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

Consolidated Financial Report
June 30, 2017

Contents

RSM US LLP

Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Euphemia L. Haynes Public Charter School, Inc. and Subsidiary (collectively, the Organization), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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. 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 Organization as of June 30, 2017 and 2016, 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.

RSM US LLP

Washington, D.C.
October 31, 2017

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

Consolidated Balance Sheets
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 4,867,987	$ 7,161,404
Investments	1,957,033	-
Accounts receivable	17,087	97,321
Promises to give	18,380	35,185
Grants receivable	668,517	476,379
Prepaid expenses	52,719	111,030
Total current assets	7,581,723	7,881,319
Restricted cash	789,492	401,323
Property and equipment, net	33,997,162	34,999,152
Deposits	1,640	18,945
Loan receivable	-	7,632,382
	$ 42,370,017	$ 50,933,121
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,095,339	$ 1,213,229
Current portion of long-term debt	297,000	288,000
Deferred revenue	37,149	-
Total current liabilities	1,429,488	1,501,229
Due to ELH Support Corp.	5,980	5,980
Accrued rent	2,301,268	2,044,116
Interest rate swap agreement	439,363	1,886,187
Long-term debt, net of current portion	32,397,241	41,419,376
	36,573,340	46,856,888
Commitments and contingencies (Notes 13 and 14)		
Net assets:		
Unrestricted	5,329,689	3,596,081
Temporarily restricted	466,988	480,152
	5,796,677	4,076,233
	$ 42,370,017	$ 50,933,121

See notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2017
(With Comparative Totals for 2016)

	2017			
	Unrestricted	**Temporarily Restricted**	**Total**	2016 Total
Revenue and support:				
Pupil allocation	**$ 22,320,934**	**$ -**	**$ 22,320,934**	$ 22,100,662
Other grants	**368,233**	**408,445**	**776,678**	1,364,837
Federal grants	**1,441,676**	**-**	**1,441,676**	1,376,908
Contributions	**446,015**	**-**	**446,015**	388,960
Program revenue	**59,804**	**-**	**59,804**	54,786
Investment income	**577,157**	**-**	**577,157**	578,482
Rental revenue	**1,350**	**-**	**1,350**	2,550
Net assets released from restrictions	**421,609**	**(421,609)**	**-**	-
Total revenue and support	**25,636,778**	**(13,164)**	**25,623,614**	25,867,185
Expenses:				
Program services	**25,157,599**	**-**	**25,157,599**	24,206,993
General and administrative	**798,745**	**-**	**798,745**	756,843
Fundraising	**526,806**	**-**	**526,806**	638,366
Total expenses	**26,483,150**	**-**	**26,483,150**	25,602,202
Change in net assets before other (losses) gains	**(846,372)**	**(13,164)**	**(859,536)**	264,983
Other gains (losses):				
Gain (loss) on interest rate swap agreement	**1,446,824**	**-**	**1,446,824**	(1,682,340)
Gain on NMTC transaction unwind (Note 17)	**1,133,156**	**-**	**1,133,156**	-
Change in net assets	**1,733,608**	**(13,164)**	**1,720,444**	(1,417,357)
Net assets:				
Beginning	**3,596,081**	**480,152**	**4,076,233**	5,493,590
Ending	**$ 5,329,689**	**$ 466,988**	**$ 5,796,677**	$ 4,076,233

See notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Pupil allocation	$ 22,100,662	$ -	$ 22,100,662
Other grants	778,137	586,700	1,364,837
Federal grants	1,376,908	-	1,376,908
Contributions	388,960	-	388,960
Program revenue	54,786	-	54,786
Interest income	578,482	-	578,482
Rental revenue	2,550	-	2,550
Net assets released from restrictions	450,515	(450,515)	-
Total revenue and support	25,731,000	136,185	25,867,185
Expenses:			
Program services	24,206,993	-	24,206,993
General and administrative	756,843	-	756,843
Fundraising	638,366	-	638,366
Total expenses	25,602,202	-	25,602,202
Change in net assets before other losses	128,798	136,185	264,983
Other losses:			
Loss on interest rate swap agreement	(1,682,340)	-	(1,682,340)
Change in net assets	(1,553,542)	136,185	(1,417,357)
Net assets:			
Beginning	5,149,623	343,967	5,493,590
Ending	$ 3,596,081	$ 480,152	$ 4,076,233

