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

Consolidated Financial Report
June 30, 2018

Contents

Independent Auditor's Report

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

Report on the 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, 2018 and 2017, 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.

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, 2018 and 2017, 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 October 31, 2018, and October 31, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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.
October 31, 2018

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

Consolidated Balance Sheets
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,812,812**	$ 4,867,987
Investments	**3,957,682**	1,957,033
Accounts receivable	**2,921**	17,087
Promises to give	**47,159**	18,380
Grants receivable	**717,594**	668,517
Prepaid expenses	**199,530**	52,719
Total current assets	**8,737,698**	7,581,723
Restricted cash	**1,137,023**	789,492
Property and equipment, net	**32,586,900**	33,997,162
Deposits	**1,640**	1,640
Due from ELH Support Corp.	**5,267**	-
Interest rate swap asset	**360,090**	-
	$ 42,828,618	$ 42,370,017
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 1,379,856**	$ 1,095,339
Current portion of long-term debt	**535,000**	297,000
Deferred revenue	**1,500**	37,149
Total current liabilities	**1,916,356**	1,429,488
Due to ELH Support Corp.	**-**	5,980
Deferred rent	**2,558,420**	2,301,268
Interest rate swap liability	**-**	439,363
Long-term debt, net of current portion	**32,098,208**	32,397,241
	36,572,984	36,573,340
Commitments and contingencies (Notes 13 and 14)		
Net assets:		
Unrestricted	**6,167,198**	5,329,689
Temporarily restricted	**88,436**	466,988
	6,255,634	5,796,677
	$ 42,828,618	$ 42,370,017

See notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018			2017
	Unrestricted	**Temporarily Restricted**	**Total**	Total
Revenue and support:				
Pupil allocation	**$ 23,561,722**	**$ -**	**$ 23,561,722**	$ 22,320,934
Other grants	**659,872**	**-**	**659,872**	776,678
Federal grants	**1,604,551**	**-**	**1,604,551**	1,441,676
Contributions	**380,831**	**69,492**	**450,323**	446,015
Program revenue	**92,567**	**-**	**92,567**	59,804
Investment income	**32,722**	**-**	**32,722**	577,157
Rental revenue	**1,186**	**-**	**1,186**	1,350
Net assets released from restrictions	**448,044**	**(448,044)**	**-**	-
Total revenue and support	**26,781,495**	**(378,552)**	**26,402,943**	25,623,614
Expenses:				
Program services	**25,068,210**	**-**	**25,068,210**	25,157,599
General and administrative	**1,231,978**	**-**	**1,231,978**	798,745
Fundraising	**443,251**	**-**	**443,251**	526,806
Total expenses	**26,743,439**	**-**	**26,743,439**	26,483,150
Change in net assets before other gains	**38,056**	**(378,552)**	**(340,496)**	(859,536)
Other gains:				
Gain on interest rate swap agreement	**799,453**	**-**	**799,453**	1,446,824
Gain on NMTC transaction unwind (Note 17)	**-**	**-**	**-**	1,133,156
Change in net assets	**837,509**	**(378,552)**	**458,957**	1,720,444
Net assets:				
Beginning	**5,329,689**	**466,988**	**5,796,677**	4,076,233
Ending	**$ 6,167,198**	**$ 88,436**	**$ 6,255,634**	$ 5,796,677

See notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Pupil allocation	$ 22,320,934	$ -	$ 22,320,934
Other grants	368,233	408,445	776,678
Federal grants	1,441,676	-	1,441,676
Contributions	446,015	-	446,015
Program revenue	59,804	-	59,804
Investment income	577,157	-	577,157
Rental revenue	1,350	-	1,350
Net assets released from restrictions	421,609	(421,609)	-
Total revenue and support	25,636,778	(13,164)	25,623,614
Expenses:			
Program services	25,157,599	-	25,157,599
General and administrative	798,745	-	798,745
Fundraising	526,806	-	526,806
Total expenses	26,483,150	-	26,483,150
Change in net assets before other gains	(846,372)	(13,164)	(859,536)
Other gains:			
Gain on interest rate swap agreement	1,446,824	-	1,446,824
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
Net assets:			
Beginning	3,596,081	480,152	4,076,233
Ending	$ 5,329,689	$ 466,988	$ 5,796,677

