

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

Financial Report
June 30, 2019

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Independent Auditor's Report

To the Board of Trustees
The SEED Public Charter School of Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of The SEED Public Charter School of Washington, D.C. (the School), which comprise the balance sheets as of June 30, 2019 and 2018, 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 the School as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019 the School adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in additional footnote disclosures and changes to the classification of net assets. Our opinion is not modified with respect to the adoption of this ASU.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
December 6, 2019

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

Balance Sheets
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,275,878	\$ 5,033,065
Receivables	489,776	553,648
Promises to give	6,375	7,731
Prepaid expenses	201,913	136,534
Total current assets	5,973,942	5,730,978
Long-term assets:		
Investments	1,109,687	1,013,194
Property and equipment, net	15,064,609	15,703,362
	\$ 22,148,238	\$ 22,447,534
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 682,753	\$ 596,556
Due to The SEED Foundation, Inc.	16,118	8,443
Current portion of capital lease obligation	-	4,074
Current portion of note payable	300,000	300,000
Total current liabilities	998,871	909,073
Long-term liabilities:		
Note payable, net of current portion	2,225,000	2,525,000
Total long-term liabilities	2,225,000	2,525,000
Total liabilities	3,223,871	3,434,073
Commitments and contingencies (Notes 9 and 15)		
Net assets:		
Without donor restrictions	17,963,441	18,012,879
With donor restrictions	960,926	1,000,582
	18,924,367	19,013,461
	\$ 22,148,238	\$ 22,447,534

See notes to financial statements.

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

Statement of Activities
Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Per-pupil allocation	\$ 13,776,726	\$ -	\$ 13,776,726	\$ 16,971,060
Federal grants and awards	589,215	-	589,215	672,756
State and local grants and awards	98,644	-	98,644	58,422
Contributions from donors	48,553	98,794	147,347	57,093
Investment income	103,855	750	104,605	104,082
Other	158,156	-	158,156	346,407
Net assets released from restrictions	139,200	(139,200)	-	-
Total support and revenue	14,914,349	(39,656)	14,874,693	18,209,820
Expenses:				
Program	13,335,131	-	13,335,131	14,546,367
Management and general	1,528,993	-	1,528,993	2,010,437
Fundraising	99,663	-	99,663	94,405
Total expenses	14,963,787	-	14,963,787	16,651,209
Change in net assets	(49,438)	(39,656)	(89,094)	1,558,611
Net assets:				
Beginning	18,012,879	1,000,582	19,013,461	17,454,850
Ending	\$ 17,963,441	\$ 960,926	\$ 18,924,367	\$ 19,013,461

See notes to financial statements.

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

Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Per-pupil allocation	\$ 16,971,060	\$ -	\$ 16,971,060
Federal grants and awards	672,756	-	672,756
State and local grants and awards	58,422	-	58,422
Contributions from donors	10,737	46,356	57,093
Investment income	103,828	254	104,082
Other	346,407	-	346,407
Net assets released from restrictions	104,877	(104,877)	-
Total support and revenue	18,268,087	(58,267)	18,209,820
Expenses:			
Program	14,546,367	-	14,546,367
Management and general	2,010,437	-	2,010,437
Fundraising	94,405	-	94,405
Total expenses	16,651,209	-	16,651,209
Change in net assets	1,616,878	(58,267)	1,558,611
Net assets:			
Beginning	16,396,001	1,058,849	17,454,850
Ending	\$ 18,012,879	\$ 1,000,582	\$ 19,013,461

See notes to financial statements.