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 1,720,444**	$ (1,417,357)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**1,736,224**	1,751,509
Amortization of loan issuance costs	**155,355**	156,272
Interest income added on loan receivable principal	**(154,533)**	(131,330)
Interest expense added to principal of notes and bonds payable	**39,581**	200,248
Gain on NMTC transaction unwind	**(1,713,085)**	-
(Gain) loss on interest rate swap agreement	**(1,446,824)**	1,682,340
Realized and unrealized loss on investments	**2,967**	-
Write-off on loan issuance costs	**579,929**	1,440
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	**80,234**	93,139
Promises to give	**16,805**	(5,310)
Grants receivable	**(192,138)**	581,614
Prepaid expenses	**58,311**	53,569
Deposits	**17,305**	(17,305)
(Decrease) increase in:		
Accounts payable and accrued expenses	**(117,890)**	(163,602)
Deferred revenue	**37,149**	-
Accrued rent	**257,152**	257,152
Net cash provided by operating activities	**1,076,986**	3,042,379
Cash flows from investing activities:		
Purchases of property and equipment	**(734,234)**	(1,750,305)
Purchases of investments	**(1,960,000)**	-
Increase in restricted cash	**(388,169)**	(387,973)
Net cash used in investing activities	**(3,082,403)**	(2,138,278)
Cash flows from financing activities:		
Principal payments on long-term debt	**(288,000)**	(253,000)
Loan issuance costs	**-**	(1,192)
Net cash used in financing activities	**(288,000)**	(254,192)
Net (decrease) increase in cash and cash equivalents	**(2,293,417)**	649,909
Cash and cash equivalents:		
Beginning	**7,161,404**	6,511,495
Ending	**$ 4,867,987**	$ 7,161,404

(Continued)

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

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2017 and 2016

	2017	2016
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	**$ 1,518,266**	$ 1,363,069
Supplemental schedules of noncash investing and financing activities:		
Interest expense added to principal of notes and bonds payable	**$ 39,581**	$ 200,248
Interest income added to principal of loan receivable	**$ 154,533**	$ 131,330
NMTC Transaction Unwind:		
Notes received in satisfaction of note receivable	**$ 9,500,000**	$ -
Note payable canceled in connection of receipt of notes receivable	**7,786,915**	-
Non-cash gain on NMTC unwind	**$ 1,713,085**	$ -

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 Subsidiary is comprised of two entities: Euphemia L. Haynes Public Charter School, Inc. (the School) 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 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, 2017 and 2016. 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.

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 1,143 students through the school year 2016–2017. 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. ELH Kansas is consolidated, since the School has both economic interest and controls membership of ELH Kansas' Board of Trustees. 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, 2017 and 2016

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

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.

Investments: Investments of $1,957,033 at June 30, 2017 consist of certificates of deposit. There were no investments at June 30, 2016. Investments are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is recorded as a component of investment income or loss in the consolidated statements of activities.

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, 2017 and 2016.

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.

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 Organization 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.

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

Interest rate swap agreement: The interest rate swap is carried at fair value. The fair value of the interest rate swap agreement 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. When a restriction expires (that is, when the time period passes or purpose is accomplished), temporarily restricted net assets are released from restrictions.

Temporarily restricted net assets were released from restrictions during the years ended June 30, 2017 and 2016, for various purposes, including after-school programs, college guidance, and support for alumni in college, library materials, physical education, gymnasium development and general operations. At June 30, 2017 and 2016, 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.

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.

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, 2017 and 2016.

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

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, 2017, 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 2014.

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.

Pending accounting pronouncements: In November 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU No. 2016-18 will be effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the impact of the adoption of this guidance on its 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 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 ASU will be effective for fiscal years beginning after December 15, 2017. Earlier 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. Management has not evaluated the impact of this ASU on the consolidated financial statements.

