Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidated Financial Report
June 30, 2016

Contents

Independent Auditor's Report

To the Board of Trustees
Euphemia L. Haynes Public Charter School, Inc.
Washington, D.C.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries (collectively, the Organization), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our reports, dated November 1, 2016, and December 15, 2015, on our consideration of the Organization 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 those reports 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
November 1, 2016

Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidated Balance Sheets
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 7,161,404	$ 6,511,495
Accounts receivable	97,321	190,460
Promises to give	35,185	29,875
Grants receivable	476,379	1,057,993
Prepaid expenses	111,030	164,599
Total current assets	7,881,319	7,954,422
Restricted cash	401,323	13,350
Property and equipment, net	34,999,152	35,000,356
Deposits	18,945	1,640
Loan receivable	7,626,402	7,495,072
	$ 50,927,141	$ 50,464,840
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,213,229	$ 1,376,831
Current portion of long-term debt	288,000	230,000
Total current liabilities	1,501,229	1,606,831
Accrued rent	2,044,116	1,786,964
Interest rate swap agreement	1,886,187	203,847
Long-term debt, net of current portion	41,419,376	41,373,608
	46,850,908	44,971,250
Commitments and contingencies (Notes 12 and 13)		
Net assets:		
Unrestricted	3,596,081	5,149,623
Temporarily restricted	480,152	343,967
	4,076,233	5,493,590
	$ 50,927,141	$ 50,464,840

See notes to consolidated financial statements.

Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidated Statement of Activities
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016			
	Unrestricted	**Temporarily Restricted**	**Total**	2015 Total
Revenue and support:				
Pupil allocation	**$ 22,100,662**	**$ -**	**$ 22,100,662**	$ 21,891,424
Other grants	**778,137**	**586,700**	**1,364,837**	967,618
Federal grants	**1,376,908**	**-**	**1,376,908**	2,596,734
Contributions	**388,960**	**-**	**388,960**	480,290
Program revenue	**54,786**	**-**	**54,786**	277,231
Interest income	**578,482**	**-**	**578,482**	601,030
Rental revenue	**2,550**	**-**	**2,550**	4,561
Net assets released from restrictions	**450,515**	**(450,515)**	**-**	-
Total revenue and support	**25,731,000**	**136,185**	**25,867,185**	26,818,888
Expenses:				
Program services	**24,206,993**	**-**	**24,206,993**	26,452,925
General and administrative	**756,843**	**-**	**756,843**	849,191
Fundraising	**638,366**	**-**	**638,366**	703,077
Total expenses	**25,602,202**	**-**	**25,602,202**	28,005,193
Change in net assets before other gains (losses)	**128,798**	**136,185**	**264,983**	(1,186,305)
Other (losses) gains:				
Loss on interest rate swap agreement	**(1,682,340)**	**-**	**(1,682,340)**	(203,847)
Gain on NMTC transaction unwind (Note 16)	**-**	**-**	**-**	14,727,870
Change in net assets	**(1,553,542)**	**136,185**	**(1,417,357)**	13,337,718
Net assets (deficit):				
Beginning	**5,149,623**	**343,967**	**5,493,590**	(7,781,503)
Distributions to noncontrolling interest	**-**	**-**	**-**	(62,625)
Ending	**$ 3,596,081**	**$ 480,152**	**$ 4,076,233**	$ 5,493,590

See notes to consolidated financial statements.

Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidated Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Pupil allocation	$ 21,891,424	$ -	$ 21,891,424
Other grants	413,268	554,350	967,618
Federal grants	2,596,734	-	2,596,734
Contributions	480,290	-	480,290
Program revenue	277,231	-	277,231
Interest income	601,030	-	601,030
Rental revenue	4,561	-	4,561
Net assets released from restrictions	751,619	(751,619)	-
Total revenue and support	27,016,157	(197,269)	26,818,888
Expenses:			
Program services	26,452,925	-	26,452,925
General and administrative	849,191	-	849,191
Fundraising	703,077	-	703,077
Total expenses	28,005,193	-	28,005,193
Change in net assets before other (losses) gains	(989,036)	(197,269)	(1,186,305)
Other (losses) gains:			
Loss on interest rate swap agreement	(203,847)	-	(203,847)
Gain on NMTC transaction unwind (Note 16)	14,727,870	-	14,727,870
Change in net assets	13,534,987	(197,269)	13,337,718
Net assets (deficit):			
Beginning	(8,322,739)	541,236	(7,781,503)
Distributions to noncontrolling interest	(62,625)	-	(62,625)
Ending	$ 5,149,623	$ 343,967	$ 5,493,590

See notes to consolidated financial statements.

Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ (1,417,357)**	$ 13,337,718
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**1,751,509**	1,696,136
Amortization of loan issuance costs	**156,272**	303,726
Interest income added on loan receivable principal	**(131,330)**	(114,781)
Interest expense added to principal of notes and bonds payable	**200,248**	2,044,693
Contributed reduction of long-term debt	**-**	(4,939,654)
Loss on interest rate swap agreement	**1,682,340**	203,847
Loss on disposal of property and equipment	**-**	43,437
Write-off on loan issuance costs	**1,440**	1,253,572
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	**93,139**	62,852
Promises to give	**(5,310)**	15,000
Grants receivable	**581,614**	62,498
Prepaid expenses	**53,569**	35,253
Deposits	**(17,305)**	-
(Decrease) increase in:		
Accounts payable and accrued expenses	**(163,602)**	527,468
Accrued rent	**257,152**	257,152
Grant payable	**-**	(458,014)
Deferred revenue	**-**	(32,008)
Net cash provided by operating activities	**3,042,379**	14,298,895
Cash flows from investing activities:		
Purchases of property and equipment	**(1,750,305)**	(1,371,887)
(Increase) decrease in restricted cash	**(387,973)**	2,962,063
Net cash (used in) provided by investing activities	**(2,138,278)**	1,590,176
Cash flows from financing activities:		
Principal payments on long-term debt	**(253,000)**	(34,253,544)
Proceeds from long-term debt	**-**	21,952,000
Loan issuance costs	**(1,192)**	(808,447)
Minority investors capital distributions	**-**	(62,625)
Net cash used in financing activities	**(254,192)**	(13,172,616)
Net increase in cash and cash equivalents	**649,909**	2,716,455
Cash and cash equivalents:		
Beginning	**6,511,495**	3,795,040
Ending	**$ 7,161,404**	$ 6,511,495

(Continued)

Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	**$ 1,363,069**	$ 894,678
Supplemental schedules of noncash investing and financing activities:		
Interest expense added to principal of notes and bonds payable	**$ 200,248**	$ 2,044,693
Interest income added to principal of loan receivable	**$ 131,330**	$ 114,781
Contributed reduction of long-term debt	**$ -**	$ 4,939,654

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries is comprised of three entities: Euphemia L. Haynes Public Charter School, Inc. (the School); ELH QALICB LLC; and ELH Kansas Avenue, Inc. (collectively, the Organization).

The School, commonly referred to as E.L. Haynes Public Charter School, was incorporated as a non-stock and not-for-profit organization on August 14, 2003, under the laws of the District of Columbia. The mission of the School is for every E.L. Haynes student of every race, socioeconomic status and home language to reach high levels of academic achievement and be prepared to succeed at the college of his or her choice. Every E.L. Haynes student will be adept at mathematical reasoning, will use scientific methods effectively to frame and solve problems and will develop the lifelong skills needed to be successful individuals, active community members and responsible citizens. For the year ended June 30, 2016, the School was open to any District of Columbia child in pre-Kindergarten through 12th grade.

ELH QALICB LLC (ELH Georgia) was formed in 2008 as a Delaware limited liability company, whose members are Euphemia L. Haynes Public Charter School, Inc., as a regular member with an initial 65.1% equity stake; City First Capital XIV, LLC, as an investor member with an initial 34.9% equity stake; and ELH Management Corporation, as a non-member manager. The purpose of ELH Georgia was to negotiate and enter into a Qualified Low Income Community Investment (QLICI) loan with an investor; lease a certain portion of the premises at 3600 Georgia Avenue from the School pursuant to a site lease; sublease a certain portion of the premises at 3600 Georgia Avenue to the School pursuant to a facility lease; pay transaction costs and fund working capital cash reserves; take any and all other actions necessary or appropriate to further the purposes of ELH Georgia within the scope of the ELH QALICB LLC Operating Agreement; and pursue the above purposes in a manner consistent with the tax-exempt status of the QALICB Manager and Regular Member.

On May 15, 2015, the School, after a series of transactions, was able to unwind its existing financing arrangements related to the development of its Georgia Avenue campus. As part of the unwind transaction, the School became the sole member of ELH Georgia; the parties eliminated the long-term leases between them through an inter-company purchase agreement; the QLICI loan was paid off; and new obligations were obtained through bond/bank financing. The School fully liquidated ELH Georgia during the year ended June 30, 2016.

ELH Kansas Avenue, Inc. (ELH Kansas) was formed during the year ended June 30, 2010, as a District of Columbia not-for-profit corporation under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC), specifically for the benefit of the School. The purpose of ELH Kansas is to perform the functions of, or to carry out the charitable and educational purposes of, the School.

