

SELA PUBLIC CHARTER SCHOOL

WASHINGTON, DC

COMPARATIVE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

KENDALL, PREBOLA AND JONES

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Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Directors
Sela Public Charter School
6015-17 Chillum Place, NE
Washington, DC 20011

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Sela Public Charter School, (a nonprofit organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

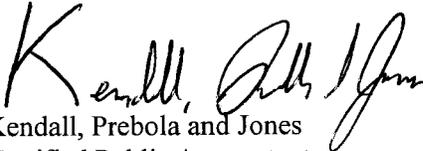
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sela Public Charter School, as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, on our consideration of the Sela Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Sela Public Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sela Public Charter School's internal control over financial reporting and compliance.


Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
December 3, 2018

SELA PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

<u>ASSETS</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 854,711	\$ 628,199
Accounts Receivable	126,006	150,095
Grants Receivable	103,937	123,426
Promises Receivable	60,000	60,000
Prepaid Expenses	<u>56,567</u>	<u>31,446</u>
Total Current Assets	<u>\$ 1,201,221</u>	<u>\$ 993,166</u>
<u>Fixed Assets:</u>		
Leasehold Improvements	\$ 229,426	\$ 170,567
Furniture, Fixtures and Equipment	68,607	59,098
Computers	181,849	143,241
Accumulated Depreciation and Amortization	<u>(294,482)</u>	<u>(180,786)</u>
Total Fixed Assets	<u>\$ 185,400</u>	<u>\$ 192,120</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 62,765</u>	<u>\$ 62,765</u>
Total Other Assets	<u>\$ 62,765</u>	<u>\$ 62,765</u>
TOTAL ASSETS	<u>\$ 1,449,386</u>	<u>\$ 1,248,051</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Expenses	\$ 101,523	\$ 99,071
Accrued Vacation and Payroll Liabilities	36,293	19,206
Deferred Revenue	21,666	60,433
Current Portion of Capital Lease	<u>3,089</u>	<u>-</u>
Total Current Liabilities	<u>\$ 162,571</u>	<u>\$ 178,710</u>
<u>Long Term Liabilities:</u>		
Deferred Rent	\$ 500,765	\$ 383,811
Capital Lease	8,021	-
Less: Current Portion of Capital Lease	<u>(3,089)</u>	<u>-</u>
Total Long Term Liabilities	<u>\$ 505,697</u>	<u>\$ 383,811</u>
Total Liabilities	<u>\$ 668,268</u>	<u>\$ 562,521</u>
<u>Net Assets/(Deficit):</u>		
Unrestricted	\$ 701,118	\$ 605,530
Temporarily Restricted	<u>80,000</u>	<u>80,000</u>
Total Net Assets/(Deficit)	<u>\$ 781,118</u>	<u>\$ 685,530</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,449,386</u>	<u>\$ 1,248,051</u>

(See Accompanying Notes and Auditor's Report)

SELA PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018			June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenues and Other Support:</u>						
Tuition - Per Pupil Funding Allocation	\$ 3,091,251	\$ -	\$ 3,091,251	\$ 2,434,460	\$ -	\$ 2,434,460
Tuition - Facilities Allowance	644,931	-	644,931	552,948	-	552,948
Federal Entitlements and Grants	432,636	-	432,636	326,069	-	326,069
Donated Federal Commodities	4,621	-	4,621	2,430	-	2,430
Private Grants and Contributions	15,126	-	15,126	93,729	90,000	183,729
State and Local Government Grants	18,866	-	18,866	22,367	-	22,367
Student Fees	199,154	-	199,154	153,830	-	153,830
Donated Services and Materials	-	-	-	4,000	-	4,000
Interest	31	-	31	31	-	31
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	-	-	-	186,459	(186,459)	-
Total Revenues and Other Support	\$ 4,406,616	\$ -	\$ 4,406,616	\$ 3,776,323	\$ (96,459)	\$ 3,679,864
<u>Expenses:</u>						
Educational Services	\$ 3,817,402	\$ -	\$ 3,817,402	\$ 3,140,194	\$ -	\$ 3,140,194
General and Administrative	386,974	-	386,974	376,568	-	376,568
Fundraising	106,652	-	106,652	114,550	-	114,550
Total Expenses	\$ 4,311,028	\$ -	\$ 4,311,028	\$ 3,631,312	\$ -	\$ 3,631,312
Changes in Net Assets (Deficit)	\$ 95,588	\$ -	\$ 95,588	\$ 145,011	\$ (96,459)	\$ 48,552
Net Assets/(Deficit) at Beginning of Year	605,530	80,000	685,530	460,519	176,459	636,978
Net Assets/(Deficit) at End of Year	\$ 701,118	\$ 80,000	\$ 781,118	\$ 605,530	\$ 80,000	\$ 685,530

(See Accompanying Notes and Auditor's Report)

SELA PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 95,588	\$ 48,552
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	114,129	63,747
Accounts Receivable - (Increase)/Decrease	24,089	(60,643)
Grants Receivable - (Increase)/Decrease	19,489	(100,164)
Promises Receivable - (Increase)/Decrease	-	(60,000)
Prepaid Expenses - (Increase)/Decrease	(25,121)	23,752
Deposits - (Increase)/Decrease	-	5,328
Accounts Payable and Accrued Expenses - Increase/(Decrease)	2,452	(1,330)
Accrued Vacation and Payroll Liabilities - Increase/(Decrease)	17,087	(1,866)
Deferred Revenue - Increase/(Decrease)	(38,767)	1,108
Deferred Rent - Increase/(Decrease)	116,954	174,947
Sublease Deposit - Increase/(Decrease)	<u>-</u>	<u>(57,500)</u>
Net Cash Flows from Operating Activities	<u>\$ 325,900</u>	<u>\$ 35,931</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (107,892)	\$ (122,470)
Proceeds on Disposal of Fixed Assets	<u>483</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>\$ (107,409)</u>	<u>\$ (122,470)</u>
<u>Cash Flows from Financing Activities:</u>		
Proceeds on Capital Lease	\$ 9,509	\$ -
Payments Made on Capital Lease	<u>(1,488)</u>	<u>-</u>
Net Cash Flows from Financing Activities	<u>\$ 8,021</u>	<u>\$ -</u>
Net Change in Cash and Cash Equivalents	\$ 226,512	\$ (86,539)
Cash and Cash Equivalents, Beginning of Year	<u>628,199</u>	<u>714,738</u>
Cash and Cash Equivalents, End of Year	<u>\$ 854,711</u>	<u>\$ 628,199</u>

Supplemental Disclosures:

- a) Interest in the amount of \$222 was paid during the year ended June 30, 2018. No interest was paid during the year ended June 30, 2017.
- b) No income taxes were paid during the years ended June 30, 2018 and 2017.

