

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

Financial Report  
June 30, 2014

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## **Independent Auditor's Report on the Financial Statements**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The SEED Public Charter School of Washington, D.C. (the School), which comprise the balance sheets as of June 30, 2014 and 2013, 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 School as of June 30, 2014 and 2013, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2014, and October 31, 2013, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 School's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "McGladrey LLP".

Gaithersburg, Maryland  
October 31, 2014

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

**Balance Sheets**

**June 30, 2014 and 2013**

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Current Assets		
Cash and cash equivalents	\$ 1,574,931	\$ 1,918,263
Receivables	140,361	389,588
Promises to give	82,708	76,623
Due from The SEED Foundation, Inc.	35,383	-
Prepaid expenses	63,445	20,949
<b>Total current assets</b>	<b>1,896,828</b>	<b>2,405,423</b>
Long-Term Assets		
Investments	741,581	628,918
Restricted cash	1,351,694	1,312,960
Property and equipment, net	18,312,579	18,933,204
Bond issuance costs, net	108,373	146,568
	<b>\$ 22,411,055</b>	<b>\$ 23,427,073</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 426,129	\$ 412,972
Deferred revenue	156,934	110,594
Due to The SEED Foundation, Inc.	-	391,030
Current portion of capital lease obligation	32,722	15,256
Current portion of bonds payable	825,000	785,000
<b>Total current liabilities</b>	<b>1,440,785</b>	<b>1,714,852</b>
Long-Term Liabilities		
Capital lease obligation, net of current portion	111,339	43,237
Bonds payable, net of current portion	5,040,000	5,865,000
<b>Total long-term liabilities</b>	<b>5,151,339</b>	<b>5,908,237</b>
<b>Total liabilities</b>	<b>6,592,124</b>	<b>7,623,089</b>
Commitments and Contingencies (Notes 8, 11 and 14)		
Net Assets		
Unrestricted	14,741,875	14,852,912
Temporarily restricted	976,887	851,072
Permanently restricted	100,000	100,000
	<b>15,818,762</b>	<b>15,803,984</b>
	<b>\$ 22,410,886</b>	<b>\$ 23,427,073</b>

See Notes to Financial Statements.

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

**Statement of Activities**  
**Year Ended June 30, 2014**  
**(With Comparative Totals for 2013)**

	2014				2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Support and Revenue					
Per-pupil allocation	\$ 13,013,361	\$ -	\$ -	\$ 13,013,361	\$ 12,864,997
Federal grants and awards	720,659	-	-	720,659	901,923
State grants and awards	17,050	-	-	17,050	-
Contributions from donors	32,552	289,233	-	321,785	304,511
In-kind contributions	28,607	-	-	28,607	146,500
Investment income	116,758	151	-	116,909	77,841
Other	23,407	-	-	23,407	69,052
Net assets released from restrictions	163,569	(163,569)	-	-	-
<b>Total support and revenue</b>	<b>14,115,963</b>	<b>125,815</b>	<b>-</b>	<b>14,241,778</b>	<b>14,364,824</b>
Expenses					
Program	12,515,943	-	-	12,515,943	12,448,693
Management and general	1,498,820	-	-	1,498,820	1,657,806
Fundraising	212,068	-	-	212,068	206,055
<b>Total expenses</b>	<b>14,226,831</b>	<b>-</b>	<b>-</b>	<b>14,226,831</b>	<b>14,312,554</b>
<b>Change in net assets</b>	<b>(110,868)</b>	<b>125,815</b>	<b>-</b>	<b>14,947</b>	<b>52,270</b>
Net Assets					
Beginning	14,852,743	851,072	100,000	15,803,815	15,751,714
Ending	<u>\$ 14,741,875</u>	<u>\$ 976,887</u>	<u>\$ 100,000</u>	<u>\$ 15,818,762</u>	<u>\$ 15,803,984</u>

See Notes to Financial Statements.