ELH Support Corporation (ELHSC) was formed in 2008 for charitable, educational and literary purposes within the meaning of Section 501(c)(3) of the IRC, specifically for the benefit of the School and similar organizations by helping secure resources of financing, fundraising, making or holding loans, etc. The School has no majority board representation, and there were no overlap of board members for the years ended June 30, 2016 and 2015. However, the School has the ability to appoint one member of the ELHSC Board of Directors. As such, the School and ELHSC are considered related parties. ELHSC will not be consolidated with the School as the School does not control ELHSC.

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

Charter school agreement: The School has been approved by the District of Columbia Public Charter School Board (the Board) to operate a charter school in the District of Columbia. The contract, dated May 17, 2004, provides for a 15-year charter, unless sooner terminated in accordance with the contract. The School's enrollment ceiling, as registered with the Board, is 1,141 students through the school year 2015–2016. The School is paid an annual fixed rate per student by the Board.

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

Basis of accounting: The accompanying consolidated 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.

Principles of consolidation: The consolidated financial statements of the School are prepared in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations and include the accounts of ELH Kansas and ELH Georgia. ELH Kansas and ELH Georgia are consolidated, since the School has both economic interest and controls membership of ELH Kansas' and ELH Georgia's Board of Trustees, respectively. All material intercompany balances and transactions have been eliminated in consolidation.

Basis of presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 958, Financial Statements of Not-for-Profit Organizations. Under ASC 958, the Organization is required to report 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. The Organization had no permanently restricted net assets at June 30, 2016 and 2015.

Cash and cash equivalents: The Organization considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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

Receivables: Accounts and grants receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. The loan receivable is generally stated at the amount of outstanding principal less unamortized costs. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is not recorded on any past due balances. Management has determined that receivables are fully collectible, and there was no allowance for doubtful receivables at June 30, 2016 and 2015.

Promises to give: Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Promises to give are carried at original amount pledged less an estimate made for doubtful promises based on a review of all outstanding pledges on a monthly basis. The Organization's promises to give are due in the next year. Management determines the allowance for doubtful accounts by regularly evaluating individual promises to give and considering prior history of donors and proven collectability of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received.

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

Property and equipment: The Organization capitalizes all property and equipment purchased with a cost of $1,000 or more. Property and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

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.

Unamortized loan costs: Loan costs are comprised of various acquisition costs related to the debt acquired to fund the acquisition/rehabilitation of the Organization's school buildings. These costs are being amortized on the effective interest method over the terms of the related debt agreements. Unamortized loan costs are reported with long-term debt.

Interest rate swap agreement: The fair value of the interest rate swap agreements is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Deferred rent: The Organization has various lease agreements. The leases include annual escalations that are being allocated on a straight-line basis over the term of the lease as an offset against each period's rent expense. The deferred rent liability on the accompanying consolidated balance sheet represents the cumulative difference between the monthly rent expense and rent paid.

Net assets: Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to these stipulations. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Temporarily restricted net assets were released from restrictions during the years ended June 30, 2016 and 2015, for various purposes, including after-school programs, college guidance, support for alumni in college, library materials, physical education, gymnasium development and general operations. At June 30, 2016 and 2015, temporarily restricted net assets represented amounts restricted for specific education-related expenses.

Per-pupil allocation: The Organization receives a student allocation from the District of Columbia to cover the cost of academic and facilities expenses. Per-pupil allocation revenue is recognized in the period when it is earned, which is the school year for which the allocation is made. Unearned pupil allocation received is recorded as deferred revenue.

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

Contributions: Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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.

Grants: The Organization receives grants from federal agencies and private grantors for various purposes. The grants provide for the development and support of the Organization's programs, materials and equipment. Receivables related to grant awards are recorded to the extent unreimbursed allowable expenses have been incurred for the purposes specified by an approved grant or award. Funds received in advance and those that are unexpended at June 30 are reflected as temporarily restricted net assets or refundable advances at June 30, depending if the amounts are considered unconditional or conditional, respectively.

Income taxes: The School and ELH Kansas are generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the IRC. In addition, the School qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no taxable net unrelated business income for the years ended June 30, 2016 and 2015.

ELH Georgia filed separate partnership income tax return on a calendar-year basis. The partnership income tax return reported the transaction with the School as a sale-leaseback.

The Organization 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 on a tax return should be recorded in the financial statements. Under this guidance, the Organization 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 on examination by taxing authorities based on 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. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of activities.

The Organization files income tax returns in the U.S. federal jurisdiction. As of June 30, 2016, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, the Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2013.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Functional allocation of expenses: The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs, fundraising and supporting services benefited.