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

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	General and Administrative	Fundraising	Total
Personnel salaries and benefits:				
Principal/administrative salary	\$ -	\$ 572,293	\$ -	\$ 572,293
Teachers salaries	2,839,717	-	-	2,839,717
Special education salaries	1,511,472	-	-	1,511,472
Summer school salaries	42,713	-	-	42,713
Before/after care salaries	1,528,295	-	-	1,528,295
Other education professionals salaries	351,834	-	-	351,834
Business/operations salaries	429,230	-	61,800	491,030
Custodial salaries	253,643	-	-	253,643
Employee benefits	1,597,819	121,429	13,534	1,732,782
Contracted staff	225,056	-	-	225,056
Staff development expense	113,582	-	-	113,582
Total personnel salaries and benefits	8,893,361	693,722	75,334	9,662,417
Direct student costs:				
Textbooks	67,615	-	-	67,615
Student assessment materials	11,160	-	-	11,160
Contracted student services	287,427	-	-	287,427
Food service	915,842	-	-	915,842
Miscellaneous student expense	36,847	-	-	36,847
Total direct student costs	1,318,891	-	-	1,318,891
Occupancy expenses:				
Rent	11,030	872	98	12,000
Building maintenance and repairs	207,984	16,458	1,848	226,290
Utilities	345,408	27,320	3,067	375,795
Contracted building services	571,425	45,197	5,074	621,696
Total occupancy expenses	1,135,847	89,847	10,087	1,235,781
Office expenses:				
Office supplies and materials	29,136	-	-	29,136
Office equipment rental and maintenance	38,918	3,078	346	42,342
Telephone/telecommunications	204,792	16,198	1,818	222,808
Legal, accounting and payroll services	-	171,076	-	171,076
Printing and copying	3,448	-	-	3,448
Postage and shipping	8,000	-	-	8,000
Total office expenses	284,294	190,352	2,164	476,810
General expenses:				
Insurance	153,204	-	-	153,204
Transportation	43,801	-	-	43,801
Administrative fee (to PCSB)	145,646	-	-	145,646
Management fee	-	446,084	-	446,084
Interest and amortization	126,576	10,012	1,124	137,712
Other general expense	236,170	20,091	2,098	258,359
Total general expenses	705,397	476,187	3,222	1,184,806
Depreciation expense	997,341	78,885	8,856	1,085,082
Total	\$ 13,335,131	\$ 1,528,993	\$ 99,663	\$ 14,963,787

See notes to financial statements.

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

Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services	General and Administrative	Fundraising	Total
Personnel salaries and benefits:				
Principal/administrative salary	\$ -	\$ 734,949	\$ -	\$ 734,949
Teachers salaries	3,445,110	-	-	3,445,110
Special education salaries	1,675,747	-	-	1,675,747
Summer school salaries	69,515	-	-	69,515
Before/after care salaries	1,505,477	-	-	1,505,477
Other education professionals salaries	275,377	-	-	275,377
Business/operations salaries	391,221	-	60,000	451,221
Custodial salaries	261,145	-	-	261,145
Other staff salaries	4,552	-	-	4,552
Employee benefits	1,444,844	139,289	11,371	1,595,504
Contracted staff	291,717	15,000	-	306,717
Staff development expense	191,903	-	-	191,903
Total personnel salaries and benefits	9,556,608	889,238	71,371	10,517,217
Direct student costs:				
Textbooks	6,538	-	-	6,538
Student supplies and materials	103,430	-	-	103,430
Library and media center materials	1,578	-	-	1,578
Student assessment materials	18,756	-	-	18,756
Contracted student services	256,155	-	-	256,155
Food service	995,146	-	-	995,146
Miscellaneous student expense	34,277	-	-	34,277
Total direct student costs	1,415,880	-	-	1,415,880
Occupancy expenses:				
Rent	10,866	1,048	86	12,000
Building maintenance and repairs	382,118	36,838	3,007	421,963
Utilities	331,949	32,001	2,613	366,563
Contracted building services	579,296	55,847	4,559	639,702
Total occupancy expenses	1,304,229	125,734	10,265	1,440,228
Office expenses:				
Office supplies and materials	60,131	-	-	60,131
Office equipment rental and maintenance	14,475	1,395	114	15,984
Telephone/telecommunications	186,793	-	-	186,793
Legal, accounting and payroll services	-	375,746	-	375,746
Printing and copying	7,198	-	-	7,198
Postage and shipping	5,676	-	-	5,676
Total office expenses	274,273	377,141	114	651,528
General expenses:				
Insurance	202,072	-	-	202,072
Transportation	31,064	-	-	31,064
Administrative fee (to PCSB)	154,307	-	-	154,307
Management fee	-	463,312	-	463,312
Interest and amortization	102,771	9,908	809	113,488
Other general expense	89,318	8,610	703	98,631
Total general expenses	579,532	481,830	1,512	1,062,874
Depreciation expense	1,415,845	136,494	11,143	1,563,482
Total	\$ 14,546,367	\$ 2,010,437	\$ 94,405	\$ 16,651,209