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

**Statement of Activities  
Year Ended June 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue</b>				
Per-pupil allocation	\$ 12,864,997	\$ -	\$ -	\$ 12,864,997
Federal grants and awards	901,923	-	-	901,923
Contributions from donors	32,802	271,540	-	304,342
In-kind contributions	146,500	-	-	146,500
Investment income	77,672	169	-	77,841
Other	69,052	-	-	69,052
Net assets released from restrictions	177,114	(177,114)	-	-
<b>Total support and revenue</b>	<b>14,270,060</b>	<b>94,595</b>	<b>-</b>	<b>14,364,655</b>
<b>Expenses</b>				
Program	12,448,693	-	-	12,448,693
Management and general	1,657,806	-	-	1,657,806
Fundraising	206,055	-	-	206,055
<b>Total expenses</b>	<b>14,312,554</b>	<b>-</b>	<b>-</b>	<b>14,312,554</b>
<b>Change in net assets</b>	<b>(42,494)</b>	<b>94,595</b>	<b>-</b>	<b>52,101</b>
<b>Net Assets</b>				
Beginning	14,895,237	756,477	100,000	15,751,714
Ending	<u>\$ 14,852,743</u>	<u>\$ 851,072</u>	<u>\$ 100,000</u>	<u>\$ 15,803,815</u>

See Notes to Financial Statements.

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

**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 14,947	\$ 52,270
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	953,607	930,629
Net realized and unrealized gain on investments	(112,663)	(73,870)
Donated artwork	-	(146,500)
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	249,227	62,977
Promises to give	(6,085)	(2,264)
Due from The SEED Foundation, Inc.	(35,383)	-
Prepaid expenses	(42,496)	2,946
Increase (decrease) in:		
Accounts payable and accrued expenses	13,157	59,152
Deferred revenue	46,340	(79,083)
Due to The SEED Foundation, Inc.	(391,030)	144,103
<b>Net cash provided by operating activities</b>	<b>689,621</b>	<b>950,360</b>
Cash Flows From Investing Activities		
Purchases of property and equipment	(181,679)	(514,829)
Increase in restricted cash	(38,734)	(52,594)
<b>Net cash used in investing activities</b>	<b>(220,413)</b>	<b>(567,423)</b>
Cash Flows From Financing Activities		
Principal payments on capital lease obligation	(27,540)	(28,230)
Principal payments on bonds payable	(785,000)	(750,000)
<b>Net cash used in financing activities</b>	<b>(812,540)</b>	<b>(778,230)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(343,332)</b>	<b>(395,293)</b>
Cash and Cash Equivalents		
Beginning	1,918,263	2,313,556
Ending	\$ 1,574,931	\$ 1,918,263
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 130,550	\$ 140,191
Equipment acquired under capital lease	\$ 113,108	\$ 60,057
Donated artwork	\$ -	\$ 146,500

See Notes to Financial Statements.

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

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

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

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

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

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

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

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

Basis of Presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Restricted Cash: Separate purpose-restricted cash accounts are held by the School for the uses of capital improvements and the payment of bond principal and interest.

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

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

Receivables: Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management believes that an allowance was not required, based on its evaluation of the collectability of receivables at June 30, 2014 and 2013.

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

### Notes to Financial Statements

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

Promises to Give: Contributions are recognized when the donor makes a written promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. The allowance for doubtful promises to give is based on management's evaluation of the status of existing promises to give and historical results. Management believes all promises were collectible, and no allowance was necessary at June 30, 2014 and 2013. At June 30, 2014 and 2013, all promises to give were expected to be collected during the next fiscal year.

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

Property and Equipment: Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the related asset, ranging from 3 to 40 years. Artwork is not being depreciated. Normal repairs and maintenance are expensed as incurred. The School capitalizes all property and equipment purchased with a cost of \$1,000 or more.

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

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

Bond Issuance Costs: Legal, accounting, printing costs, and other expenses associated with bond issuances are being amortized on the effective interest rate method over the term of the bonds.

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 passage of time or can be fulfilled and removed by actions of the School pursuant to these stipulations. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. At June 30, 2014 and 2013, temporarily restricted net assets represented amounts restricted for specific education-related expenses.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the School's actions. Permanently restricted net assets represent resources generating investment income used for scholarships.

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

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

### Notes to Financial Statements

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

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

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

Fair Value of Financial Instruments: The carrying amounts of cash and cash equivalents, tuition receivable, accounts payable and current maturities of long-term borrowings approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value, because the interest rates on these instruments fluctuate with market interest rates offered to the School for debt with similar terms and maturities. Investments are carried at fair value.

Tax Status: The School is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is not considered to be a private foundation. Under Section 501(c)(3) of the IRC, the School is exempt from federal taxes on income other than unrelated business income. The School did not have any net unrelated business income for the years ended June 30, 2014 and 2013.

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

Management evaluated the School's tax positions and concluded that the School has taken no uncertain positions that require adjustments to the financial statements to comply with the provisions of this guidance. Generally, the School is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2011.

