, 2017 and 2016, the variable rate at which interest accrued was 2.66% and 2.12% 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 2017 and 2016.

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, 2017 and 2016 is a liability of \$148,067 and \$439,543, 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>2017</u>	<u>2016</u>
District of Columbia Revenue Bonds (Washington Yu Ying Public Charter School Issue) Series 2012	\$ 8,840,575	\$ 9,130,907
District of Columbia Revenue Bonds (Washington Yu Ying Public Charter School Issue) Series 2014	3,613,433	3,732,101
Total	<u>12,454,008</u>	<u>12,863,008</u>
Less: current maturity	(424,672)	(409,000)
Less: debt issuance costs, net of accumulated amortization	<u>(230,612)</u>	<u>(242,000)</u>
Long-Term Debt, Net	<u>\$ 11,798,724</u>	<u>\$ 12,212,008</u>

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE E – LONG-TERM DEBT – continued

In prior years, Yu Ying reported debt issuance costs as a deferred charge in the statement of financial position and amortization of such costs in the statement of activities as depreciation and amortization. To comply with new GAAP presentation requirements in 2017, Yu Ying began reporting such costs as a direct deduction from the carrying amount of the related debt and reclassified prior year amounts, resulting in a reduction of total June 30, 2016 assets and liabilities by \$242,000. The change did not affect net assets.

Similarly, Yu Ying now reports amortization of debt issuance costs as interest expense and reclassified 2016 amounts accordingly. As a result, reported interest expense in 2016 was increased (and depreciation and amortization decreased) by \$11,388, with no effect on the change in net assets. The amortization of debt issuance costs as interest expense for the year ended June 30, 2017 was \$11,388.

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

	2017	2016
Debt issuance costs	\$ 261,929	\$ 261,929
Less: accumulated amortization	(31,317)	(19,929)
Debt Issuance Costs, Net	\$ 230,612	\$ 242,000

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

2018	\$	424,672
2019		440,000
2020		454,332
2021		471,664
2022		489,996
Thereafter		10,173,344
Total	\$	12,454,008

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, 2017 AND 2016
(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>2017</u>	<u>2016</u>
Fair Value, beginning of year	\$ (439,543)	\$ (198,350)
Changes in interest rate swap	<u>291,476</u>	<u>(241,193)</u>
Fair Value, end of year	<u>\$ (148,067)</u>	<u>\$ (439,543)</u>

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Technology	\$ 20,399	\$ 33,786
Mandarin immersion early childhood education	-	6,445
Other	6,607	2,560
Total	\$ 27,006	\$ 42,791

NOTE H – 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 I – 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, 2017 and 2016 totaled \$101,177 and \$87,548, respectively.

NOTE J – 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 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, 2017 and 2016, 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.

WASHINGTON YU YING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016
(continued)

NOTE L - SUBSEQUENT EVENTS

In preparing these financial statements, Yu Ying's management has evaluated events and transactions for potential recognition or disclosure through November 14, 2017, 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, 2017, 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 November 14, 2017.

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.

James Marston & McQuade PA

Washington, DC
November 14, 2017