See notes to financial statements.

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

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (89,094)	\$ 1,558,611
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,085,082	1,563,482
Amortization of debt issuance costs	-	14,443
Net realized and unrealized gain on investments	(808)	(44,545)
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	63,872	(228,258)
Promises to give	1,356	(1,356)
Due from The SEED Foundation, Inc.	-	79
Prepaid expenses	(65,379)	(31,255)
(Decrease) increase in:		
Accounts payable and accrued expenses	(52,328)	51,734
Due to The SEED Foundation, Inc.	7,675	8,443
Net cash provided by operating activities	950,376	2,891,378
Cash flows from investing activities:		
Purchases of property and equipment	(307,804)	(385,426)
Purchase and reinvestment of investments	(95,685)	(52,125)
Decrease in restricted cash	-	996,154
Net cash (used in) provided by investing activities	(403,489)	558,603
Cash flows from financing activities:		
Principal payments on capital lease obligation	(4,074)	(36,141)
Principal payments on bonds payable	-	(3,248,004)
Proceeds from note payable	-	3,000,000
Principal payments on note payable	(300,000)	(175,000)
Net cash used in financing activities	(304,074)	(459,145)
Net increase in cash and cash equivalents	242,813	2,990,836
Cash and cash equivalents:		
Beginning	5,033,065	2,042,229
Ending	\$ 5,275,878	\$ 5,033,065
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 137,712	\$ 99,045
Supplemental disclosure of non-cash investing activities:		
Property and equipment included in accounts payable and accrued expenses	\$ 138,525	\$ -

See note to financial statements.

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

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The SEED Public Charter School of Washington, D.C. (the School) is a corporation organized for the purpose of operating a public charter school for children residing in Washington, D.C. The School's two principal goals are first, to prepare the children attending the School for admission to colleges and universities and/or success in the professional world, and second, to develop a model for education targeted at inner-city children to be successfully replicated in urban areas throughout the country.

The School is under the control of The SEED Foundation, Inc. (the Foundation). The Foundation has both an economic interest in the School and controls membership of the School's Board of Trustees. The School is a component of the Foundation's consolidated financial statements.

Charter School Agreement: On September 4, 1998, the School entered into a 15-year Charter School Agreement with the District of Columbia Public Charter School Board (DC PCSB). Under the terms of this agreement, the School will operate a charter school for students of certain ages in grades 6 through 12, in accordance with the mission established in the School's by-laws.

On September 19, 2013, the School renewed its Charter School Agreement with the District of Columbia Public Charter School Board for a 15-year period.

As part of the School's twenty-year charter review, on December 18, 2017, the DC PCSB voted to continue the School's charter, subject to the following conditions 1) the School will cease admitting new students in grades 6, 7 and 8 beginning immediately, and the middle school will close completely by the end of the 2019-2020 school year, 2) the School's enrollment ceiling will decrease to 300 students in 2018-2019 school year, and 250 in 2019-2020 school year and beyond, 3) the School will admit students in both grades 9 and 10 by the 2020-2021 school year. In any year that the School's overall retention rate for high school is 90.0% or greater, the School will receive an enrollment ceiling increase of 25, up to a maximum of 300 students. The School may apply to DC PCSB beginning in the 2021-2022 school year to re-open its middle school grade span.