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

Adopted accounting pronouncement: In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs*. This ASU simplifies the presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. This ASU is effective for the Organization for the fiscal year beginning July 1, 2016. Early adoption is permitted. The Organization adopted the pronouncement during the year ended June 30, 2016 and applied the change retrospectively to 2015.

Pending accounting pronouncements: In February 2016, the FASB issued ASU No. 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 consolidated 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 consolidated statements of activities. The new standard is effective for the Organization for the fiscal year beginning July 1, 2020. 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. The Organization is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 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 not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Organization has not yet evaluated the impact of this ASU on the consolidated financial statements.

Reclassifications: Certain items in the June 30, 2015, summarized comparative information have been reclassified to conform with the current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

Subsequent events: The Organization evaluated subsequent events through November 1, 2016, which is the date the consolidated financial statements were available to be issued.

Note 2. Restricted Cash

Restricted cash represents minimum balances with financial institutions required to be maintained under the terms of certain notes payable and unspent bond proceeds in cash and cash equivalents.

Restricted cash at June 30, 2016 and 2015, is as follows:

	2016	2015
Minimum balance maintained	$ 387,969	$ -
Unspent bond proceeds	13,354	13,350
	$ 401,323	$ 13,350

Note 3. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2016, and depreciation expense for the year then ended, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Building and improvements	20 to 40 years	$ 13,941,680	$ (4,945,809)	$ 8,995,871	$ 413,184
Leasehold improvements	Life of lease	22,241,496	(3,905,106)	18,336,390	948,344
Land	–	6,538,842	-	6,538,842	-
Computers	3 years	2,292,625	(1,714,953)	577,672	244,651
Software	7 years	23,475	(11,325)	12,150	4,028
Furniture and equipment	7 years	1,144,128	(605,901)	538,227	141,302
		$ 46,182,246	$ (11,183,094)	$ 34,999,152	$ 1,751,509

Property and equipment and accumulated depreciation at June 30, 2015, and depreciation expense for the year then ended, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Building and improvements	20 to 40 years	$ 13,941,680	$ (4,532,625)	$ 9,409,055	$ 413,063
Leasehold improvements	Life of lease	20,179,304	(2,956,762)	17,222,542	792,634
Construction in progress	–	883,479	-	883,479	-
Land	–	6,538,842	-	6,538,842	-
Computers	3 years	1,830,698	(1,470,302)	360,396	350,303
Software	7 years	13,475	(7,297)	6,178	2,695
Furniture and equipment	7 years	1,044,463	(464,599)	579,864	137,441
		$ 44,431,941	$ (9,431,585)	$ 35,000,356	$ 1,696,136

Note 4. Long-Term Debt

On April 4, 2008, the School secured permanent financing related to the construction of a school building at 3600 Georgia Avenue, NW, Washington, D.C. (Georgia Avenue Property) by entering into a transaction structured to qualify for the New Markets Tax Credit, as outlined in IRC Section 45(d). Total refinancing amounted to $18,316,021, of which the first payment was received in April 2008 in the amount of $16,742,021, and the second payment was received during the year ended June 30, 2009, in the amount of $1,574,000. As part of the transaction, the School formed ELH Georgia and signed a sale-leaseback agreement with ELH Georgia. Under the terms of the sale-leaseback agreement, the School entered into a 29-year, 11-month site lease with the ELH Georgia, leasing 87.2% of the building and 100% of the land for a total prepaid rental payment of $18,463,508. The School also entered into a 29-year, 11-month facility lease for both the building and land from ELH Georgia at an annual rental payment of $927,455, indexed to the CPI. Both leases are triple-net leases, whereby, the School was responsible for all maintenance, insurance and taxes.

During the year ended June 30, 2015, the School paid off the above mentioned note payable, including all accrued interest and entered into a series of transactions to unwind the structure in place with ELH Georgia (see Note 16). As of June 30, 2015, the School is the sole member of ELH Georgia and all inter-company lease transactions have been ended by an inter-company purchase/sale agreement and mutual release. The transactions between the School and ELH Georgia are eliminated during consolidation.

On May 15, 2015, the School entered into a loan agreement with a financial institution, whereby the School borrowed $21,952,000 through the use of District of Columbia Revenue Bonds (Euphemia L. Haynes Public Charter School, Inc. Issue Series 2015). The proceeds were fully used in the transaction to refinance the 2008 transaction noted above. The bonds are held with the financial institution as a private placement. The interest rate is variable as defined in the agreement under various interest rate options with an applicable spread of 2.2%. However, to hedge for the effects of potential increases in floating interest rates, the School has entered into an interest rate swap agreement. The agreement calls for a fixed rate of 1.87% on the notional principal amount (Note 7). After considering the impact of the swap agreement, the School is effectively paying a fixed interest rate of 4.07% on the bond issuance. The loan calls for monthly payments of principal and interest through March 1, 2031 with a balloon payment of approximately $5.9 million due on April 1, 2031. The loan is secured by the Georgia Avenue Property and improvements made on the facility at 4501 Kansas Avenue, NW, Washington, D.C. (Kansas Avenue Property) as well as revenues from operations. The associated credit agreement requires certain financial covenants to be met (including, but not limited to, a days cash on hand and debt service coverage ratio).