Non-Cash Disclosures:

- a) During the year ended June 30, 2018, the Charter School purchased a Copystar 4052ci photocopier in the amount of \$9,509 by financing through a capital lease.
- b) The purchase of fixed assets as presented in Investing Activities during the year ended June 30, 2017, includes the value of donated fixed assets in the amount of \$4,000.

(See Accompanying Notes and Auditor's Report)

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION:

Sela Public Charter School (Sela), a District of Columbia Not-for-Profit Corporation, was incorporated on June 27, 2011, exclusively for educational purposes. Sela operates as part of the District of Columbia Public School System. The mission of Sela is to offer children of all ethnic and socioeconomic backgrounds in the District of Columbia, from Pre-K to 5th grade, the opportunities to achieve academic excellence in a safe, nurturing environment that focuses on Hebrew language immersion, promotes the value of diversity and provides the skills for taking action in the world. Sela's primary sources of support are local appropriations for Charter Schools from the District of Columbia Government.

Programs

1. CURRICULUM DESIGN AND INSTRUCTIONAL APPROACH

Hebrew Language Immersion

Sela PCS is founded on the premise that fluency in more than one language develops a greater ability to communicate with and to understand other cultures.

Research indicates that in order to gain fluency in a language, students need to spend significant time in an environment saturated in the language they are learning. At Sela PCS, students receive instruction in both English and Hebrew. By immersing students in Hebrew and English, we provide the greatest opportunity for Sela PCS students to graduate bilingual and bi-literate.

As a dual-language school committed to immersion, Sela PCS helps students achieve language proficiency in two languages - including reading and oral proficiency - and sets high learning standards for both English Language Arts and Hebrew Language, choosing curricula that provide its teachers with the instructional resources to successfully develop these skills and abilities in its students.

Hebrew is a unique target language because it serves as a model of an ancient language that has been revived in modern times; it is an entrée to Semitic languages, and contemporary Israeli culture fosters characteristics and skills that empower children to be active global citizens.

Because mastery of the written and spoken language is critical to success in all subject areas, Sela PCS engages a rigorous and balanced curriculum in both languages. The balanced, dual language curriculum is a unique challenge to Sela, in that skilled instructional staff must be hired for both languages. This, in turn, has an inflationary effect on staff expenses and subsequent costs per student.

The Proficiency Approach

Proficiency is an approach used in teaching a foreign language that aims to assist learners in developing their ability to perform in the learned language in all four skills: Reading, Writing, Listening, and Speaking.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION: (Continued)

Programs (Continued)

1. CURRICULUM DESIGN AND INSTRUCTIONAL APPROACH (Continued)

The Proficiency Approach (Continued)

Why Proficiency?

It allows a flexible curriculum: The goal of the Proficiency Approach is to promote the learners' functional abilities to a fixed set of criteria. Therefore, it allows each teacher and institution to select the most suitable material or teaching method that will maximize his or her learners' language acquisition process.

It helps articulate learning goals: By describing the nature of each level of performance in each language skill, the guidelines provide us with the tools to create a path for our learners to move from one stage to the next. The criteria used in the guidelines help language educators create and articulate specific performance goals for their learners of all language skills.

It supports language acquisition: The Proficiency Approach is the most efficient framework that allows the acquisition of a learned language in an academic setting in which the contact hours are relatively limited. By adopting the notion of performance as the core principle, the Proficiency Approach focuses on the learners' abilities in the target language by concentrating simply on what the learners know about the language. This approach helps learners internalize the language.

It creates a learner-centered environment: Aiming to bring learners to a high level of performance in the target language demands an understanding of who they are as learners. Language educators must know their learners' characteristics and take them into consideration while creating the curriculum. These characteristics include their motivation, appropriate language learning style and learning strategies, level of anxiety, predisposition toward the language, and current level of language acquisition.

It helps assess learners' performance: Using the guidelines criteria makes it easier to assess learners' language abilities in all four skills for the purpose of making instructional decisions.

Pre-Kindergarten:

In the pre-kindergarten classrooms, Sela PCS uses a majority immersion model, meaning that the majority of the activities taking place in the classroom will take place in Hebrew. Each early-childhood classroom is staffed by one teacher and one instructional assistant to implement this model.

The classrooms are organized as primarily Hebrew environments, with the majority of the content and activities in each classroom focused on helping children acquire the vocabulary and proficiency in Hebrew that will prepare them for kindergarten. Approximately 25% of the day in pre-kindergarten is set aside every day for English literacy, which ensures that the children are ready to enter kindergarten with skills for early literacy in English.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION: (Continued)

Programs (Continued)

1. CURRICULUM DESIGN AND INSTRUCTIONAL APPROACH (Continued)

Kindergarten through Grade 5:

Beginning in Kindergarten and throughout the students' school careers at Sela PCS, they will study both Hebrew and English. Instruction will be taught in that language, meaning that English Language Arts will be taught in English class, and the Hebrew Language in Hebrew class. Other content areas, such as math, social studies, and science will be taught in English. Hebrew will be incorporated into other content areas as much as possible. Our goal for the next few years of planning is to move into a more fully immersive model in grades K-5 in which content areas beyond Hebrew are taught in both languages.

Pre-K Program:

High Scope Curriculum

High Scope's educational approach emphasizes "active participatory learning." Active learning means students have direct, hands-on experiences with people, objects, events, and ideas. Children's interests and choices are at the heart of High Scope programs. They construct their own knowledge through interactions with the world and the people around them. Children take the first step in the learning process by making choices and following through on their plans and decisions. Teachers, caregivers, and parents offer physical, emotional, and intellectual support. In active learning settings, adults expand children's thinking with diverse materials and nurturing interactions.