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.

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

The new standard is effective for the Organization for the fiscal year ending June 30, 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. The Organization is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 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 No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for the Organization for the fiscal year ending June 30, 2020. Management has not evaluated the impact of this ASU on the consolidated financial statements.

Reclassifications: Certain items in the June 30, 2016, financial statements have been reclassified to conform to the June 30, 2017, consolidated financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Subsequent events: The Organization evaluated subsequent events through October 31, 2017, 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, 2017 and 2016, is as follows:

	2017	2016
Minimum balance maintained	$ 776,131	$ 387,969
Unspent bond proceeds	13,361	13,354
	$ 789,492	$ 401,323

Note 3. Investments

Investment income for the years ended June 30, 2017 and 2016, consists of the following:

	2017	2016
Interest and dividends	$ 580,124	$ 578,482
Realized and unrealized gain (loss)	(2,967)	-
	$ 577,157	$ 578,482

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2017, 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	$ (5,358,992)	$ 8,582,688	$ 413,184
Leasehold improvements	Life of lease	22,679,329	(4,867,309)	17,812,020	962,203
Land	–	6,538,842	-	6,538,842	-
Computers	3 years	2,451,540	(1,920,268)	531,272	205,315
Software	7 years	23,475	(16,020)	7,455	4,694
Furniture and equipment	7 years	1,281,614	(756,729)	524,885	150,828
		$ 46,916,480	$ (12,919,318)	$ 33,997,162	$ 1,736,224

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

Note 5. Long-Term Debt

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 debt incurred related to the construction of a school building at 3600 Georgia Avenue, NW, Washington, D.C (Georgia Avenue Property). 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 8). 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 14).

Note 5. Long-Term Debt (Continued)

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.

Long-term debt as of June 30, 2017 and 2016, consists of the following:

	2017	2016
Principal amount (see table below)	$ 34,080,038	$ 43,828,457
Less unamortized loan issuance costs	(1,385,797)	(2,121,081)
	32,694,241	41,707,376
Less current portion of long term debt	(297,000)	(288,000)
	$ 32,397,241	$ 41,419,376

Notes payable at June 30, 2017 and 2016, are as follows:

	2017	2016
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 $77,482.	$ 21,488,482	$ 21,772,625
Loan payable to ELHSC with interest at 6%; Note due on April 1, 2031; subordinated by other debt. Includes accrued interest of $9,578.	1,925,107	1,925,107
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. The loan was fully repaid in 2017.	-	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. The loan was fully repaid in 2017.	-	2,536,240
Qualified School Constructions Bonds (see Note 6)	10,666,449	10,554,263
	$ 34,080,038	$ 43,828,457

Note 5. Long-Term Debt (Continued)

Aggregate maturities of long-term debt at June 30, 2017, are due in future years as follows:

Years ending June 30:		
2018	$	297,000
2019		476,000
2020		1,014,000
2021		1,047,000
2022		1,092,000
Thereafter		30,154,038
	$	34,080,038

Interest expense, including amortization of loan costs, related to long-term debt incurred for the years ended June 30, 2017 and 2016, was $1,713,202 and $1,719,590 respectively.

Note 6. 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, 2017 and 2016, amounted to $10,666,449 and $10,554,263, respectively.

The QSCB requires the following sinking fund installment payments:

Years ending June 30:		
2018	$	387,949
2019		387,949
2020		387,949
2021		387,949
2022		387,949
Thereafter		11,410,255
	$	13,350,000
Less discount on bonds payable		(2,683,551)
	$	10,666,449

Note 7. Loan Receivable

On May 26, 2010, the School loaned $6,984,010 to Haynes Investment Fund No. 24, LLC. This loan was made to qualify for the New Markets Tax Credit transaction related to the Kansas Avenue Property. The interest rate was 7.29% per annum. The loan required payment of $213,125 on the second day of May and November of each year through May 2017. As described in Note 17, this loan was settled during the fiscal year ended June 30, 2017. The loan receivable balance was $0 and $7,632,382 at June 30, 2017 and 2016, respectively. Interest income on the loan of $540,812 and $567,137 was earned for the years ended June 30, 2017 and 2016, respectively.