On May 25, 2010, ELH Kansas secured permanent financing related to the renovation of the Kansas Avenue Property by entering into a transaction structured to qualify for the New Markets Tax Credit, as outlined in IRC Section 45(d). Total refinancing amounted to $9,500,000. As part of the transaction, the School entered into a certain ground lease with the District of Columbia on April 30, 2010, (see Note 13). This ground lease was assigned by the School to ELH Kansas on May 25, 2010, for a consideration of $2,000,000. On the same day, ELH Kansas sub-let this back to the School for a period of 20 years. The annual rental payment is $961,992, with annual escalation of 2.5% on July 1 of each year. Both leases are triple-net leases, whereby, the School is responsible for all maintenance, insurance and taxes.

Note 4. Long-Term Debt (Continued)

Long-term debt as of June 30, 2016 and 2015, consists of the following:

	2016	2015
Principal amount	$ 43,828,457	$ 43,881,209
Less unamortized loan issuance costs	(2,121,081)	(2,277,601)
	41,707,376	41,603,608
Less current portion of long term debt	(288,000)	(230,000)
	$ 41,419,376	$ 41,373,608

Notes payable at June 30, 2016 and 2015, are as follows:

	2016	2015
Loan payable to 233 Genesee Street Corporation, with interest at variable rates as defined in the loan agreement, but partially hedged with an interest rate swap at a fixed rate of 1.87%; monthly principal and interest payments due effective September 1, 2015; secured by an interest in Georgia Avenue property and improvments made on the Kansas Avenue facility and substantially all of the assets. Includes accrued interest of $73,625.	$ 21,772,625	$ 22,040,538
Loan payable to ELHSC with interest at 4%; Note due on April 1, 2031; subordinated by other debt. Includes accrued interest of $9,578.	1,925,107	1,814,427
Loan payable to National City NMTC No. 24, LLC with interest at 4.75%; interest only paid semi-annually until November 1, 2017, then $289,695 paid semi-annually with a balloon payment due on May 25, 2035; secured by a mortgage on the Kansas Avenue Property.	7,040,222	7,040,222
Loan payable to National City NMTC No. 24, LLC with interest at 4.75%; interest only paid semi-annually until November 1, 2017, then $104,321 paid semi-annually with a balloon payment due on May 25, 2035; secured by a mortgage on the Kansas Avenue Property.	2,536,240	2,536,240
Qualified School Constructions Bonds (see Note 5)	10,554,263	10,449,782
	$ 43,828,457	$ 43,881,209

Note 4. Long-Term Debt (Continued)

Aggregate maturities of long-term debt at June 30, 2016, are due in future years as follows:

Years ending June 30:	
2017	$ 288,000
2018	629,769
2019	825,294
2020	1,379,111
2021	1,430,980
Thereafter	39,275,303
	$ 43,828,457

Interest expense, including amortization of loan costs, related to long-term debt incurred for the years ended June 30, 2016 and 2015, was $1,719,589 and $3,243,097, respectively.

Note 5. Capital Appreciation Bonds and Qualified School Construction Bonds Payable

On February 22, 2012, the District of Columbia issued Revenue Bonds (E.L. Haynes Public Charter School Issue) QSCB (Taxable-Tax Credit Bonds), Series 2012, with no interest. At issuance, ELHSC purchased the bonds from the District of Columbia. The QSCB have a face value of $13,350,000 and proceeds after issued discount were $10,150,000. The QSCB mature at face value on February 22, 2031. The proceeds from the QSCB are used to finance the final phase of development of the Kansas Avenue Property of the School to house upper grades. The QSCB are secured by a shared collateral agreement funded principally by per-pupil payments of the School. In addition, the QSCB is secured with a Kansas Avenue Property Leasehold Deed of Trust and Security Agreement. The accreted value of the QSCB at June 30, 2016 and 2015, amounted to $10,554,263 and $10,449,782, respectively.

