Thurgood Marshall Academy and Subsidiary

Consolidated Financial Report
June 30, 2014

Contents

McGladrey

Independent Auditor's Report
on the Financial Statements

To the Board of Trustees
Thurgood Marshall Academy
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Thurgood Marshall Academy and Subsidiary (the Academy) which comprise the consolidated balance sheets as of June 30, 2014 and 2013, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thurgood Marshall Academy and Subsidiary as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As disclosed in Notes 1, 5 and 7 to the consolidated financial statements, on February 27, 2014, Thurgood Marshall Academy (TMA), after a series of transactions, was able to unwind its existing financing arrangements. As part of the unwind: TMA became the sole member of TMA QALICB LLC (QALICB); the parties eliminated the leases and long-term debt between the related parties; and QALICB donated all its liquid assets to TMA. TMA's existing financing was replaced by a comparatively small $1.4 million term loan with a 10.5 year amortization/term and 4.91% interest rate fixed by a swap.

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 Academy'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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

McGladrey LLP

Gaithersburg, Maryland
October 31, 2014

Thurgood Marshall Academy and Subsidiary

Consolidated Balance Sheets
June 30, 2014 and 2013

Assets	**2014**	2013
Current Assets		
Cash and cash equivalents	**$ 2,576,243**	$ 4,454,375
Grants receivable	**291,544**	523,460
Accounts receivable, net	**424**	-
Promises to give	**74,348**	63,153
Prepaid expenses	**98,739**	66,327
Total current assets	**3,041,298**	5,107,315
Cash Accounts Held for Restricted Purposes	**862**	2,479,062
Property and Equipment, Net	**12,314,692**	12,845,408
Loan Issuance Costs, Net	**190,057**	1,402,475
	$ 15,546,909	$ 21,834,260

Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	**$ 195,730**	$ 245,602
Loan payable, current portion	**104,724**	-
Accrued salaries and benefits	**259,989**	245,567
Deferred contract revenue – tuition	**272,895**	232,660
Total current liabilities	**833,338**	723,829
Long-Term Debt		
Loan payable, long-term portion	**1,269,887**	-
Interest rate swap agreement	**40,302**	-
Mortgages payable	**-**	13,710,445
Accrued interest payable	**-**	6,638,828
	1,310,189	20,349,273
	2,143,527	21,073,102
Commitments and Contingencies (Note 10)		
Net Assets		
Unrestricted		
Thurgood Marshall Academy	**13,273,973**	6,610,830
Noncontrolling interests in TMA QALICB LLC	**-**	(5,951,611)
	13,273,973	659,219
Temporarily restricted	**129,409**	101,939
	13,403,382	761,158
	$ 15,546,909	$ 21,834,260

See Notes to Consolidated Financial Statements.

Thurgood Marshall Academy and Subsidiary

Consolidated Statements of Activities
Years Ended June 30, 2014 and 2013

	2014			2013		
		Temporarily			Temporarily	
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Support and Revenue						
Tuition – per-pupil funding allocation	$ 6,572,008	$ -	$ 6,572,008	$ 6,090,397	$ -	$ 6,090,397
Federal entitlements	735,195	-	735,195	787,494	-	787,494
Free and reduced lunch program	74,656	-	74,656	79,661	-	79,661
Grants, donations, and other fundraising activities	732,569	200,583	933,152	1,331,480	186,940	1,518,420
Interest	23,594	-	23,594	39,218	-	39,218
Contributions	3,781	-	3,781	-	-	-
Other revenue	85,119	-	85,119	95,532	-	95,532
Net assets released from restrictions	173,113	(173,113)	-	267,434	(267,434)	-
Total support and revenue	8,400,035	27,470	8,427,505	8,691,216	(80,494)	8,610,722
Expenses						
Program services:						
Education:						
Instructional	6,200,336	-	6,200,336	6,001,473	-	6,001,473
Support services:						
Occupancy costs	702,015	-	702,015	650,819	-	650,819
Depreciation expense	572,092	-	572,092	627,540	-	627,540
Debt service cost	892,204	-	892,204	1,351,361	-	1,351,361
	8,366,647	-	8,366,647	8,631,193	-	8,631,193
Management and general:						
General and administrative	510,489	-	510,489	568,155	-	568,155
Fundraising	528,533	-	528,533	534,436	-	534,436
	1,039,022	-	1,039,022	1,102,591	-	1,102,591
Total expenses	9,405,669	-	9,405,669	9,733,784	-	9,733,784
Change in net assets before other gain and (loss)	(1,005,634)	27,470	(978,164)	(1,042,568)	(80,494)	(1,123,062)
Gain/contribution from the unwind of original financing transaction	15,072,425	-	15,072,425	-	-	-
Loss on write-off of unamortized loan issuance costs	(1,371,740)	-	(1,371,740)	-	-	-
Change in net assets	12,695,051	27,470	12,722,521	(1,042,568)	(80,494)	(1,123,062)
Net Assets						
Beginning	659,219	101,939	761,158	1,826,108	182,433	2,008,541
Distributions to noncontrolling interest	(80,297)	-	(80,297)	(124,321)	-	(124,321)
Ending	$ 13,273,973	$ 129,409	$ 13,403,382	$ 659,219	$ 101,939	$ 761,158