A summary of the School's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, the School is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and cash equivalents: For purposes of reporting cash flows, the School considers all money market accounts and certificates of deposit with an original maturity of three months or less to be cash equivalents.

Financial risk: The School maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to any significant financial risk on cash.

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

Notes to Financial Statements

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

The School invests in mutual funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Receivables: Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management believes that an allowance was not required, based on its evaluation of the collectability of receivables at June 30, 2019 and 2018.

Promises to give: Contributions receivable are recognized when the donor makes a written promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. The allowance for doubtful promises to give is based on management's evaluation of the status of existing promises to give and historical results. Management believes all promises were collectible, and no allowance was necessary at June 30, 2019 and 2018. At June 30, 2019 and 2018, all promises to give were expected to be collected during the next fiscal year.

Investments: Investments are carried at fair value, as determined based on quoted market prices. Changes in fair value are recorded as a component of investment income.

Property and equipment: Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the related asset, ranging from 3 to 40 years. Artwork is not being depreciated. Normal repairs and maintenance are expensed as incurred. The School capitalizes all property and equipment purchased with a cost of \$500 or more.

Valuation of long-lived assets: The School accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the FASB ASC Topic Property, Plant and Equipment that address Impairment or Disposal of Long-Lived Assets. The accounting standard requires that property, plant and equipment and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Works of art: Works of art contributed to the School are recorded at the fair market value at the time of the accession.

Net assets: Net assets without donor restrictions are the net assets that are not restricted by donor-imposed stipulations.

Net assets with donor restrictions result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to these stipulations. Net assets with donor restrictions are reclassified to net assets without donor restrictions when the donor restriction is accomplished and reported as net assets released from restrictions.

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

Notes to Financial Statements

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

Net assets with donor restrictions are reported as net assets without donor restrictions if the restrictions are met in the same period received. Net assets with donor restrictions may be restricted for various purposes, such as use in future periods or use for specified purposes. Net assets with donor restrictions also result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the School's actions. At June 30, 2019 and 2018, net assets with donor restrictions represented amounts restricted for specific education-related expenses and for generating investment income used for scholarships.

Gifts in-kind: Gifts in-kind are reported at their fair value on the date of the gift.

Per-pupil allocation and federal funding: The School receives a student allocation from the District of Columbia, as well as federal entitlement funding, to cover the cost of residential and academic expenses. The student allocation is on a per-pupil basis and includes academic year funding, special education funding and a facilities allotment. The revenue is recognized in the period it is earned, which is the school year for which the allocation is made. Unearned per-pupil allocation received is recorded as deferred revenue. Federal grant entitlements are recognized as revenue and support based on allowable costs incurred. Many of the federal grant entitlements flow through from the Office of the State Superintendent of Education (OSSE).

Contributions: Unconditional contributions, including unconditional promises to give, are recognized at fair value as support in the period received. Conditional promises to give are not recognized until they become unconditional; that is, at the time when the conditions on which they depend are substantially met.

Recognition of salary expense: Salary expense is recognized in the year the service is rendered, which coincides with an academic year. Salaries unpaid at June 30 are recognized as an expense and accrued.

Tax status: The School is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is not considered to be a private foundation. Under Section 501(c)(3) of the IRC, the School is exempt from federal taxes on income other than unrelated business income. The School did not have any net unrelated business income for the years ended June 30, 2019 and 2018.

The School follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed should be recorded in the financial statements. Under this guidance, the School may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

Management evaluated the School's tax positions and concluded that the School has taken no uncertain positions that require adjustments to the financial statements to comply with the provisions of this guidance.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but that provide for the overall support and direction of the School. Expenses are either directly charged to program services as incurred or proportionately allocated to functional categories based on various allocation methods.

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

Notes to Financial Statements

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

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adopted accounting pronouncements: In August 2016, the FASB issued Accounting Standard Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The School retroactively adopted this ASU during the year ended June 30, 2019.