The QSCB requires the following sinking fund installment payments:

Years ending June 30:	
2017	$ 387,949
2018	387,949
2019	387,949
2020	387,949
2021	387,949
Thereafter	11,022,306
	$ 12,962,051

Note 6. Loan Receivable

On May 26, 2010, the School loaned $6,984,010 to Haynes Investment Fund No. 24, LLC. The loan receivable balance was $7,626,402 and $7,495,072 at June 30, 2016 and 2015, respectively. This loan was made to qualify for the New Markets Tax Credit transaction related to the Kansas Avenue Property. This bears an interest rate of 7.29% per annum. The loan requires payment of $213,125 on the second day of May and November of each year through May 2017; during the period commencing November 2, 2017, $385,372 shall be payable, and on May 2, 2035, the entire principal amount, together with accrued and unpaid interest, will be due. Interest income on the loan of $567,137 and $546,596 was earned for the years ended June 30, 2016 and 2015, respectively.

Note 7. Interest Rate Swap Agreement

During the year ended June 30, 2015, the School entered into an interest rate swap agreement with M&T Bank for a notional amount equal to the obligation under the loan payable (2015 Bonds – see Note 4), whereby a portion of the floating debt was swapped into a fixed rate through the termination date of the swap, which is February 21, 2031. The agreement calls for a fixed rate of 1.87% on the notional principal amount, which was $21,722,000 and $21,952,000 at June 30, 2016 and 2015, respectively. The swap mechanism is intended to allow the Organization to realize potential of a lower fixed rate. As of June 30, 2016 and 2015, the fair value of the swap agreement was a liability of $1,886,187 and $203,847, respectively.

Note 8. Pension Plan

The School offers a 403(b) pension plan option (the Plan) for substantially all of its employees. In addition, the School contributes a percentage of compensation, which is determined by the Board of Trustees. For the years ended June 30, 2016 and 2015, the Trustees approved a 3% employer contribution. Total expense for the Plan amounted to $399,004 and $400,291 for the years ended June 30, 2016 and 2015, respectively

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets of $480,152 and $343,967 at June 30, 2016 and 2015, respectively, were for student education and services. Net assets of $450,515 and $751,619 for the years ended June 30, 2016 and 2015, respectively, were released from restrictions either as expenses were incurred, which satisfied the restricted purposes of the net assets, or by the occurrence of other events, as specified by the donors.

Note 10. Concentrations

The School is supported primarily through pupil allocations from the District of Columbia. For the years ended June 30, 2016 and 2015, approximately 85% and 82%, respectively, of total revenue was provided from the District of Columbia. Reduction of this source of support would have a significant impact on the School's programs and activities.

Note 11. Pupil Allocation

The School's pupil allocation for the years ended June 30, 2016 and 2015, are as follows:

	2016	2015
General education	$ 12,692,583	$ 12,574,497
Special education, At Risk and ESOL	5,843,595	5,762,623
Facility allowance	3,564,484	3,554,304
	$ 22,100,662	$ 21,891,424

Note 12. Contingencies

Federal grants: The Organization participates in federally assisted grant programs, which are subject to financial and compliance audits by the grantors or their representative. 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.

Note 13. Lease Commitment

The School executed a lease contract with the District of Columbia for the real property located at 4501 Kansas Avenue, NW, Washington, D.C. The term of the lease is for 25 years, with annual base rent due of $693,000. The lease commencement date was April 2010. The lease provides for rent credits for certain approved construction and related costs. The rent credits are used to offset the minimum rent due on a dollar-for-dollar basis.

As of June 30, 2016, future minimum rental payments required under this lease, net of rent abatement, are as follows:

	Rent Obligation	Rent Abatements	Net Obligation
Years ending June 30:			
2017	$ 693,000	$ (693,000)	$ -
2018	693,000	(693,000)	-
2019	693,000	(693,000)	-
2020	693,000	(693,000)	-
2021	693,000	(693,000)	-
Thereafter	9,702,000	(2,772,000)	6,930,000
	$ 13,167,000	$ (6,237,000)	$ 6,930,000

Rent expense under this lease was $257,152 for both years ended June 30, 2016 and 2015, respectively.

Note 14. Related Party Transactions

The School had notes payable, including accrued interest, outstanding in the amount of $1,925,107 and $1,814,427 at June 30, 2016 and 2015, respectively, with ELHSC (see Note 4).

In conjunction with the unwind transaction (see Note 16), ELHSC made unrestricted contributions to the School totaling $13,440,454.