Kindergarten through Grade 5:

English Language Arts Program

We use a balanced literacy model, which includes the *Reading Workshop* model and the *Writing Workshop* model. Reading Workshop is a teaching method in which the goal is to teach students strategies for reading and comprehension. The workshop model allows teachers to differentiate and meet the needs of all their students. Reading Workshop helps to foster a love of reading and gives students chances to practice reading strategies independently and with guidance. The Writing Workshop, similar to the Reading Workshop, is a method of teaching writing using a workshop method. Students are given opportunities to write in a variety of genres that help foster a love of writing. The Writing Workshop allows teachers to meet the needs of their students by differentiating their instruction and gearing instruction based on information gathered throughout the workshop. The components of the workshop model include the following: Read aloud time, mini-lessons, independent reading, independent writing, conferring, guided reading, guided writing, and sharing.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION: (Continued)

Programs (Continued)

1. CURRICULUM DESIGN AND INSTRUCTIONAL APPROACH (Continued)

Kindergarten through Grade 5: (Continued)

Eureka Math

The curriculum is designed to:

- Support students to make sense of mathematics and learn that they can be mathematical thinkers
- Focus on computational fluency with whole numbers as a major goal of the elementary grades
- Provide substantive work in important areas of mathematics - rational numbers, geometry, measurement, data, and early algebra - and connections among them
- Emphasize reasoning about mathematical ideas
- Communicate mathematics content and pedagogy to teachers
- Engage the range of learners in understanding mathematics

It's not enough for students to know the process for solving a problem; they need to understand why that process works. Teaching mathematics as a "story," *Eureka Math* builds students' knowledge logically and thoroughly to help them achieve deep understanding. While this approach is unfamiliar to those of us who grew up memorizing mathematical facts and formulas, it has been tested and proven to be the most successful method in the world.

Social Studies

Students don't just read textbooks and answer questions. They discover information for themselves. They feel the emotions of historical figures. They reason through problems. They debate complex issues. Students interact in pairs and groups so they are engaged in their own learning. There are also opportunities for personal reflection and processing. Giving students a variety of ways to experience content helps them better retain and recall key information. Most importantly, when students are engaged, they love learning.

Science

Sela provides all students with science experiences that are appropriate to their cognitive stages of development and serve as a foundation for more advanced ideas that prepare them for life in an increasingly complex scientific and technological world.

Enrichment

Physical Education - Physical Education is an integral part of the total education program of each student in our school. Through the medium of sport and movement all students will participate in a sequential, differentiated program that fosters each student's personal health, fitness and safety.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION: (Continued)

Programs (Continued)

1. CURRICULUM DESIGN AND INSTRUCTIONAL APPROACH (Continued)

Kindergarten through Grade 5: (Continued)

Enrichment (Continued)

Through exposure to a wide variety of activities, students will gain the necessary knowledge to understand the importance of and make educated decisions around opportunities to achieve and maintain a healthy lifestyle. The curriculum is based on the standards developed by D.C.P.S. standards in P.E.

Arts Education - Students will demonstrate an understanding of the arts in relation to history and culture. They will make connections between visual arts and other disciplines. In Pre-K3 and Pre-K4, arts will be integrated into the curriculum. For grades K-5, Art will be a separate class that students will have two times per week in 50-minute blocks of time.

Science, Technology, Engineering, and Mathematics - (STEM) is integrated throughout instruction on a daily basis. Our STEM program prepares our students for careers that require math and science, collaboration, critical thinking, and problem solving. Our STEM program also gives students a boost through the acquisition of skills and experiences that inspires them and equips them with practical values and skills for life. Our teachers will integrate effective STEM classroom activities as well as assess students' understanding in order to adjust their instruction to meet the individual needs of our students.

Hebrew - Students in grade K-5 will have a weekly, 50-minute block of Hebrew Enrichment that examines aspects of Israeli culture to explore the Hebrew language. This block will be taught by the Hebrew Curriculum Coordinator and Co-Coordinator and is in addition to the daily Hebrew classes that are scheduled for grades K-5. Sela is working to provide quality exposure to the Hebrew language throughout the school day, and not just during Hebrew classes.

Responsive Classroom

Sela PCS is inspired by the Responsive Classroom approach to creating a healthy and successful classroom environment. The Responsive Classroom approach is a widely used, research-backed approach to elementary education that increases academic achievement, decreases problem behaviors, improves social skills, and leads to more high-quality instruction.

Sela PCS uses Responsive Classroom as a means of creating collaborative classroom environments where all members of the classroom community take responsibility for their actions and focus on the process of learning.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION: (Continued)

Programs (Continued)

2. PARENT INVOLVEMENT EFFORTS

At Sela PCS, we empower parents to have a voice in their child's education. We believe that when families become actively involved, students, schools, and communities all benefit because strong home-school partnerships help all stakeholders focus on student achievement. Below is a summary of ways in which Sela Public Charter School welcomes family engagement.

Tuesday Folder - Each week the school admin team with input from teachers sends home a newsletter with opportunities for classroom involvement and ideas for extending learning at home. In addition to the Tuesday Folder, supplemental announcements are sent home as reminders for upcoming events or deadlines.

School Open Houses and School Tours - Open houses and school tours occur frequently. School open houses and school tours provide potential parents and families with opportunities to learn more about our schools' academic and socio-emotional learning environments.

Parent-Teacher School Association (PTSA) - Parents have a voice in operational, learning, community, and fundraising issues through the Parent-Teacher School Association (PTSA), which meets monthly and is in communication with the Head of School and Director of Student Culture.

School and Teacher Websites - Sela provides links to essential information and forms for current and prospective parents via the school website and through regularly updated teacher websites.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of Sela are summarized below:

(a) Basis of Accounting and Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses, and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Contributions

Sela has adopted Financial Accounting Standards Board ASC No. 958-605-25, *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

Contributions (Continued)

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor-imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met. Contributions and promises to give with donor-imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value. An allowance for uncollectible contributions receivable is provided based upon management's judgement, including such factors as prior collection history and type of contribution.