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

Reclassifications: Certain accounts in the 2013 financial statements have been reclassified to conform to the 2014 financial statements, with no effect on previously reported net assets or change in net assets.

Subsequent Events: The School evaluated subsequent events for disclosures through October 31, 2014, which is the date the financial statements were issued.

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

**Notes to Financial Statements**

**Note 2. Restricted Cash**

Restricted cash represents the following purposes at June 30, 2014 and 2013:

	2014	2013
Principal sinking fund	\$ 421,843	\$ 401,822
Interest and program expense reserve	549,469	531,327
Capital reserve	380,382	379,811
	<u>\$ 1,351,694</u>	<u>\$ 1,312,960</u>

**Note 3. Investments**

At June 30, 2014 and 2013, the School held investments in mutual funds in the amounts of \$741,581 and \$628,918, respectively.

Investment income for the years ended June 30, 2014 and 2013, consists of the following:

	2014	2013
Interest and dividends	\$ 4,246	\$ 3,971
Realized and unrealized gain on investments	112,663	73,870
	<u>\$ 116,909</u>	<u>\$ 77,841</u>

**Note 4. Property and Equipment**

Property and equipment at June 30, 2014 and 2013, consist of the following:

Asset Category	2014	2013
Buildings and improvements on leased land	\$ 25,183,463	\$ 25,109,957
Furniture and fixtures	2,222,049	2,219,955
Computer equipment	1,783,831	1,564,646
Vans	154,664	154,664
Artwork	146,500	146,500
Books	102,662	102,662
	<u>29,593,169</u>	<u>29,298,384</u>
Less accumulated depreciation	11,280,590	10,365,180
	<u>\$ 18,312,579</u>	<u>\$ 18,933,204</u>

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

### Notes to Financial Statements

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#### **Note 5. Bonds Payable**

The School, through the District of Columbia, issued \$8,105,000 of District of Columbia Pooled Loan Program Revenue Bonds in April 2001, and another \$6,000,000 of similar bonds in October 2001. The portion of the bonds attributable to the School mature on January 1, 2021, with principal due in variable semi-annual installments on July 1 and January 1. The interest rate is reset weekly based on a competitive auction. At June 30, 2014 and 2013, this rate was approximately 0.19% and 0.23%, respectively. The bondholders have the right to tender the bonds weekly consistent with the interest rate reset period. The bonds are supported by a bank letter of credit that expires in May 2015 and is guaranteed by the Foundation. The annual letter of credit fee is 1.50%, and the balance is reduced on a pro-rata basis with each principal payment. Substantially all of the assets of the School, as well as future pupil allocation revenue, are pledged as collateral for the letter of credit. The bonds require that certain financial covenants be met, including debt service coverage and limits on further indebtedness.

As a condition to the letter of credit, the School entered into a reimbursement agreement requiring the School to make monthly sinking fund payments to debt service escrow accounts for the payment of principal, interest, and any bond redemptions payable to the trustee for the bonds (see Note 2 for balance at June 30, 2014 and 2013).

Principal maturities of the bonds payable at June 30, 2014, are due in future years as follows:

Years Ending June 30,	
2015	\$ 825,000
2016	875,000
2017	915,000
2018	970,000
2019	1,020,000
Thereafter	1,260,000
	<u>\$ 5,865,000</u>

Interest expense on the bonds for the years ended June 30, 2014 and 2013, was \$122,385 and \$138,654, respectively.

#### **Note 6. Capital Lease Obligation**

The School is indebted under equipment leases entered into during the years ended June 30, 2014 and 2013, which have been capitalized at the present value of future lease payments. The cost of the equipment approximated \$113,108 and \$60,057 at June 30, 2014 and 2013, respectively. Depreciation expense of the leased assets amounted to \$31,864 and \$2,002 for the years ended June 30, 2014 and 2013, respectively. Accumulated depreciation amounted to \$33,866 and \$2,002 at June 30, 2014 and 2013, respectively.

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

## **Notes to Financial Statements**

### **Note 6. Capital Lease Obligation (Continued)**

The future minimum lease payments discounted to reflect their net present value at June 30, 2014, are as follows:

Years Ending June 30,	
2015	\$ 39,796
2016	39,796
2017	39,796
2018	37,252
2019	4,090
	<u>160,730</u>
Less imputed interest	16,669
Present value of minimum lease payments	<u><u>\$ 144,061</u></u>

Interest expense payments on the capital lease items for the years ended June 30, 2014 and 2013, were \$8,165 and \$1,537 respectively.