Upcoming accounting pronouncements: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made.

The amendments in the ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted.

The School should apply the amendments for transactions in which the entity serves as the resource recipient to fiscal years beginning July 1, 2019. The School should apply the amendments for transactions in which the entity serves as the resource provider to fiscal years beginning July 1, 2020. The School is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheets for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. During October 2019, the FASB voted to delay the effective date of ASU 2016-02 one year, making it effective for the School for the fiscal year beginning July 1, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of this ASU on the financial statements.

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

Notes to Financial Statements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for the School for the fiscal year ending June 30, 2020. Management is currently evaluating the impact of this ASU on the financial statements.

Subsequent events: The School evaluated subsequent events for disclosures through December 6, 2019, which is the date the financial statements were available to be issued.

Note 2. Liquidity and Availability of Financial Assets

The School regularly monitors liquidity to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date at June 30, 2019 and 2018, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 5,275,878	\$ 5,033,065
Receivables	489,776	553,648
Promises to give	6,375	7,731
Investments	1,109,687	1,013,194
Total financial assets available	6,881,716	6,607,638
Less those unavailable for general expenditure within one year due to:		
Donor imposed restrictions	(960,926)	(1,000,582)
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 5,920,790</u>	<u>\$ 5,607,056</u>

The School has various sources of liquidity at its disposal, including cash and cash equivalents, investments, receivables and promises to give. The School assesses its budget and cash flow projections monthly to monitor the availability of resources to support operations.

Note 3. Investments

At June 30, 2019 and 2018, the School held investments in mutual funds in the amounts of \$1,109,687 and \$1,013,194, respectively.

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

Notes to Financial Statements

Note 4. Property and Equipment

Property and equipment at June 30, 2019 and 2018, consist of the following:

Asset category:	2019	2018
Buildings and improvements on leased land (see Note 9)	\$ 25,835,032	\$ 25,528,745
Furniture and fixtures	2,672,674	2,654,380
Computer equipment	1,915,157	1,872,868
Campus equipment	1,256,416	1,204,358
Vans	177,991	150,590
Artwork	146,500	146,500
Books	102,662	102,662
	<u>32,106,432</u>	<u>31,660,103</u>
Less accumulated depreciation	<u>17,041,823</u>	<u>15,956,741</u>
	<u>\$ 15,064,609</u>	<u>\$ 15,703,362</u>

Depreciation expense for the years ended June 30, 2019 and 2018, was \$1,085,082 and \$1,563,482, respectively.

Note 5. Bonds Payable

The School, through the District of Columbia, issued \$8,105,000 of District of Columbia Pooled Loan Program Revenue Bonds in April 2001, and another \$6,000,000 of similar bonds in October 2001. The portion of the bonds attributable to the School were due to mature on January 1, 2021, with principal due in variable semi-annual installments on July 1 and January 1. During the fiscal year ended June 30, 2018, the School paid off the bonds payable with proceeds of a note payable (Note 6).

Note 6. Note Payable

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

The principal balance under the loan bears interest at the Adjusted LIBOR Rate, which is defined as the One-Month LIBOR Rate plus 2.75%. At June 30, 2019, the interest rate was 4.12%.

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

Note payable as of June 30, 2019 and 2018 was \$2,525,000 and \$2,825,000, respectively.

Interest expense on the note and other debt, including amortization of debt issuance costs for the years ended June 30, 2019 and 2018 was \$137,712 and \$113,488, respectively.