Note 8. 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 5), 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 $21,434,000 and $21,722,000 at June 30, 2017 and 2016, respectively. The swap mechanism is intended to allow the Organization to realize potential of a lower fixed rate. As of June 30, 2017 and 2016, the fair value of the swap agreement was a liability of $439,363 and $1,886,187, respectively.

Note 9. 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, 2017 and 2016, the Trustees approved a 3% employer contribution. Total expense for the Plan amounted to $381,794 and $399,004 for the years ended June 30, 2017 and 2016, respectively

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets of $466,988 and $480,152 at June 30, 2017 and 2016, respectively, were for student education and services. Net assets of $421,609 and $450,515 for the years ended June 30, 2017 and 2016, 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 11. Concentrations

The School is supported primarily through pupil allocations from the District of Columbia. For the years ended June 30, 2017 and 2016, approximately 87% and 85%, respectively, of total revenue and support 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 12. Pupil Allocation

The School's pupil allocation for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
General education	$ 12,671,802	$ 12,692,583
Special education, At Risk and ESOL	6,078,400	5,843,595
Facility allowance	3,570,732	3,564,484
	$ 22,320,934	$ 22,100,662

Note 13. 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 14. 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, 2017, future minimum rental payments required under this lease, net of rent abatements, are as follows:

	Rent Obligation	Rent Abatements	Net Obligation
Years ending June 30:			
2018	$ 693,000	$ (693,000)	$ -
2019	693,000	(693,000)	-
2020	693,000	(693,000)	-
2021	693,000	(693,000)	-
2022	693,000	(693,000)	-
Thereafter	9,009,000	(2,772,000)	6,237,000
	$ 12,474,000	$ (6,237,000)	$ 6,237,000

Rent expense under this lease was $257,152 for both years ended June 30, 2017 and 2016, respectively.

Note 15. Fair Value Measurements

The Organization follows the Fair Value Measurement Topic of the FASB ASC, 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 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 not corroborated by market data

In determining the appropriate levels, the Organization 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 3 inputs for any assets held by the Organization at June 30, 2017 and 2016.

The Organization holds corporate certificates of deposit are priced based on their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full-term of the instruments and are, therefore, considered Level 2 items.

The Organization's swap agreement is valued based on quoted values stated by the bank's mark-to-market estimate using stated fixed rates and USD-LIBOR-BBA ratings. The interest rates are observable at commonly quoted intervals for the full term of the instrument and are, therefore, considered Level 2 items.

The table below presents the balances of the assets measured at fair value at June 30, 2017, on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Fixed income:				
Certificate of deposits	$ 1,957,033	$ -	$ 1,957,033	$ -
Total assets	$ 1,957,033	$ -	$ 1,957,033	$ -
Interest rate swap	$ 439,363	$ -	$ 439,363	$ -
Total liabilities	$ 439,363	$ -	$ 439,363	$ -

The table below presents the balances of the assets measured at fair value at June 30, 2016, on a recurring basis by level within the hierarchy:

	2016			
	Total	Level 1	Level 2	Level 3
Interest rate swap	$ 1,886,187	$ -	$ 1,886,187	$ -
Total liabilities	$ 1,886,187	$ -	$ 1,886,187	$ -

Note 16. Related Party Transactions

The School had notes payable, including accrued interest, outstanding in the amount of $1,925,107 at June 30, 2017 and 2016, with ELHSC (see Note 5). ELHSC made an unrestricted contribution to the School totaling $123,960 during the year ended June 30, 2017. Amounts due to ELHSC for reimbursement of expenses were $5,980 at June 30, 2017 and 2016.

Note 17. Major Transaction

After the conclusion of the New Markets Tax Credits (NMTC) compliance period, the parties to the Organization's 2010 NMTC loan structure (see Note 5) agreed to unwind the transactions; this unwind closed on June 13, 2017. A series of transactions related to this unwind produced an overall gain to the Organization of $1,713,085.