### **Note 7. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets activity for the year ended June 30, 2014, is as follows:

	Balance June 30, 2013	Additions/ Investment Income	Released from Restriction	Balance June 30, 2014
Purpose restriction:				
Seeds for Classics – Field Trips	\$ 583,654	\$ 112,663	\$ 50,413	\$ 645,904
College Readiness/Technology	-	118,000	49,920	68,080
Summer Bridge MS/HS	25,815	-	594	25,221
CBA Awards	-	25,000	-	25,000
Junior League Washington (JLW)	-	25,000	4,160	20,840
School Store Grant	25,130	-	11,467	13,663
Literacy Program	10,000	-	-	10,000
Science Fair	1,077	5,000	257	5,820
United Way	5,300	-	-	5,300
Science Books	3,659	-	-	3,659
Jamal Swinton Scholarship	2,050	830	-	2,880
Restoration of Art Work	2,000	-	-	2,000
Brown Hall-Girls with Gifts	-	1,240	-	1,240
Action For Kids	-	1,500	720	780
Writing Center Fund	27,704	-	27,704	-
Technology	16,000	-	16,000	-
Library Supplies	1,000	-	1,000	-
Ottaway Scholarship	734	151	885	-
Assault on Illiteracy	228	-	228	-
School Garden	221	-	221	-
Time restriction:				
Artwork	146,500	-	-	146,500
	<u>\$ 851,072</u>	<u>\$ 289,384</u>	<u>\$ 163,569</u>	<u>\$ 976,887</u>

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

## **Notes to Financial Statements**

### **Note 7. Temporarily and Permanently Restricted Net Assets (Continued)**

Temporarily restricted net assets activity for the year ended June 30, 2013, is as follows:

	Balance June 30, 2012	Additions/ Investment Income	Released from Restriction	Balance June 30, 2013
Purpose restriction:				
Seeds for Classics – Field Trips	\$ 550,450	\$ 73,870	\$ 40,666	\$ 583,654
Writing Center Fund	35,000	-	7,296	27,704
Summer Bridge MS/HS	54,397	-	28,582	25,815
School Store Grant	48,041	-	22,911	25,130
Technology	35,000	-	19,000	16,000
Literacy Program	10,000	-	-	10,000
United Way	5,300	-	-	5,300
Science Books	3,659	-	-	3,659
Restoration of Art Work	2,000	-	-	2,000
Jamal Swinton Scholarship	-	3,750	1,700	2,050
Science Fair	3,563	-	2,486	1,077
Library Supplies	1,000	-	-	1,000
Ottaway Scholarship	7,565	169	7,000	734
Assault on Illiteracy	228	-	-	228
School Garden	274	-	53	221
College Readiness/Technology	-	47,420	47,420	-
Time restriction:				
Artwork	-	146,500	-	146,500
	<u>\$ 756,477</u>	<u>\$ 271,709</u>	<u>\$ 177,114</u>	<u>\$ 851,072</u>

Permanently restricted net assets are restricted to investment in perpetuity. Investment income is restricted for use in the following program, which consists of permanently restricted balances at June 30, 2014 and 2013, as follows:

	2014	2013
Ottaway Scholarship	<u>\$ 100,000</u>	<u>\$ 100,000</u>

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

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

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

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

**Notes to Financial Statements**

**Note 7. Temporarily and Permanently Restricted Net Assets (Continued)**

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

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

The endowment is invested with the School's investments of mutual funds at June 30, 2014 and 2013. Change in endowment net assets consists of the following:

	Temporarily Restricted	Permanently Restricted	2014 Total
Endowment net assets, beginning of year	\$ 734	\$ 100,000	\$ 100,734
Investment income, net of expenses	151	-	151
Appropriated for expenditures	(885)	-	(885)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

	Temporarily Restricted	Permanently Restricted	2013 Total
Endowment net assets, beginning of year	\$ 7,565	\$ 100,000	\$ 107,565
Investment income, net of expenses	169	-	169
Appropriated for expenditures	(7,000)	-	(7,000)
Endowment net assets, end of year	<u>\$ 734</u>	<u>\$ 100,000</u>	<u>\$ 100,734</u>

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

### Notes to Financial Statements

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#### **Note 8. Lease Commitments**

The School entered into a 15-year operating lease for land use, beginning on February 4, 2000. The School has the right to renew the lease for three additional 15-year terms. Management intends to exercise its renewal option under the lease agreement in order to fully enjoy the buildings constructed on the site for their economic useful lives.