Note 15. Changes in Consolidated Unrestricted Net Assets

The schedule of changes in consolidated unrestricted net assets related to the Organization and noncontrolling interest in ELH Georgia is as follows:

	The Organization	Noncontrolling Interest	Total
Unrestricted net assets			
Balance, June 30, 2014	$ 561,504	$ (8,884,243)	$ (8,322,739)
Change in unrestricted net assets – fiscal year 2015	14,834,154	(1,299,167)	13,534,987
Loss on acquisition of noncontrolling interest by the Organization	(10,246,035)	10,246,035	-
Distributions to noncontrolling interest – fiscal year 2015	-	(62,625)	(62,625)
Balance, June 30, 2015	5,149,623	-	5,149,623
Change in unrestricted net assets – fiscal year 2016	(1,553,542)	-	(1,553,542)
Balance, June 30, 2015	$ 3,596,081	$ -	$ 3,596,081

Note 16. Major Transaction

As disclosed in Note 1, after the conclusion of the New Markets Tax Credits (NMTC) compliance period, the parties to the Organization's 2008 the School's 2008 NMTC loan structure (see Note 1) agreed to unwind the transactions; this unwind closed on May 15, 2015. While the loan was repaid in full at the stated book value, a series of other transactions related to this unwind produced an overall gain to the Organization of $14,727,870. One provision of the transaction called for the exercise of a put agreement between the School and the Investor entity, at the option of the Investor entity. This provided for the School obtaining full ownership and control of the investment fund and ELH Georgia. This resulted in the School cancelling certain bond debt held by the investment fund and terminating the lease agreements with ELH Georgia. ELHSC, which held a participation interest in the 2008 loan, was able to make a donation to the School to off-set a portion of the balance due by the School. In addition, ELHSC forgave a portion of two notes payable owed by the School and retained a note payable of $1,800,000 owed by the School.

The components of the gain on the transaction are itemized as follows:

Cash contributions from ELHSC	$ 10,915,273
Loan payable partial forgiveness by ELHSC	2,525,181
Elimination of DC Capital Appreciation Bonds from acquisition of investor entity	2,414,473
Write-off of net balances of loan origination costs for retired debt	(1,253,572)
Put amount to investor	(1,000)
Additional funds remaining in investor entity remitted to the School	190,540
Other losses, net of other gains	(63,025)
	$ 14,727,870

RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Trustees
Euphemia L. Haynes Public Charter School, Inc.
Washington, D.C.

We have audited the consolidated financial statements of Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon, dated November 1, 2016, which contained an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

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

RSM US LLP

Washington, D.C.
November 1, 2016

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Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidating Balance Sheet
June 30, 2016

	EL Haynes	ELH Kansas, Inc.	Elimination Entries	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 7,161,401	$ 3	$ -	$ 7,161,404
Accounts receivable	97,321	-	-	97,321
Promises to give	35,185	-	-	35,185
Grants receivable	476,379	-	-	476,379
Prepaid expenses	859,950	1,526,774	(2,275,694)	111,030
Total current assets	8,630,236	1,526,777	(2,275,694)	7,881,319
Restricted cash	401,323	-	-	401,323
Prepaid rent	8,287,848	-	(8,287,848)	-
Property and equipment, net	33,257,310	16,389,517	(14,647,675)	34,999,152
Due from (to) E.L. Haynes	3,149,040	19,574,347	(22,723,387)	-
Deposits	18,945	-	-	18,945
Loan receivable	7,626,402	-	-	7,626,402
	$ 61,371,104	$ 37,490,641	$(47,934,604)	$ 50,927,141
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 1,213,229	$ -	$ -	$ 1,213,229
Current portion of long-term debt	288,000	-	-	288,000
Deferred revenue	-	7,559,478	(7,559,478)	-
Total current liabilities	1,501,229	7,559,478	(7,559,478)	1,501,229
Due to (from) ELH Kansas LLC	19,574,347	3,149,040	(22,723,387)	-
Accrued rent	-	2,044,116	-	2,044,116
Interest rate swap agreement	1,886,187	-	-	1,886,187
Deferred gain on sale-leaseback	1,526,775	7,837,116	(9,363,891)	-
Deferred revenue	-	8,287,848	(8,287,848)	-
Long-term debt, net of current portion	32,529,400	8,889,976	-	41,419,376
	57,017,938	37,767,574	(47,934,604)	46,850,908
Net assets (deficit):				
Unrestricted	3,873,014	(276,933)	-	3,596,081
Temporarily restricted	480,152	-	-	480,152
Total net assets	4,353,166	(276,933)	-	4,076,233
	$ 61,371,104	$ 37,490,641	$(47,934,604)	$ 50,927,141

Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidating Statement of Activities
Year Ended June 30, 2016