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

Gain on NMTC transaction unwind	$ 1,713,085
Write-off of net balances of loan origination costs for retired debt	(579,929)
	$ 1,133,156

RSM US LLP

Independent Auditor's Report on the Supplementary Information

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

We have audited the consolidated financial statements of Euphemia L. Haynes Public Charter School, Inc. and Subsidiary as of and for the years ended June 30, 2017 and 2016, and have issued our report thereon, dated October 31, 2017, 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 changes in net assets 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 2017 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 2017 consolidated financial statements as a whole.

RSM US LLP

Washington, D.C.
October 31, 2017

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

Consolidating Balance Sheet
June 30, 2017

	EL Haynes	ELH Kansas, Inc.	Elimination Entries	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 4,867,984	$ 3	$ -	$ 4,867,987
Investments	1,957,033	-	-	1,957,033
Accounts receivable	17,087	-	-	17,087
Promises to give	18,380	-	-	18,380
Grants receivable	668,517	-	-	668,517
Prepaid expenses	762,220	1,446,416	(2,155,917)	52,719
Total current assets	8,291,221	1,446,419	(2,155,917)	7,581,723
Restricted cash	789,492	-	-	789,492
Prepaid rent	7,499,265	-	(7,499,265)	-
Property and equipment, net	32,155,905	15,512,421	(13,671,164)	33,997,162
Intercompany due from (to)	3,282,272	9,559,148	(12,841,420)	-
Deposits	1,640	-	-	1,640
	$ 52,019,795	$ 26,517,988	$ (36,167,766)	$ 42,370,017
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 1,095,339	$ -	$ -	$ 1,095,339
Current portion of long-term debt	297,000	-	-	297,000
Deferred revenue	37,149	7,055,513	(7,055,513)	37,149
Total current liabilities	1,429,488	7,055,513	(7,055,513)	1,429,488
Intercompany due to (from)	9,559,148	3,282,272	(12,841,420)	-
Due to ELH Support Corp.	5,980	-	-	5,980
Accrued rent	-	2,301,268	-	2,301,268
Interest rate swap agreement	439,363	-	-	439,363
Deferred gain on sale-leaseback	1,446,416	7,325,152	(8,771,568)	-
Deferred revenue	-	7,499,265	(7,499,265)	-
Long-term debt, net of current portion	32,472,786	(75,545)	-	32,397,241
	45,353,181	27,387,925	(36,167,766)	36,573,340
Net assets (deficit):				
Unrestricted	6,199,626	(869,937)	-	5,329,689
Temporarily restricted	466,988	-	-	466,988
Total net assets	6,666,614	(869,937)	-	5,796,677
	$ 52,019,795	$ 26,517,988	$ (36,167,766)	$ 42,370,017

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

Consolidating Statement of Activities
Year Ended June 30, 2017

	EL Haynes			ELH Kansas, Inc.		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Elimination Entries	Total
Revenue and support:						
Pupil allocation	$ 22,320,934	$ -	$ 22,320,934	$ -	$ -	$ 22,320,934
Other grants	368,233	408,445	776,678	-	-	776,678
Federal grants	1,441,676	-	1,441,676	-	-	1,441,676
Contributions	446,015	-	446,015	-	-	446,015
Program revenue	59,804	-	59,804	-	-	59,804
Recognition of leaseback gain	40,941	-	40,941	-	(40,941)	-
Investment income	702,916	-	702,916	784,801	(910,560)	577,157
Rental revenue	1,350	-	1,350	976,513	(976,513)	1,350
Net assets released from restrictions	421,609	(421,609)	-	-	-	-
Total revenue and support	25,803,478	(13,164)	25,790,314	1,761,314	(1,928,014)	25,623,614
Expenses:						
Program services	25,334,502	-	25,334,502	1,751,111	(1,928,014)	25,157,599
General and administrative	774,499	-	774,499	24,246	-	798,745
Fundraising	503,028	-	503,028	23,778	-	526,806
Total expenses	26,612,029	-	26,612,029	1,799,135	(1,928,014)	26,483,150
Change in net assets before other (losses) gains	(808,551)	(13,164)	(821,715)	(37,821)	-	(859,536)
Other gains (losses):						
Gain on interest rate swap agreement	1,446,824	-	1,446,824	-	-	1,446,824
Gain (loss) on unwind transaction	1,688,339	-	1,688,339	(555,183)	-	1,133,156
Change in net assets	2,326,612	(13,164)	2,313,448	(593,004)	-	1,720,444
Net assets (deficit):						
Beginning	3,873,014	480,152	4,353,166	(276,933)	-	4,076,233
Ending	$ 6,199,626	$ 466,988	$ 6,666,614	$ (869,937)	$ -	$ 5,796,677