See Notes to Consolidated Financial Statements.

Thurgood Marshall Academy and Subsidiary

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

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	$ 12,722,521	$ (1,123,062)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	615,352	673,868
Accrued interest added to debt balance	896,369	119,504
Forgiven debt	(15,072,425)	-
Loss on write-off of unamortized loan issuance costs	1,371,740	-
Loss on interest rate swap	40,302	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	231,916	(103,009)
Accounts receivable, net	(424)	30,573
Promises to give	(11,195)	12,262
Accrued interest receivable	-	7,945
Prepaid expenses	(32,412)	50,708
Increase (decrease) in:		
Accounts payable and accrued expenses	(49,872)	(11,923)
Accrued salaries and benefits	14,422	(73,672)
Accrued interest payable	-	1,331,620
Deferred contract revenue – tuition	40,235	4,563
Net cash provided by operating activities	766,529	919,377
Cash Flows From Investing Activities		
Purchases of property and equipment	(48,135)	(531,557)
(Increase) decrease in cash accounts held for restricted purposes	2,478,200	(8,899)
Net cash provided by (used in) investing activities	2,430,065	(540,456)
Cash Flows From Financing Activities		
Distributions to noncontrolling interest	(80,297)	(124,321)
Purchase of liquidation note	(6,173,217)	-
Loan issuance costs	(195,823)	-
Proceeds from loan payable	1,400,000	-
Principal payments on loan payable	(25,389)	-
Net cash (used in) financing activities	(5,074,726)	(124,321)
Net (decrease) increase in cash and cash equivalents	(1,878,132)	254,600
Cash and Cash Equivalents		
Beginning	4,454,375	4,199,775
Ending	$ 2,576,243	$ 4,454,375
Supplemental Schedules of Non-Cash Financing Activities		
Accrued interest added to debt balance	$ 896,369	$ 119,504
Forgiven debt as contributions	$ 15,072,425	$ -

See Notes to Consolidated Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Thurgood Marshall Academy d/b/a Thurgood Marshall Academy Public Charter High School (TMA) is a not-for-profit entity incorporated on May 24, 2000, under the laws of the District of Columbia. TMA is a District of Columbia public charter school for grades 9 through 12.

On February 21, 2014, the board of trustees authorized TMA to unwind its existing financing agreements, which existing financing agreements included (i) participation in the New Markets Tax Credit Transactions (NMTC) with PNC New Markets Investment Partners, LLC (PNC) as investors and leverage lender, and with CSDC New Markets Fund, LLC as the New Markets Tax Credit allocatee, (ii) loan to TMA from the District of Columbia of the $1,160,000 District of Columbia (DC) revenue bonds (Thurgood Marshall Academy Issue Series 2007) purchased by PNC (Note 5) and (iii) leasehold mortgage letter of credit to TMA for approximately $3.7 million with The Reinvestment Fund, Inc. (Note 6).

With the same authorization from the board, on February 27, 2014, TMA exercised the Option, as purchaser, as defined in its Call Option Agreement dated February 21, 2007, with CSDC Capital III, LLC, as seller, to purchase from seller, the remaining 32.26% participation interest in the NMTC QLICI loan, with a principal balance of $11,913,014, that was made to TMA QALICB LLC in 2007 and participated by TMA Support Corporation. The remaining participation share in the loan had a value of approximately $6,172,331 (Note 5) at the time the option was exercised. TMA also accepted the sale from PNC of PNC's membership interest in TMA Investment Fund LLC for $100. Prior to transferring its membership interest in TMA Investment Fund LLC, PNC transferred to TMA Investment Fund LLC the $1.16 million DC revenue bonds. The DC revenue bond was then forgiven and redeemed by TMA from TMA Investment Fund LLC. TMA terminated the leasehold mortgage letter of credit (Note 6) as well as its lease agreement with TMA QALICB (Note 5). TMA then liquidated TMA Investment Fund LLC and coordinated with TMA Support Corporation to dissolve TMA QALICB LLC and transfer management to TMA.