	EL Haynes			ELH QALICB LLC	ELH Kansas, Inc.		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Unrestricted	Elimination Entries	Total
Revenue and support:							
Pupil allocation	$ 22,100,662	$ -	$ 22,100,662	$ -	$ -	$ -	$ 22,100,662
Other grants	778,137	586,700	1,364,837	-	-	-	1,364,837
Federal grants	1,376,908	-	1,376,908	-	-	-	1,376,908
Contributions	388,960	-	388,960	-	-	-	388,960
Program revenue	54,786	-	54,786	-	-	-	54,786
Recognition of leaseback gain	40,941	-	40,941	-	-	(40,941)	-
Interest income	709,448	-	709,448	-	801,345	(932,311)	578,482
Rental revenue	2,550	-	2,550	-	976,512	(976,512)	2,550
Net assets released from restrictions	450,515	(450,515)	-	-	-	-	-
Total revenue and support	25,902,907	136,185	26,039,092	-	1,777,857	(1,949,764)	25,867,185
Expenses:							
Program services	24,413,554	-	24,413,554	7,860	1,735,343	(1,949,764)	24,206,993
General and administrative	656,707	-	656,707	451	99,685	-	756,843
Fundraising	638,366	-	638,366	-	-	-	638,366
Total expenses	25,708,627	-	25,708,627	8,311	1,835,028	(1,949,764)	25,602,202
Change in net assets before other (losses) gains	194,280	136,185	330,465	(8,311)	(57,171)	-	264,983
Other (losses) gains:							
Loss on interest rate swap agreement	(1,682,340)	-	(1,682,340)	-	-	-	(1,682,340)
Gain on NMTC transaction unwind	(8,311)	-	(8,311)	-	-	8,311	-
Change in net assets	(1,496,371)	136,185	(1,360,186)	(8,311)	(57,171)	8,311	(1,417,357)
Net assets (deficit):							
Beginning	5,369,385	343,967	5,713,352	294,515	(219,762)	(294,515)	5,493,590
Contributions to EL Haynes	-	-	-	(286,204)	-	286,204	-
Ending	$ 3,873,014	$ 480,152	$ 4,353,166	$ -	$ (276,933)	$ -	$ 4,076,233

Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries

Consolidated Schedule of Functional Expenses
Year Ended June 30, 2016

	Program Services	General and Administrative	Fundraising	Total
Personnel salaries and benefits:				
Principal/administrative salary	$ 868,264	$ 505,477	$ -	$ 1,373,741
Teachers salaries	4,830,493	-	-	4,830,493
Special education salaries	1,479,069	-	-	1,479,069
Teacher aides/assistant's salaries	1,013,593	-	-	1,013,593
Before/after care salaries	142,523	-	-	142,523
Other education professionals salaries	2,977,171	-	-	2,977,171
Business/operations salaries	823,428	-	-	823,428
Clerical salaries	317,875	-	-	317,875
Custodial salaries	106,403	-	-	106,403
Other staff salaries	-	-	303,200	303,200
Employee benefits	2,472,156	99,501	59,684	2,631,341
Contracted staff	561,493	22,599	38,124	622,216
Staff development expense	406,715	16,370	9,819	432,904
Total personnel salaries and benefits	15,999,183	643,947	410,827	17,053,957
Direct student costs:				
Textbooks	339,288	-	-	339,288
Student supplies and material	460,889	-	-	460,889
Library and media center materials	35	-	-	35
Student assessment fees	110,610	-	-	110,610
Contracted instructional fees	360,842	-	-	360,842
Food service	610,094	-	-	610,094
Other direct student costs	92,538	-	-	92,538
Total direct student costs	1,974,296	-	-	1,974,296
Occupancy expenses:				
Rent	252,073	2,502	2,577	257,152
Maintenance and repairs	205,415	2,039	2,100	209,554
Utilities	357,239	3,546	3,653	364,438
Janitorial supplies	26,929	267	275	27,471
Contracted building services	565,997	5,618	5,787	577,402
Total occupancy expenses	1,407,653	13,972	14,392	1,436,017
Office expenses:				
Office supplies and materials	139,068	5,597	3,357	148,022
Office equipment rental and maintenance	158,758	6,390	3,833	168,981
Telephone/telecommunication	82,741	3,330	1,998	88,069
Legal, accounting and payroll services	393,130	15,823	9,491	418,444
Printing and copying	554	22	13	589
Postage and shipping	29,775	1,198	719	31,692
Total office expenses	804,026	32,360	19,411	855,797
General expenses:				
Insurance	76,077	3,062	1,837	80,976
Transportation	38,255	-	-	38,255
Administrative fee (to PCSB)	206,478	8,311	4,985	219,774
Interest and amortization	1,685,624	16,730	17,235	1,719,589
Other general expense	314,376	10,469	147,187	472,032
Total general expenses	2,320,810	38,572	171,244	2,530,626
Depreciation (facility)	1,334,636	13,245	13,646	1,361,527
Depreciation expense	366,389	14,747	8,846	389,982
Total	$ 24,206,993	$ 756,843	$ 638,366	$ 25,602,202