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 458,957	$ 1,720,444
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,767,722	1,736,224
Amortization of loan issuance costs	102,537	155,355
Interest income added on loan receivable principal	-	(154,533)
Interest expense added to principal of notes and bonds payable	120,460	35,724
Gain on NMTC transaction unwind	-	(1,713,085)
Gain loss on interest rate swap agreement	(799,453)	(1,446,824)
Realized and unrealized loss on investments	3,451	2,967
Write-off on loan issuance costs	-	579,929
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	14,166	80,234
Promises to give	(28,779)	16,805
Grants receivable	(49,077)	(192,138)
Prepaid expenses	(146,811)	58,311
Deposits	-	17,305
Due from ELH Support Corp.	(11,247)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	284,517	(117,890)
Deferred revenue	(35,649)	37,149
Accrued rent	257,152	257,152
Accrued interest	10,970	3,857
Net cash provided by operating activities	1,948,916	1,076,986
Cash flows from investing activities:		
Purchases of property and equipment	(357,460)	(734,234)
Purchases of investments	(2,004,100)	(1,960,000)
Increase in restricted cash	(347,531)	(388,169)
Net cash used in investing activities	(2,709,091)	(3,082,403)
Cash flows from financing activities:		
Principal payments on long-term debt	(295,000)	(288,000)
Net cash used in financing activities	(295,000)	(288,000)
Net decrease in cash and cash equivalents	(1,055,175)	(2,293,417)
Cash and cash equivalents:		
Beginning	4,867,987	7,161,404
Ending	$ 3,812,812	$ 4,867,987

(Continued)

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

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	**$ 1,072,632**	$ 1,514,409
Supplemental schedules of noncash investing and financing activities:		
Noncash interest expense added to principal of notes and bonds payable	**$ 120,460**	$ 35,724
Interest income added to principal of loan receivable	**$ -**	$ 154,533
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, 2018 and 2017. 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 is not 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 2017–2018. 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, 2018 and 2017.

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 $3,957,682 and $1,957,033 at June 30, 2018 and 2017, respectively, consist of money market mutual funds, certificates of deposit and U.S. Treasury securities. 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. 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, 2018 and 2017.

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, less accumulated depreciation. 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 sheets 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, 2018 and 2017, 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, 2018 and 2017, 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 gift or 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 material unrelated business taxable income for the years ended June 30, 2018 and 2017.

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 consoldiated 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, 2018, there were no material unrecognized/derecognized tax benefits or tax penalties or interest.

Use of estimates: The preparation of consolidated 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 consolidated 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 June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. The Organization should apply the amendments for transactions in which the entity serves as the resource recipient to fiscal years beginning June 30, 2020. The Organization should apply the amendments for transactions in which the entity serves as the resource provider to fiscal years beginning June 30, 2021. The Organization is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In November 2016, the FASB issued 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.

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

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. ASU is effective for the Organization for the fiscal year ending June 30, 2019. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Organization is currently evaluating the impact of the pending adoption of the new standard 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. The ASU 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. The Organization is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Reclassifications: Certain items in the June 30, 2017, consolidated financial statements have been reclassified to conform to the June 30, 2018, 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, 2018, 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, 2018 and 2017 is as follows:

	2018	2017
Minimum balance maintained	$ 1,123,576	$ 776,131
Unspent bond proceeds	13,447	13,361
	$ 1,137,023	$ 789,492

Note 3. Investments

Investments at June 30, 2018 and 2017, consists of the following:

	2018	2017
Money market mutual funds	$ 10,077	$ -
Certificates of deposit	1,955,225	1,957,033
U.S. Treasury securities	1,992,380	-
	$ 3,957,682	$ 1,957,033

Investment income for the years ended June 30, 2018 and 2017, consists of the following:

	2018	2017
Interest and dividends	$ 36,173	$ 580,124
Realized and unrealized loss	(3,451)	(2,967)
	$ 32,722	$ 577,157

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2018, 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	$ (5,772,176)	$ 8,169,504	$ 413,184
Leasehold improvements	Life of lease	22,684,260	(5,824,611)	16,859,649	957,302
Land	–	6,538,842	-	6,538,842	-
Computers	3 years	2,698,894	(2,154,922)	543,972	234,653
Software	7 years	23,475	(18,808)	4,667	2,788
Furniture and equipment	7 years	1,386,790	(916,524)	470,266	159,795
		$ 47,273,941	$ (14,687,041)	$ 32,586,900	$ 1,767,722

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

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).