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

Notes to Financial Statements

Note 6. Note Payable (Continued)

Principal maturities of the note payable at June 30, 2019, are due in future years as follows:

Years ending June 30:	
2020	\$ 300,000
2021	300,000
2022	300,000
2023	300,000
2024	300,000
Thereafter	1,025,000
	<u>\$ 2,525,000</u>

Note 7. Capital Lease Obligation

The School was indebted under equipment leases entered into during the year ended June 30, 2014, which have been capitalized at the present value of future lease payments. The cost of the equipment approximated \$173,165 at June 30, 2019 and 2018. Depreciation expense of the leased assets amounted to \$3,770 and \$32,631 for the years ended June 30, 2019 and 2018, respectively. Accumulated depreciation amounted to \$173,165 and \$169,395 at June 30, 2019 and 2018, respectively.

During the year ended June 30, 2019, the leases have continued on a month-to-month basis.

Interest expense payments on the capital lease for the years ended June 30, 2019 and 2018, were \$17 and \$1,112, respectively.

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

Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions activity for the year ended June 30, 2019, is as follows:

	Balance June 30, 2018	Additions/ Investment Income	Released From Restriction	Balance June 30, 2019
Purpose restriction:				
Seeds for Classics – Field Trips	\$ 504,453	\$ -	\$ 49,783	\$ 454,670
College Readiness/Technology	173,080	-	-	173,080
CBA Awards	25,000	-	-	25,000
Summer Bridge MS/HS	15,870	-	-	15,870
Literacy Program	10,000	-	-	10,000
Science Fair	5,820	-	-	5,820
United Way	5,300	-	-	5,300
Ottaway Scholarship	1,000	750	1,750	-
Science Books	3,659	-	-	3,659
Action For Kids	3,382	-	-	3,382
Restoration of Art Work	2,000	-	-	2,000
Jamal Swinton Scholarship	1,380	150	-	1,530
Brown Hall - Girls with Gifts	1,240	-	-	1,240
Aspen Challenge	1,000	-	-	1,000
School Garden	898	-	-	898
United Way - Out of School Program	-	98,644	87,667	10,977
Time restriction:				
Artwork	146,500	-	-	146,500
Endowment:				
Ottaway Scholarship	100,000	-	-	100,000
	<u>\$ 1,000,582</u>	<u>\$ 99,544</u>	<u>\$ 139,200</u>	<u>\$ 960,926</u>

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

Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions activity for the year ended June 30, 2018, is as follows:

	Balance June 30, 2017	Additions/ Investment Income	Released From Restriction	Balance June 30, 2018
Purpose restriction:				
Seeds for Classics – Field Trips	\$ 559,587	\$ -	\$ 55,134	\$ 504,453
College Readiness/Technology	173,080	-	-	173,080
CBA Awards	25,000	-	-	25,000
Summer Bridge MS/HS	15,870	-	-	15,870
Literacy Program	10,000	-	-	10,000
Science Fair	5,820	-	-	5,820
United Way	5,300	-	-	5,300
Ottaway Scholarship	4,000	254	3,254	1,000
Science Books	3,659	-	-	3,659
Action For Kids	3,515	-	133	3,382
Restoration of Art Work	2,000	-	-	2,000
Jamal Swinton Scholarship	1,380	-	-	1,380
Brown Hall - Girls with Gifts	1,240	-	-	1,240
Aspen Challenge	1,000	-	-	1,000
School Garden	898	-	-	898
United Way - Out of School Program	-	46,356	46,356	-
Time restriction:				
Artwork	146,500	-	-	146,500
Endowment:				
Ottaway Scholarship	100,000	-	-	100,000
	<u>\$ 1,058,849</u>	<u>\$ 46,610</u>	<u>\$ 104,877</u>	<u>\$ 1,000,582</u>

Net assets with donor restrictions include an endowment fund, which is restricted to investment in perpetuity. Investment income is restricted for use in the following program, which consists of permanently restricted balances at June 30, 2019 and 2018, as follows:

	2019	2018
Ottaway Scholarship	<u>\$ 100,000</u>	<u>\$ 101,000</u>

Interpretation of relevant law: The management of the School has interpreted the District of Columbia – enacted version of UPMIFA (Uniform Prudent Management of Institutional Funds Act) as requiring the preservation of original endowments as of the gift date, absent explicit donor stipulations to the contrary.