Sela reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Sela reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Federal and Charter School Funding

Sela receives a student allocation from the District of Columbia as well as federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allowance, as well as funding for English as a Second Language. Sela recognizes this funding in the year in which the school term is conducted. Funding received in advance of the school term is recorded as a refundable advance. Federal entitlements are recognized based on the allowable costs incurred.

Before and After Care Program

Sela offers fee-based extended day programming for students. The hours of operation are structured to coincide with the typical workday of parents of the students. Tuition is collected based on a monthly fee.

(c) Corporate Taxes:

Sela is exempt from federal and state income taxes (other than on unrelated business income) under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. Exemption from District of Columbia income taxes was granted to Sela effective June 27, 2011. Accordingly, no provisions for income taxes have been provided for in the accompanying financial statements. The organization has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions qualify as a charitable tax deduction by the contributor under Section 170(b)(i)(A)(ii). Sela did not have any net unrelated business income for the years ended June 30, 2018 and 2017.

Sela is also exempt from District of Columbia sales, franchise and property taxes.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(d) Grants:

Foundation Grants

Grant revenues result primarily from foundation grants and are recognized as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions between the applicable classes of net assets.

Government Grants

Sela receives grants from federal and state governmental agencies for various purposes in the form of exchange transactions. Receivables related to grant awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant award. Funds received in advance for these types of grants and those that are unexpended as of year-end are reflected as a deferred revenue.

(e) Net Assets:

Sela has adopted Financial Accounting Standards Board ASC No. 958-205-05, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC No. 958-205-05, Sela is required to report information regarding its financial position and activities according to three classes of net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Sela and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are defined as net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control. This classification includes net assets subject to donor-imposed conditions, which have been met in the current year and net assets subject to donor-imposed restrictions that have been released from restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets are defined as net assets subject to donor-imposed restrictions that may or will be met, either by actions of Sela and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets were available at year end for the following program:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Reserve Fund	\$ 80,000	\$ 80,000
Total Net Assets Available	<u>\$ 80,000</u>	<u>\$ 80,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, the passage of time, or by the occurrence of other events specified by donors for the following activity:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Program Services - Purpose Restricted Science, Technology, Engineering and Math Program	\$ -	\$ 186,459
Total Released from Restrictions	<u>\$ -</u>	<u>\$ 186,459</u>

Permanently Restricted Net Assets

Permanently restricted net assets are defined as net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by Sela. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. Sela did not have any permanently restricted net assets as of June 30, 2018 and 2017.

(f) Donated Services and Materials:

Donated services and material are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. The time contributed by Sela's Board of Directors is uncompensated and is not reflected as donated services. In-kind contributions are recorded in the statement of activities at estimated fair value and recognized as revenue and expense (or an asset) in the period they are received.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(f) Donated Services and Materials: (Continued)

The estimated value of donated services and materials has been recorded in the financial statements as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Fixed Assets	\$ _____ -	\$ _____ 4,000
Total	<u>\$ _____ -</u>	<u>\$ _____ 4,000</u>

(g) Functional Expense Allocation Policies and Procedures:

Management has elected to prepare a schedule of functional expenses that is presented as supplemental information to the financial statements. The schedule of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs pertain to educating students. General and administrative costs pertain to supporting activities. Fundraising costs relate to fundraising activities such as special events, fundraisers and the soliciting of contributions.

Management has established functional expense allocation policies and procedures based on a reasonable analysis of cost drivers and reasonable allocation estimates based on financial results and industry standards.

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Direct student expenses (textbooks, materials, instructional supplies, assessment material, contract educational services, and field trips) are allocated entirely to program services.

Personnel expenses for salaries are allocated based on job descriptions and management estimates of time spent on particular activities. Personnel expenses for salaries are divided into employee categories (executive, teachers, other educational staff, etc.) and then a percentage of time spent on program services, general and administrative activities, and fundraising activities is applied. All other personnel expenses (employee benefits, payroll taxes and staff development) are allocated based on the weighted average allocation of direct salaries.

Other expenses that are not directly identifiable by program are allocated based on management estimates of use of resources. For other expenses where it would not be appropriate to designate 100 percent as a program service cost, general and administrative cost, or fundraising cost, the allocation formula for personnel expenses is utilized for cost allocation purposes.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(h) Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Recognition of Salary Expense:

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

(j) Fair Value of Certain Financial Instruments:

Some of Sela's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

3. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in Sela's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. Sela performed an evaluation of uncertain tax positions for the year ended June 30, 2018, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2018, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Charter School files tax returns. It is Sela's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2018, Sela had no accruals for interest and/or penalties.

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Checking Account - Non Interest Bearing	\$ 793,643	\$ 567,162
Savings Account	<u>61,068</u>	<u>61,037</u>
Total	<u>\$ 854,711</u>	<u>\$ 628,199</u>

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS: (Continued)

Sela maintains its operating funds in one financial institution in the form of a non-interest bearing business checking account and a savings account. These accounts are covered under the Federal Deposit Insurance Corporation (FDIC) Program. Federal Deposit Insurance Corporation Insurance coverage is \$250,000 per account category. Deposits held in non-interest-bearing transaction accounts are aggregated with any interest-bearing deposits and the combined total is insured up to \$250,000 per banking institution.