The lease agreement provides for rent credits relating to capital improvements at the site. The School will receive a dollar-for-dollar credit based on capital improvements, except that the School shall pay a minimum rental of at least \$1,000 per month. The School made improvements in excess of the total rent provided over the initial term of the lease. The future minimum lease payments under this arrangement at June 30, 2014, are as follows:

Years Ending June 30,		
2015	\$	12,000
2016		12,000
2017		12,000
2018		12,000
2019		12,000
Thereafter		120,000
	\$	<u>180,000</u>

Rent expense under the above leasing arrangements was \$12,000 for each of the years ended June 30, 2014 and 2013.

#### **Note 9. Defined Contribution Retirement Plan**

The School participates in a defined contribution retirement plan covering eligible employees. The School contributes an amount equal to 3% of all eligible participants' pay. For every 1% of salary that each employee contributes to their retirement account through payroll deductions up to 6%, the School will add another 0.5%. The maximum total contribution, including matching contributions made by the School, would be 6% of employee pay. Total expense under this plan amounted to \$344,213 and \$332,181 for the years ended June 30, 2014 and 2013, respectively.

#### **Note 10. Related Party Transactions**

The School paid the Foundation \$400,000 per year for management and other services during the years ended June 30, 2014 and 2013, respectively.

#### **Note 11. Economic Dependency**

During the years ended June 30, 2014 and 2013, the School was heavily dependent on pupil allocations from the District of Columbia. These funds aggregated 91% and 90% of the School's revenue for the years ended June 30, 2014 and 2013, respectively. Reduction of funding from the District of Columbia would have a significant impact on the operations of the School.

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

### Notes to Financial Statements

#### Note 12. Per-Pupil Allocation

The School's per-pupil allocation for the year ended June 30, 2014 and 2013, are as follows:

Category	2014	2013
General education	\$ 8,811,186	\$ 8,681,362
Summer and special education	1,331,085	1,320,940
Facility allowance	2,871,090	2,862,695
	<u>\$ 13,013,361</u>	<u>\$ 12,864,997</u>

#### Note 13. Fair Value Measurements

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

- Level 1 Quoted market prices in active markets for identical assets or liabilities
- Level 2 Observable market-based inputs or unobservable inputs corroborated by market data
- Level 3 Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the School performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 2 or Level 3 inputs for any assets held by the School at June 30, 2014 and 2013.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at June 30, 2014 and 2013:

	2014			
	Level 1	Level 2	Level 3	Total
Large blend equity mutual funds	\$ 544,707	\$ -	\$ -	\$ 544,707
Intermediate bond funds	196,874	-	-	196,874
	<u>\$ 741,581</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 741,581</u>

  

	2013			
	Level 1	Level 2	Level 3	Total
Large blend equity mutual funds	\$ 439,127	\$ -	\$ -	\$ 439,127
Intermediate bond funds	189,791	-	-	189,791
	<u>\$ 628,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 628,918</u>

The School's mutual and bond funds are publicly traded on the New York Stock Exchange and are considered Level 1 items.

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

**Notes to Financial Statements**

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**Note 14. Contingency**

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



**Independent Auditor's Report  
on the Supplementary Information**

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

We have audited the financial statements of The SEED Public Charter School of Washington, D.C. (the School) as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon, dated October 31, 2014 which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

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

*McGladrey LLP*

Gaithersburg, Maryland  
October 31, 2014

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

**Schedule of Functional Expenses  
Year Ended June 30, 2014**

	Program	Management and General	Fundraising	Total
Personnel costs	\$ 8,005,398	\$ 778,972	\$ 169,818	\$ 8,954,188
Direct student expenses	1,579,241	-	-	1,579,241
Occupancy costs	1,051,606	102,596	22,366	1,176,568
Depreciation and amortization	856,382	79,823	17,402	953,607
Professional services and other fees	219,528	526,045	-	745,573
Travel, outreach, insurance, and licenses	416,987	-	-	416,987
Office expense	270,117	-	-	270,117
Interest expense	116,684	11,384	2,482	130,550
	<u>\$ 12,515,943</u>	<u>\$ 1,498,820</u>	<u>\$ 212,068</u>	<u>\$ 14,226,831</u>