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

Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions (Continued)

As a result of this interpretation, the School classifies as permanently restricted the original value of the donated endowments and the accumulations on such accounts as net assets with donor restrictions, until those amounts are appropriated for expenditures consistent with the specific purpose of the endowment. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate funds:

- The preservation of the fund
- The purposes of the School
- General economic conditions
- Other resources of the School

Return objective and risk parameters: The School's objective is to earn a reasonable rate of return with minimum risk to principal to support the designated programs. The School recognizes and accepts that minimizing risk will limit potential capital appreciation. Absent explicit donor stipulations to the contrary, the School limits investments in the permanently restricted endowment accounts to fixed interest security type instruments, as opposed to equities. The School has a preference for simple investment structures, which will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending policy: Proceeds of earnings on original endowment amounts will be used for annual scholarship and award programs, as deemed consistent to the specific endowment purpose. The spending rate is based on maintaining the bulleted guidelines noted above.

The endowment is invested with the School's investments of mutual funds at June 30, 2019 and 2018. Change in endowment net assets consists of the following:

	Accumulated Earnings	Corpus	2019 Total
Endowment net assets, beginning of year	\$ 1,000	\$ 100,000	\$ 101,000
Investment income, net of expenses	750	-	750
Appropriated for expenditures	(1,750)	-	(1,750)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
	Accumulated Earnings	Corpus	2018 Total
Endowment net assets, beginning of year	\$ 4,000	\$ 100,000	\$ 104,000
Investment income, net of expenses	254	-	254
Appropriated for expenditures	(3,254)	-	(3,254)
Endowment net assets, end of year	<u>\$ 1,000</u>	<u>\$ 100,000</u>	<u>\$ 101,000</u>

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

Notes to Financial Statements

Note 9. Lease Commitments

The School entered into a 15-year operating lease for land use with the District of Columbia, beginning on February 4, 2000. The School has the right to renew the lease for three additional 15-year terms. During 2015, management exercised its first renewal option under the lease agreement in order to fully enjoy the buildings constructed on the site for their economic useful lives.

The lease agreement provides for rent credits relating to capital improvements at the site. The School will receive a dollar-for-dollar credit based on capital improvements, except that the School shall pay a minimum rental of at least \$1,000 per month. The School made improvements in excess of the total rent provided over the term of the lease. The future minimum lease payments under this arrangement at June 30, 2019, are as follows:

Years ending June 30:	
2020	\$ 12,000
2021	12,000
2022	12,000
2023	12,000
2024	12,000
Thereafter	60,000
	<u>\$ 120,000</u>

Rent expense under the above leasing arrangements was \$12,000 for each of the years ended June 30, 2019 and 2018.

Note 10. Defined Contribution Retirement Plan

The School participates in a defined contribution retirement plan covering eligible employees. The School contributes an amount equal to 3% of all eligible participants' pay. A one-year eligibility period was established during the year ended June 30, 2015, for a new full-time hire to receive the 3% contribution. For every 1% of salary that each employee contributes to their retirement account through payroll deductions up to 6%, the School will add another 0.5%. The maximum total contribution, including matching contributions made by the School, would be 6% of employee pay. During the year ended June 30, 2015, the School discontinued the employer match, which was previously capped at 3%. Total expense under this plan amounted to \$176,613 and \$178,775 for the years ended June 30, 2019 and 2018, respectively.

Note 11. Related Party Transactions

The School paid the Foundation \$446,084 and \$463,312 for management and other services during the years ended June 30, 2019 and 2018, respectively.

Note 12. Economic Dependency

During the years ended June 30, 2019 and 2018, the School was heavily dependent on pupil allocations from the District of Columbia. These funds aggregated 93% of the School's support and revenue for the years ended June 30, 2019 and 2018. Reduction of funding from the District of Columbia would have a significant impact on the operations of the School.