As of June 30, 2018 and 2017, \$605,635 and \$378,498, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the year, the amount of funds at risk may have been greater than at year end. Sela was at risk for the funds held in excess of the insured amounts. Sela has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

5. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:

Accounts and Grants Receivable

Accounts and grants receivable are current and considered to be fully collectible by management. Balances at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Accounts Receivable</u>		
Real Estate Taxes	\$ 86,757	\$ 77,736
Per Pupil Funding	14,055	17,605
Reimbursable Expenses	9,535	8,515
PayPal	7,746	45,011
Employee	3,975	-
Student Fees	<u>3,938</u>	<u>1,228</u>
Total	<u>\$ 126,006</u>	<u>\$ 150,095</u>
<u>Grants Receivable</u>		
SOAR - Increasing Academic Quality	\$ 56,837	\$ 100,503
National School Lunch Program	17,214	11,348
NCLB - Entitlement Funds (Title I and II)	17,139	10,229
Fresh Fruits and Vegetables Program	4,759	-
Special Education Enhancement Fund	4,103	-
E-Rate	2,669	422
Healthy Schools Act	<u>1,216</u>	<u>924</u>
Total	<u>\$ 103,937</u>	<u>\$ 123,426</u>

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE: (Continued)

Accounts and Grants Receivable (Continued)

Sela's accounts and grants receivable consists of unsecured amounts due from funding sources whose ability to pay is subject to changes in general economic conditions. Because Sela does not require collateral, it is at credit risk for the amounts owed to it throughout the year and at year end.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable. Management believes that an allowance was not required, based on its evaluation of collectability of receivables for the years ended June 30, 2018 and 2017.

Trade receivables related to program service fees are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Trade receivables are written off as uncollectable once management determines that available collection efforts have been exhausted.

Promises Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by Sela. Sela uses the allowance method to determine uncollectible promises to give. Balances at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Reserve Fund	<u>\$ 60,000</u>	<u>\$ 60,000</u>
Total	<u>\$ 60,000</u>	<u>\$ 60,000</u>

The above unconditional promises are due to be received within the next year.

6. FIXED ASSETS:

Furniture and equipment are recorded at cost, or in the case of contributed property at the fair market value at the date of contribution. If an expenditure in excess of \$1,000 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful lives of the assets. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$114,129 and \$63,747, respectively. Maintenance and repairs are charged to expenses as incurred.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. FIXED ASSETS: (Continued)

Major classifications of fixed assets and their estimated useful lives are as summarized below:

June 30, 2018

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Leasehold Improvements	3-5 Years	\$ 229,426	\$ 114,358	\$ 115,068
Furniture, Fixtures and Equipment	5 Years	68,607	48,755	19,852
Computers	3 Years	<u>181,849</u>	<u>131,369</u>	<u>50,480</u>
Total		<u>\$ 479,882</u>	<u>\$ 294,482</u>	<u>\$ 185,400</u>

June 30, 2017

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Leasehold Improvements	3-5 Years	\$ 170,567	\$ 52,803	\$ 117,764
Furniture, Fixtures and Equipment	5 Years	59,098	35,396	23,702
Computers	3 Years	<u>143,241</u>	<u>92,587</u>	<u>50,654</u>
Total		<u>\$ 372,906</u>	<u>\$ 180,786</u>	<u>\$ 192,120</u>

7. DEFERRED REVENUE:

For the year ended June 30, 2018, there were \$21,666 of deferred revenues for the summer enrichment program that occurred after year end. For the year ended June 30, 2017, deferred revenue consists of \$59,325 of per pupil summer school funding received for a summer school program and \$1,108 of funding for school technology, not yet utilized as of June 30, 2017.

8. DEFERRED RENT:

Accounting principles generally accepted in the United States of America require that rent expense, pursuant to a non-cancelable lease that includes fixed scheduled rent increases, be recorded on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statements of financial position. As more fully discussed in Note 13, Sela entered into a lease agreement for the rental of a school building located in Washington, DC, for 61-1/2 months, commencing on June 17, 2013, and expiring on July 31, 2019. On August 1, 2016, this lease was amended to extend the lease term through June 30, 2022. Accordingly, future rent payments have been recorded as a liability to adjust the actual rent paid to conform to the straight-line basis. The balance of unamortized deferred rent at June 30, 2018 and 2017 was \$500,765 and \$383,811, respectively.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

9. CAPITAL LEASE:

During the year ended June 30, 2018, Sela entered into a capital lease for the rental of a Copystar 4052ci photocopier with Wells Fargo Vendor Financial Services, LLC. The original balance was in the amount of \$10,260, and is payable over thirty-six (36) months with a monthly payment of \$285 and a maturity on February 24, 2021. The lease is secured by the photocopy equipment that cost \$9,509, and is presented as part of furniture and equipment. Interest expense for the year ended June 30, 2018, was \$222 using an implicit rate of 5%. For the year ended June 30, 2018, amortization expense in the amount of \$1,585 on the photocopier is included in depreciation expense. Accumulated amortization was \$1,585 at June 30, 2018. The balance of the capital lease at June 30, 2018 was \$8,021.

Sela is committed under this capital lease to make future minimum payments as follows:

<u>Year Ending June 30,</u>	<u>Total Payment</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 3,420	\$ 3,089	\$ 331
2020	3,420	3,247	173
2021	<u>1,710</u>	<u>1,685</u>	<u>25</u>
Total Future Minimum Lease Payments	<u>\$ 8,550</u>	<u>\$ 8,021</u>	<u>\$ 529</u>

10. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

Sela was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of Sela's fiscal management and academic acceptability. The contract dated June 24, 2013, provides for a 15-year charter effective the date of first operation. If not renewed, the charter contract will expire on or about June 24, 2028. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that Sela is in compliance with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the charter every five years, with the first review occurring in the fall of 2017. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract. Management does not anticipate non-renewal or revocation of its charter.

As part of the agreement with the District of Columbia Public Charter School Board, Sela may be charged a public charter school fee, which is not to exceed one percent (.9% for the 17/18 school year) of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board.