Long-term debt as of June 30, 2018 and 2017, consists of the following:

	2018	2017
Principal amount (see table below)	$ 33,916,468	$ 34,080,038
Less unamortized loan issuance costs	(1,283,260)	(1,385,797)
	32,633,208	32,694,241
Less current portion of long term debt	(535,000)	(297,000)
	$ 32,098,208	$ 32,397,241

Note 5. Long-Term Debt (Continued)

Notes payable at June 30, 2018 and 2017 are as follows:

	2018	2017
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 improvements made on the Kansas Avenue facility and substantially all of the assets. Includes accrued interest of $83,296.	$ 21,204,452	$ 21,488,482
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
Qualified School Constructions Bonds (see Note 6)	10,786,909	10,666,449
	$ 33,916,468	$ 34,080,038

Aggregate maturities of long-term debt at June 30, 2018 are due in future years as follows:

Years ending June 30:	
2019	$ 535,000
2020	1,016,000
2021	1,050,000
2022	1,096,000
2023	1,136,000
Thereafter	29,083,468
	$ 33,916,468

Interest expense, including amortization of loan costs, related to long-term debt incurred for the years ended June 30, 2018 and 2017, was $1,295,627 and $1,713,202, respectively.

Note 6. 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, 2018 and 2017 amounted to $10,786,909 and $10,666,449, respectively.

Note 6. Qualified School Construction Bonds Payable (Continued)

The QSCB requires the following sinking fund installment payments:

Years ending June 30:	
2019	$ 387,949
2020	387,949
2021	387,949
2022	387,949
2023	387,949
Thereafter	11,410,255
	13,350,000
Less discount on bonds payable	(2,563,091)
	$ 10,786,909

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 at June 30, 2017. Interest income on the loan of $540,812 was earned for the year ended June 30, 2017.

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 $21,138,000 and $21,434,000 at June 30, 2018 and 2017, respectively. The swap mechanism is intended to allow the Organization to realize potential of a lower fixed rate. As of June 30, 2018 and 2017, the fair value of the swap agreement was an asset of $360,090 and a liability of $439,363, respectively.

Note 9. Retirement Plan

The School offers a 403(b) retirement 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, 2018 and 2017, the Trustees approved a 3% employer contribution. Total expense for the Plan amounted to $391,034 and $381,794 for the years ended June 30, 2018 and 2017, respectively

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets of $88,436 and $466,988 at June 30, 2018 and 2017, respectively, were for student education and services. Net assets of $448,044 and $421,609 for the years ended June 30, 2018 and 2017, 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. Concentration

The School is supported primarily through pupil allocations from the District of Columbia. For the years ended June 30, 2018 and 2017, approximately 89% and 87%, 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, 2018 and 2017 are as follows:

	2018	2017
General education	$ 13,835,962	$ 12,671,802
Special education, At Risk and ESOL	6,114,785	6,078,400
Facility allowance	3,610,975	3,570,732
	$ 23,561,722	$ 22,320,934

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.

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

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.

Note 14. Lease Commitment (Continued)

As of June 30, 2018, 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:			
2019	$ 693,000	$ (693,000)	$ -
2020	693,000	(693,000)	-
2021	693,000	(693,000)	-
2022	693,000	(693,000)	-
2023	693,000	(693,000)	-
Thereafter	8,316,000	(2,079,000)	6,237,000
	$ 11,781,000	$ (5,544,000)	$ 6,237,000

Rent expense under this lease was $257,152 for both years ended June 30, 2018 and 2017.

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, 2018 and 2017.

The Organization holds money market funds that are publically traded on a stock exchange and are considered Level 1 items. Corporate certificates of deposit and U.S. Treasury securities 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.