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

Consolidated Schedule of Functional Expenses
Year Ended June 30, 2017

	Program Services	General and Administrative	Fundraising	Total
Personnel Salaries and Benefits:				
Principal/Administrative Salary	$ 880,652	$ 515,890	$ -	$ 1,396,542
Teachers Salaries	5,030,950	-	-	5,030,950
Special Education Salaries	1,296,520	-	-	1,296,520
Summer School Salaries	-	-	-	-
Teacher Aides/Assistants Salaries	1,045,393	-	-	1,045,393
Before/After Care Salaries	157,915	-	-	157,915
Other Education Professionals Salaries	2,730,485	-	-	2,730,485
Business/Operations Salaries	784,229	-	-	784,229
Clerical Salaries	328,744	-	-	328,744
Custodial Salaries	113,444	-	-	113,444
Other Staff Salaries	-	-	212,691	212,691
Employee Benefits	2,444,189	101,948	42,031	2,588,168
Contracted Staff	750,981	31,324	59,683	841,988
Staff Development Expense	696,536	29,053	11,978	737,567
Total Personnel Salaries and Benefits	16,260,038	678,215	326,383	17,264,636
Direct Student Costs:				
Textbooks	194,663	-	-	194,663
Student Supplies and Material	485,801	-	-	485,801
Library and Media Center Materials	-	-	-	-
Student assessment fees	55,039	-	-	55,039
Contracted Instructional Fees	540,489	-	-	540,489
Food service	653,628	-	-	653,628
Other Direct Student Costs	163,400	-	-	163,400
Total Direct Student Costs	2,093,020	-	-	2,093,020
Occupancy Expenses:				
Rent	252,073	2,502	2,577	257,152
Maintenance and repairs	584,372	5,800	5,975	596,147
Utilities	488,766	4,851	4,997	498,614
Janitorial supplies	20,610	205	211	21,026
Other Occupancy	50,896	505	520	51,921
Contracted building services	527,544	5,236	5,394	538,174
Total Occupancy Expenses	1,924,261	19,099	19,674	1,963,034
Office Expenses:				
Office Supplies and Materials	181,346	7,566	3,118	192,030
Office Equipment Rental and Maintenance	150,833	6,291	2,594	159,718
Telephone/Telecommunication	80,082	3,340	1,377	84,799
Legal, Accounting and Payroll Services	340,276	14,193	5,852	360,321
Printing and copying	1,537	64	26	1,627
Postage and Shipping	21,369	891	367	22,627
Total Office Expenses	775,443	32,345	13,334	821,122
General Expenses:				
Insurance	80,569	3,361	1,385	85,315
Transportation	20,082	-	-	20,082
Administrative Fee (to PCSB)	227,949	9,508	3,920	241,377
Interest	1,679,363	16,668	17,171	1,713,202
Other general expense	407,889	11,955	125,294	545,138
Total General Expenses	2,415,852	41,492	147,770	2,605,114
Depreciation (Facility)	1,348,220	13,381	13,785	1,375,386
Depreciation Expense	340,765	14,213	5,860	360,838
	1,688,985	27,594	19,645	1,736,224
Total	$ 25,157,599	$ 798,745	$ 526,806	$ 26,483,150