For the years ended June 30, 2018 and 2017, Sela incurred \$39,956 and \$34,250, respectively, in administrative fees. Sela's enrollment is not permitted to be greater than 372 students for the 2018 academic year. Enrollment for the 2017/2018 year was 202 students and enrollment for the 2016/2017 year was 177 students.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

11. PER-PUPIL FUNDING ALLOCATION:

Sela receives local funding from the District of Columbia in the form of per-pupil educational allotments and facility allowances. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2018, the per-student rate ranged from \$10,257 to \$13,744 for the education allotment and \$3,193 for the facility allowance. For the year ended June 30, 2017, the per-student rate ranged from \$9,682 to \$12,974 for the education allotment and \$3,124 for the facility allowance. Additional allotments were made for Special Education Services and English as a Second Language. Per-pupil funding for the years ended June 30, 2018 and 2017 was as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Grade Level - Pre-School - 3 rd Grade	\$ 2,485,721	\$ 2,054,520
Special Education	347,864	207,611
At Risk Students	101,082	86,934
English as a Second Language	105,544	85,395
Facilities Allowance	644,931	552,948
Teachers Collective Bargaining	<u>51,040</u>	<u>-</u>
Total	<u>\$ 3,736,182</u>	<u>\$ 2,987,408</u>

12. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2018 and 2017, Sela participated in the following federal award programs:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
SOAR - Increasing Academic Quality	\$ 256,445	\$ 199,847
National School Lunch Program	59,211	60,846
NCLB - Entitlement Funds (Title I)	54,219	38,434
Individuals with Disabilities Education Act (IDEA)	30,178	14,205
NCLB - Entitlement Funds (Title II)	13,114	9,987
NCLB - Entitlement Funds (Title IV)	10,000	-
DOD Fresh Fruit and Vegetables Program	9,469	2,609
Donated Commodities	4,621	2,430
Charter School Planning and Implementation Grant (Title V, Part B)	<u>-</u>	<u>141</u>
Total	<u>\$ 437,257</u>	<u>\$ 328,499</u>

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. FEDERAL ENTITLEMENTS AND GRANTS: (Continued)

Federal formula grants are allocations of money to states or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project. Sela receives federal formula grants under the provisions of the No Child Left Behind Act (NCLB) of 2001, P.L 107-110. NCLB funds are not intended to replace state or local educational funding. Rather, NCLB funds provide additional support to states, Local Education Agencies (LEAs), and schools for specific purposes. Grants are provided by the U.S. Department of Education and passed through the District of Columbia Office of State Superintendent of Education.

The National School Lunch Program and School Breakfast Program are part of the child nutrition cluster of programs operated by the U.S. Department of Agriculture. The objectives of the child nutrition cluster programs are to: (1) assist states in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

13. COMMITMENTS:

Building Lease - 6015-17 Chillum Place, NE

On December 19, 2012, Sela entered into a lease agreement with Jemal's Chillum, LLC, for its school location at 6015-17 Chillum Place, NE, Washington, DC. The lease commenced on June 17, 2013. The monthly base rent in year 1 was \$25,000 with payments beginning on August 1, 2013. The lease term extends for 61-1/2 months through July 31, 2018, and includes approximately 31,300 square feet of space. The monthly base rent increases each year during the lease to a monthly amount of \$47,536 in the fifth and final year of the lease. In addition to the base rent, Sela will also be responsible to pay the landlord for monthly operating expenses associated with the leased property that are billed by the landlord. On August 1, 2016, Sela entered into a lease amendment which extended the lease term for an additional three years and eleven months through June 30, 2022. This amendment also renegotiated the monthly base rental fee for the remainder of the lease. Monthly rental payments at June 30, 2018, were \$29,263. Rent expense related to this lease for the years ended June 30, 2018 and 2017 was \$479,608 and \$480,226.

Future required minimum rental lease payments with the change in deferred rent over the remaining life of the lease are as follows:

<u>Year Ending June 30,</u>	<u>Rent Obligation</u>	<u>Deferred Rent</u>	<u>Rent Cash Payment</u>
2019	\$ 468,109	\$ 101,696	\$ 569,805
2020	468,109	117,080	585,189
2021	468,109	132,881	600,990
2022	<u>468,109</u>	<u>149,108</u>	<u>617,217</u>
Total	<u>\$ 1,872,436</u>	<u>\$ 500,765</u>	<u>\$ 2,373,201</u>

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

13. COMMITMENTS: (Continued)

Building Sub-Lease - 6015-17 Chillum Place, NE

Sela entered into a sublease agreement with Shining Stars Montessori Academy Public Charter School for its location at 6015-17 Chillum Place, NE, Washington, DC. The lease commenced August 1, 2014, and expired July 31, 2016. The sublease included approximately 12,000 square feet of space. The base annual rent under the sublease was \$230,000, payable in equal monthly installments during the first year. The monthly base rent increased by three percent (3%) on the first anniversary of the sublease commencement date. In addition to the base rent, the subtenant was also responsible to pay Sela for monthly operating expenses associated with the subleased property. This sublease also required a deposit to be paid to Sela in the amount of \$57,500. The amount received for the year ended June 30, 2017, was \$22,302, which is reported as an offset to the rent expense.

Photocopier Lease

Sela entered into an operating lease with Copier Workshop, Inc., on May 7, 2014, for the rental of a Kyocera Photocopier CS 3051 CI. Prior to this lease, Sela was renting a copier on a month-to-month basis. The new lease calls for sixty (60) monthly payments of \$295, commencing on June 1, 2014. Total copier rental and service expense for the years ending June 30, 2018 and 2017 was \$13,546 and \$18,066, respectively, which includes repairs and maintenance on the copiers. Future minimum payments due under this lease are as follows:

<u>Year Ended June 30,</u>	
2019	\$ <u>3,245</u>
Total	\$ <u><u>3,245</u></u>

14. RELATED PARTY TRANSACTIONS:

Board of Directors

Three of the directors appointed to serve on the Board of Directors are parents of students attending the Sela Public Charter School. Parent directors are elected by a majority vote of the board members from a list of qualified individuals submitted to the board by an advisory committee.

15. CONCENTRATIONS:

Revenues

Sela receives public funds from the DC government based on the number of students they enroll according to the Uniform Per Student Funding Formula developed by the Mayor and City Council. This per pupil allocation is supplemented with extra funds for students with special needs. During the years ended June 30, 2018 and 2017, eighty-five percent (85%) and eighty-one percent (81%), respectively, of total support was received from the District of Columbia in the form of per pupil funding.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

15. CONCENTRATIONS: (Continued)

In addition to the revenue received through the Uniform Per Student Funding, Sela receives state and federal grants awarded under the auspices of the U.S. Department of Education (No Child Left Behind and special education) as well as the U.S. Department of Agriculture (Child Nutrition). Sela is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DCPCSB).

Sela is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, Sela must compete for students against the DC Public School system as well as other DC Public Charter Schools.