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

Notes to Financial Statements

Note 13. Per-Pupil Allocation

The School's per-pupil allocation for the years ended June 30, 2019 and 2018, are as follows:

Category:	2019	2018
General education	\$ 8,588,003	\$ 10,468,807
Summer and special education	2,674,187	3,372,961
Facility allowance	2,514,536	3,129,292
	\$ 13,776,726	\$ 16,971,060

Note 14. Fair Value Measurements

The School follows the Fair Value Measurement Topic of the FASB Codification, which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the School performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 2 or Level 3 inputs for any assets held by the School at June 30, 2019 and 2018.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at June 30, 2019 and 2018:

Description	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Large blend equity mutual funds	\$ 886,027	\$ -	\$ -	\$ 886,027
Intermediate bond funds	223,660	-	-	223,660
	\$ 1,109,687	\$ -	\$ -	\$ 1,109,687

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

The School's equity and bond mutual funds are publicly traded in an active market and are considered Level 1 items.

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

Notes to Financial Statements

Note 15. Contingencies

The School participates in federally assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

In December 2016, the School executed an employment agreement contract with the Head of School, beginning on January 1, 2017, with an expiration date of August 15, 2018. On October 15, 2018, the School extended this agreement through June 30, 2020. The existing contract provides for severance payments equal to six months of the employee's salary upon termination without cause.

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



RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Trustees
The SEED Public Charter School of Washington, D.C.

We have audited the financial statements of The SEED Public Charter School of Washington, D.C. (the School) as of and for the years ended June 30, 2019 and 2018, and have issued our report thereon, dated December 6, 2019, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Washington, D.C.
December 6, 2019

SEED Public Charter School of Washington, DC

**Schedule of Vendors Awarded Contracts Equal to or Exceeding \$25,000
Year Ended June 30, 2019**

Vendor	Type of Work Performed	Amount
SEED Foundation	School Support	\$ 1,005,367
UnitedHealthcare Insurance Company	Healthcare	936,328
Meriwether Godsey	Dining Services	909,259
A & D Security	Security	331,127
Bolana Capitol Enterprise, Inc.	Cleaning Services	285,348
Pepco	Electric	247,508
DBS Roofing	Roof Replacement	208,420
Advanced Building Services, Inc	HVAC Replacement	146,023
DC Public Charter School Board	School Board Admin Fees	135,495
CIT Technology Fin Serv	IT Supplies	122,700
Quill Corp.	Office Supplies;Furniture	88,645
Washington Gas	Gas	71,241
RSM US LLP	Audit/Financial Services	67,298
Orkin, LLC	Pest Control	64,736
SHI International Corp.	IT Supplies	61,171
Sterling Speech Associates, LLC	Student Services	58,505
DC Water & Sewer	Water and Sewer	57,684
Verizon	Wireless Services	57,293
Red Hawk Fire & Security	Security System Maint./ Install	51,301
Reliance Standard Life Insurance Company	Life Insurance	41,012
Metlife - Group Benefits	Dental Insurance	39,722
IESI-MD Corporation	Trash Service	38,254
Psychological Assessment Solutions, LLC	Student Services	32,925
Alignstaffing	Substitutes	32,358
Brandon Bass	Legal	30,000
Adventure Student Travel LLC	Student Activities	29,820
Home Depot	Maintenance Supplies	28,891
Cintas Corporation LOC 41	Printer Rental	28,639
McMaster-CARR	Maintenance Supplies	27,320
ThyssenKrup Elevator	Elevator Service/Maintenance	26,493
LaMar Bagley	Employee Reimbursement	25,453
HEP Construction, LLC	Facilities Repair	25,024

**Independent Auditor's Report on
Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With Government Auditing Standards**

To the Board of Trustees
The SEED Public Charter School of Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The SEED Public Charter School of Washington, D.C. (the School), which comprise the balance sheet as of June 30, 2019, 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 December 6, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

RSM US LLP

Washington, D.C.
December 6, 2019