Note 15. Fair Value Measurements (Continued)

The table below presents the balances of the assets measured at fair value at June 30, 2018, on a recurring basis, by level, within the hierarchy:

	Total	Level 1	Level 2	Level 3
Assets:				
Fixed income:				
Money market mutual funds	$ 10,077	$ 10,077	$ -	$ -
Certificate of deposits	1,955,225	-	1,955,225	-
U.S. Treasury securities	1,992,380	-	1,992,380	-
Interest rate swap	360,090	-	360,090	-
Total assets	$ 4,317,772	$ 10,077	$ 4,307,695	$ -

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

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

Note 16. Related Party Transactions

The School had notes payable, including accrued interest, outstanding in the amount of $1,925,107 at June 30, 2018 and 2017, with ELHSC (see Note 5). ELHSC made an unrestricted contribution to the School totaling $132,403 and $123,960 during the years ended June 30, 2018 and 2017, respectively. Amounts due from ELHSC for reimbursement of expenses were $5,267 at June 30, 2018. Amounts due to ELHSC for reimbursement of expenses were $5,980 at June 30, 2017.

Note 17. Major Transaction

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 (NMTC), 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). After the conclusion of the NMTC compliance period, the parties to the loan structure 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

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, 2018 and 2017, and have issued our report thereon, dated October 31, 2018, which contains 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 2018 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 2018 consolidated financial statements as a whole.

RSM US LLP

Washington, D.C.
October 31, 2018

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

Consolidating Balance Sheet
June 30, 2018

	EL Haynes	ELH Kansas, Inc.	Elimination Entries	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 3,812,809	$ 3	$ -	$ 3,812,812
Investments	3,957,682	-	-	3,957,682
Accounts receivable	2,921	-	-	2,921
Promises to give	47,159	-	-	47,159
Grants receivable	717,594	-	-	717,594
Prepaid expenses	869,613	1,366,057	(2,036,140)	199,530
Total current assets	9,407,778	1,366,060	(2,036,140)	8,737,698
Restricted cash	1,137,023	-	-	1,137,023
Prepaid rent	6,119,265	-	(6,119,265)	-
Property and equipment, net	30,641,697	14,639,855	(12,694,652)	32,586,900
Intercompany due from (to)	3,424,088	8,942,768	(12,366,856)	-
Due to ELH Support Corp.	5,267	-	-	5,267
Interest rate swap asset	360,090	-	-	360,090
Deposits	1,640	-	-	1,640
	$ 51,096,848	$ 24,948,683	$ (33,216,913)	$ 42,828,618
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 1,379,856	$ -	$ -	$ 1,379,856
Current portion of long-term debt	535,000	-	-	535,000
Deferred revenue	1,500	6,551,548	(6,551,548)	1,500
Total current liabilities	1,916,356	6,551,548	(6,551,548)	1,916,356
Intercompany due to (from)	8,942,768	3,424,088	(12,366,856)	-
Accrued rent	-	2,558,420	-	2,558,420
Deferred gain on sale-leaseback	1,366,057	6,813,187	(8,179,244)	-
Deferred revenue	-	6,119,265	(6,119,265)	-
Long-term debt, net of current portion	32,170,361	(72,153)	-	32,098,208
	44,395,542	25,394,355	(33,216,913)	36,572,984
Net assets (deficit):				
Unrestricted	6,612,870	(445,672)	-	6,167,198
Temporarily restricted	88,436	-	-	88,436
Total net assets	6,701,306	(445,672)	-	6,255,634
	$ 51,096,848	$ 24,948,683	$ (33,216,913)	$ 42,828,618