16. CONTINGENCIES:

Sela was granted its initial charter by the District of Columbia Public Charter School Board, authorized under the District of Columbia School Reform Act of 1995, Public Law 104-134, as amended. Sela has no reason to believe that this relationship will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e., the failure to continue this charter authorization or withholding funds) could adversely affect Sela's ability to finance ongoing operations.

Sela depends on per pupil allocations, grants, and contributions for a significant portion of its revenues. The ability of the sources of revenues to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to Sela. While Sela's board of directors and management believes the school has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

Laws and regulations governing charter schools are complex and subject to interpretation. Sela believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

The viability of public charter schools and funding for these schools is dependent on the consensus of current and future administration of the District of Columbia Government. Any future change in dynamics could adversely affect the operations of public charter schools.

17. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 3, 2018, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

18. FUNDRAISING:

During the years ended June 30, 2018 and 2017, expenses incurred for the purpose of fundraising were \$106,652 and \$114,550, respectively.

19. ADVERTISING COSTS:

Advertising and marketing costs are expensed when incurred. Marketing activities were conducted for the purpose of promoting open enrollment and recruiting to the Charter School. Marketing expenses in the amount of \$2,098 and \$12,901 were incurred during the years ended June 30, 2018 and 2017, respectively.

20. RETIREMENT PLAN:

401(k) Profit Sharing Plan

Sela provides pension benefits for its employees through a defined contribution 401(k) retirement plan which is currently administered by John Hancock Retirement Plan Services, LLC. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the plan allow for the employees to contribute up to the statutory limits set by the Internal Revenue Code.

Sela matches contributions up to three percent (3%) of annual employee compensation. Participants become fully vested after their second year. There is no unfunded past service liability. Sela's contribution for the years ended June 30, 2018 and 2017, was \$22,024 and \$12,678, respectively.

21. EMPLOYEE BENEFITS:

The cost of fringe benefits incurred for the years ended June 30, 2018 and 2017, consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Social Security/Medicare	\$ 169,396	\$ 139,240
Health Insurance	179,400	117,442
Retirement	22,024	12,678
Unemployment	19,651	16,327
Workers Compensation	<u>6,732</u>	<u>6,576</u>
Total	<u>\$ 397,203</u>	<u>\$ 292,263</u>

Flexible Benefits Plan

Sela adopted a Section 125 Flexible Benefits Plan (Cafeteria Plan). Under this plan, employees are permitted to use pre-tax benefit dollars through payroll deduction to pay for medical insurance premiums.

SELA PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

22. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2018 and 2017, consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Rent	\$ 479,608	\$ 459,918
Utilities	67,302	50,474
Contracted Building Services	107,361	104,196
Maintenance and Repairs	27,925	19,325
Janitorial Supplies	11,455	11,486
Amortization Expense	<u>61,554</u>	<u>20,123</u>
Total	<u>\$ 755,205</u>	<u>\$ 665,522</u>

SELA PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>				<u>June 30, 2017</u>			
	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Personnel, Salaries and Benefits:</u>								
Executive and Leadership Salaries	\$ 483,942	\$ 294,693	\$ 140,804	\$ 48,445	\$ 448,615	\$ 301,942	\$ 105,436	\$ 41,237
Teacher Salaries	977,186	977,186	-	-	783,686	783,686	-	-
Teaching Assistant Salaries	324,530	312,047	8,322	4,161	235,778	198,585	20,027	17,166
Clerical Salaries and Other Salaries	472,446	439,475	29,649	3,322	385,068	293,848	87,761	3,459
Fringe Benefits - Staff	397,203	330,975	52,761	13,467	292,263	249,030	33,511	9,722
Substitute Teachers	4,604	4,604	-	-	6,486	6,486	-	-
Staff Development Costs	53,223	44,349	7,070	1,804	59,508	50,705	6,823	1,980
Other Staff Related Expenses	31,674	26,393	4,207	1,074	25,564	21,783	2,931	850
Total Personnel, Salaries and Benefits	<u>\$ 2,744,808</u>	<u>\$ 2,429,722</u>	<u>\$ 242,813</u>	<u>\$ 72,273</u>	<u>\$ 2,236,968</u>	<u>\$ 1,906,065</u>	<u>\$ 256,489</u>	<u>\$ 74,414</u>
<u>Direct Student Costs:</u>								
Student Supplies, Snacks, etc.	\$ 53,420	\$ 53,420	\$ -	\$ -	\$ 36,057	\$ 36,057	\$ -	\$ -
Student Assessment and Materials	4,742	4,742	-	-	4,274	4,274	-	-
Student Textbooks	21,092	21,092	-	-	12,410	12,410	-	-
Library and Media Materials	-	-	-	-	2,357	2,357	-	-
Contracted Instructional Fees	193,978	193,978	-	-	226,617	226,617	-	-
Student Travel/Field Trips	8,577	8,577	-	-	5,133	5,133	-	-
Food Service Fees	191,579	191,579	-	-	142,929	142,929	-	-
Student Recruiting	2,098	2,098	-	-	12,901	12,901	-	-
Other Student Costs	11,387	11,387	-	-	7,333	7,333	-	-
Total Direct Student Costs	<u>\$ 486,873</u>	<u>\$ 486,873</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450,011</u>	<u>\$ 450,011</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Occupancy Costs:</u>								
Amortization Leasehold Improvements	\$ 61,554	\$ 51,291	\$ 8,176	\$ 2,087	\$ 20,123	\$ 17,146	\$ 2,308	\$ 669
Rent	479,608	399,641	63,707	16,260	459,918	391,885	52,734	15,299
Utilities	67,302	56,080	8,940	2,282	50,474	43,008	5,787	1,679
Maintenance and Repairs	39,380	32,814	5,231	1,335	30,811	26,253	3,533	1,025
Contracted Building Services	107,361	89,460	14,261	3,640	104,196	88,783	11,947	3,466
Total Occupancy Costs	<u>\$ 755,205</u>	<u>\$ 629,286</u>	<u>\$ 100,315</u>	<u>\$ 25,604</u>	<u>\$ 665,522</u>	<u>\$ 567,075</u>	<u>\$ 76,309</u>	<u>\$ 22,138</u>

(See Accompanying Notes and Auditor's Report)

SELA PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018				June 30, 2017			
	Total	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising
<u>Office Expenses:</u>								
Office Supplies and Materials	\$ 10,589	\$ 8,823	\$ 1,407	\$ 359	\$ 29,893	\$ 25,472	\$ 3,427	\$ 994
Equipment Rental and Maintenance	13,794	11,494	1,832	468	18,066	15,394	2,071	601
Telephone and Telecommunications	16,261	13,550	2,160	551	15,260	13,002	1,750	508
Postage, Shipping and Delivery	168	140	22	6	115	98	13	4
Printing and Duplication	-	-	-	-	131	112	15	4
Computer Support Fees	<u>30,334</u>	<u>25,277</u>	<u>4,029</u>	<u>1,028</u>	<u>17,110</u>	<u>14,579</u>	<u>1,962</u>	<u>569</u>
Total Office Expenses	<u>\$ 71,146</u>	<u>\$ 59,284</u>	<u>\$ 9,450</u>	<u>\$ 2,412</u>	<u>\$ 80,575</u>	<u>\$ 68,657</u>	<u>\$ 9,238</u>	<u>\$ 2,680</u>
<u>General Expenses:</u>								
Insurance	\$ 9,006	\$ 8,277	\$ 729	\$ -	\$ 8,519	\$ 7,259	\$ 977	\$ 283
Administrative Fee	39,956	36,719	3,237	-	34,250	30,187	4,063	-
Accounting, Auditing and Payroll	90,741	75,612	12,053	3,076	74,743	63,685	8,570	2,488
Legal Fees	1,375	-	1,375	-	10,800	-	10,800	-
Other Professional Fees	24,999	19,244	4,256	1,499	12,320	1,129	152	11,039
Business Fees and Dues	30,947	28,440	2,507	-	2,786	1,129	1,657	-
Interest Expense	222	-	222	-	-	-	-	-
Other Expenses	164	136	22	6	11,194	7,826	3,311	57
Bad Debt Expense	3,011	-	3,011	-	-	-	-	-
Depreciation	<u>52,575</u>	<u>43,809</u>	<u>6,984</u>	<u>1,782</u>	<u>43,624</u>	<u>37,171</u>	<u>5,002</u>	<u>1,451</u>
Total General Expenses	<u>\$ 252,996</u>	<u>\$ 212,237</u>	<u>\$ 34,396</u>	<u>\$ 6,363</u>	<u>\$ 198,236</u>	<u>\$ 148,386</u>	<u>\$ 34,532</u>	<u>\$ 15,318</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 4,311,028</u>	<u>\$ 3,817,402</u>	<u>\$ 386,974</u>	<u>\$ 106,652</u>	<u>\$ 3,631,312</u>	<u>\$ 3,140,194</u>	<u>\$ 376,568</u>	<u>\$ 114,550</u>

(See Accompanying Notes and Auditor's Report)

Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Directors
Sela Public Charter School
6015-17 Chillum Place, NE
Washington, DC 20011

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, 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, the financial statements of the Sela Public Charter School, (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2018-001, that we consider to be material weaknesses.

Compliance and Other Matters

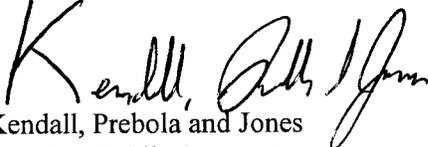
As part of obtaining reasonable assurance about whether the Sela Public Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct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

Sela Public Charter School's Response to Findings

Sela Public Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings. Sela Public Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
December 3, 2018

SELA PUBLIC CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

There were no audit findings in the prior year.

SELA PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of the Sela Public Charter School were prepared in accordance with generally accepted accounting principles.
- b. One material weakness disclosed during the audit of the financial statements has been reported, Item 2018-001.
- c. No instances of noncompliance material to the financial statements of the Sela Public Charter School were disclosed during the audit.

II. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards

2018-001 Condition: The Charter School utilizes a credit card to pay for some of its expenses. The invoices for these purchases were not maintained to support these credit card charges during the year.

Criteria: All credit card charges for expenses should have a supporting invoice that is printed for online purchases or obtained for charges at the point of sale. These invoices need to be obtained and saved as supporting documentation at the time the charge is incurred, as they are an important part of the credit charge approval process. Depending on the nature of the charge and invoice, there should be an explanation of the charge.

Cause: Management has not obtained all receipts related to the charges described above.

Effect: By not having credit card receipts for all charges and not having a detailed note or explanation regarding the nature of the charge, the accounting controls are lacking over these charges.

Recommendation: We recommend that the Charter School require all receipts to be obtained and/or printed immediately for credit card charges. For charges that are not self-explanatory from the invoice, a description and/or memo should be noted to explain and support the nature of the charge.

Views of Responsible Officials: Kendall, Prebola and Jones, LLC, has presented in detail to the school leadership, both during audit field work for the fiscal year 2018 audit and via this final audit report, the material weakness as detailed in Item 2018-001. Subsequent discussions of the matter have included school leadership, school governance in the form of the Finance Committee, our external accounting partner, and Kendall, Prebola and Jones, LLC.

It is our understanding that invoices were not properly maintained for a selection of expenses made with school-issued credit cards. It is our belief that this is a one-time occurrence, without intended negligence, and we are taking necessary steps to prevent such instances in the future.

SELA PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

II. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards (Continued)

2018-001 Views of Responsible Officials: (Continued)

Instituted beginning in the school year 2018-2019, the following steps will be taken to ensure proper maintenance of documentation related to expenses made with school-issued credit cards:

- School leadership will file all paper receipts associated with credit card transactions in a file folder located on site at the school. Leadership will file all electronic receipts in an electronic file folder. Filing will be made on the day of purchase.
- In tandem with contracted financial specialist, leadership will implement and maintain a spreadsheet that tracks credit card purchases and proper filing of receipts from purchases.
- Leadership will conduct monthly internal audits with the Head of School and Director of Operations alongside our contracted finance specialist. Internal audits will include a review of monthly credit card statements, and a reconciliation of listed transactions to credit card receipts maintained on site at the school.