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

Consolidating Statement of Activities
Year Ended June 30, 2018

	EL Haynes			ELH Kansas, Inc.		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Elimination Entries	Total
Revenue and support:						
Pupil allocation	$ 23,561,722	$ -	$ 23,561,722	$ -	$ -	$ 23,561,722
Other grants	659,872	-	659,872	-	-	659,872
Federal grants	1,604,551	-	1,604,551	-	-	1,604,551
Contributions	380,831	69,492	450,323	-	-	450,323
Program revenue	92,567	-	92,567	-	-	92,567
Recognition of leaseback gain	40,941	-	40,941	-	(40,941)	-
Investment income	163,506	-	163,506	763,622	(894,406)	32,722
Rental revenue	1,186	-	1,186	976,513	(976,513)	1,186
Net assets released from restrictions	448,044	(448,044)	-	-	-	-
Total revenue and support	26,953,220	(378,552)	26,574,668	1,740,135	(1,911,860)	26,402,943
Expenses:						
Program services	25,691,157	-	25,691,157	1,288,913	(1,911,860)	25,068,210
General and administrative	1,218,313	-	1,218,313	13,665	-	1,231,978
Fundraising	429,959	-	429,959	13,292	-	443,251
Total expenses	27,339,429	-	27,339,429	1,315,870	(1,911,860)	26,743,439
Change in net assets before other gains	(386,209)	(378,552)	(764,761)	424,265	-	(340,496)
Other gains:						
Gain on interest rate swap agreement	799,453	-	799,453	-	-	799,453
Change in net assets	413,244	(378,552)	34,692	424,265	-	458,957
Net assets (deficit):						
Beginning	6,199,626	466,988	6,666,614	(869,937)	-	5,796,677
Ending	$ 6,612,870	$ 88,436	$ 6,701,306	$ (445,672)	$ -	$ 6,255,634

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

Consolidated Schedule of Functional Expenses
Year Ended June 30, 2018

	Program Services	General and Administrative	Fundraising	Total
Personnel Salaries and Benefits:				
Principal/Administrative Salary	$ 859,369	$ 646,160	$ -	$ 1,505,529
Teachers Salaries	5,255,653	-	-	5,255,653
Special Education Salaries	1,528,831	-	-	1,528,831
Teacher Aides/Assistants Salaries	685,218	-	-	685,218
Before/After Care Salaries	189,026	-	-	189,026
Other Education Professionals Salaries	2,890,666	-	-	2,890,666
Business/Operations Salaries	772,635	-	-	772,635
Clerical Salaries	320,093	-	-	320,093
Custodial Salaries	111,354	-	-	111,354
Other Staff Salaries	-	-	196,943	196,943
Employee Benefits	2,596,062	132,997	40,536	2,769,595
Contracted Staff	916,525	46,954	43,886	1,007,365
Staff Development Expense	534,579	27,387	8,347	570,313
Total Personnel Salaries and Benefits	16,660,011	853,498	289,712	17,803,221
Direct Student Costs:				
Textbooks	148,061	-	-	148,061
Student Supplies and Material	518,257	-	-	518,257
Student assessment fees	72,346	-	-	72,346
Contracted Instructional Fees	807,984	-	-	807,984
Food service	688,666	-	-	688,666
Other Direct Student Costs	182,625	-	-	182,625
Total Direct Student Costs	2,417,939	-	-	2,417,939
Occupancy Expenses:				
Rent	252,073	2,502	2,577	257,152
Maintenance and repairs	348,173	3,456	3,560	355,189
Utilities	406,579	4,035	4,157	414,771
Janitorial supplies	26,823	266	274	27,363
Contracted building services	572,993	5,686	5,859	584,538
Total Occupancy Expenses	1,606,641	15,945	16,427	1,639,013
Office Expenses:				
Office Supplies and Materials	178,821	9,161	2,792	190,774
Office Equipment Rental and Maintenance	107,751	5,520	1,682	114,953
Telephone/Telecommunication	110,489	5,660	1,725	117,874
Legal, Accounting and Payroll Services	381,155	19,527	5,952	406,634
Printing and copying	22,673	1,162	354	24,189
Postage and Shipping	20,162	1,033	315	21,510
Total Office Expenses	821,051	42,063	12,820	875,934
General Expenses:				
Insurance	81,700	4,186	1,276	87,162
Transportation	90,634	-	-	90,634
Administrative Fee (to PCSB)	-	257,822	-	257,822
Interest	1,270,037	12,605	12,985	1,295,627
Other general expense	404,433	13,451	90,481	508,365
Total General Expenses	1,846,804	288,064	104,742	2,239,610
Depreciation (Facility)	1,343,417	13,333	13,736	1,370,486
Depreciation Expense	372,347	19,075	5,814	397,236
	1,715,764	32,408	19,550	1,767,722
Total	$ 25,068,210	$ 1,231,978	$ 443,251	$ 26,743,439