A summary of significant accounting policies follows:

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

Principles of consolidation: The consolidated financial statements of Thurgood Marshall Academy and Subsidiary (the Academy) are prepared in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations and include the accounts of TMA QALICB LLC, its majority-owned for-profit limited liability company. All material intercompany balances and transactions have been eliminated in consolidation.

TMA QALICB LLC was formed under the laws of Delaware on January 9, 2007, as a limited liability company to meet the necessary structuring requirement for the NMTC, as outlined in Internal Revenue Code (IRC) Section 45D. At the time of formation, TMA had a 50.1% ownership interest in TMA QALICB LLC. The remaining 49.9% interest was held by an unrelated third party as an investor member. On February 27, 2014, after a series of transaction related to the NMTC unwind, TMA became the sole member of TMA QALICB LLC (Note 5).

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

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Account Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, the Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Academy had no permanently restricted net assets at June 30, 2014 and 2013.

Charter school agreement: TMA has been approved by the District of Columbia Public Charter School Board (the Board) to operate a charter school in the District of Columbia. The contract, dated April 3, 2001, provides for a 15-year charter, unless sooner terminated, in accordance with the contract.

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

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

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 recorded an allowance based on its evaluation of collectability of accounts receivable of $0 at June 30, 2014 and 2013. No allowance was deemed necessary for grants receivable at June 30, 2014 and 2013.

Promises to give: Promises to give 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.

Property and equipment: Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Academy reports expirations of donor temporary restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Academy reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation is computed using primarily the straight-line method over the estimated useful life of the related asset, ranging from 3 to 40 years. Normal repairs and maintenance are expensed as incurred. The Academy capitalizes all property and equipment purchased with a cost of $1,000 or more.

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

Valuation of long-lived assets: The Academy 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.

Unamortized loan costs: Loan costs are amortized on the straight-line method over the terms of the related mortgages. Amortization expense amounted to $36,501 and $59,337 for the years ended June 30, 2014 and 2013, respectively.

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 Academy pursuant to these stipulations. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Temporarily restricted net assets were released from restrictions during the years ended June 30, 2014 and 2013, for various purposes, including after-school programs, college guidance, support for alumni in college, library materials, physical education, and general operations. At June 30, 2014 and 2013, temporarily restricted net assets represented amounts restricted for specific education-related expenses.

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

Grants: The Academy receives grants from federal agencies and private grantors for various purposes. The grants provide for the development and support of TMA’s programs, materials, and equipment. The Academy has accounted for the funds based on the fiscal year of the grants. Receivables related to grant awards (for conditional awards and exchange transactions) are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant or award. Funds received in advance for these types of grants and those that are unexpended at June 30 are reflected as refundable advances or deferred contract revenue in the liability section of the consolidated balance sheets.

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 expense and accrued.

Tax status: TMA is a tax-exempt organization under Section 501(c)(3) of the IRC and is not considered to be a private foundation. TMA is exempt from federal taxes on income other than unrelated business income. TMA did not have any net unrelated business income for the years ended June 30, 2014 and 2013. Exemption from District of Columbia income taxes was granted to TMA effective October 17, 2002. TMA is also exempt from District of Columbia’s sales, real estate, and personal property taxes. TMA files its income tax return on a fiscal year ending June 30. For income tax purposes, TMA reflected the original refinancing, discussed in Note 5, as a sale-leaseback transaction.

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

TMA QALICB LLC filed a separate partnership income tax return on a calendar-year basis. The partnership income tax return reported the transaction with TMA as a sale-leaseback.

Effective February 27, 2014, TMA became the sole member of TMA QALICB LLC and as such, TMA QALICB LLC became a disregarded entity for income tax purposes on that date.

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

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

Recognition of donor restrictions: Contributions and investment income that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the income is recognized. All other donor-restricted contributions and investment income are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated assets and services: Donated services are recognized as contributions in accordance with the Non-Profit Entities Topic of the Codification if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Academy. Volunteers also provided tutoring and fundraising services throughout the year that are not recognized as contributions in the consolidated financial statements, since the recognition criteria under this topic was not met.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair value at the date of donation.

Use of estimates: The preparation of the consolidated 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The Academy regularly assesses these estimates, and while actual results could differ, management believes that the estimates are reasonable.

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

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

Noncontrolling interest: The Academy follows the FASB released Accounting Standard Update 2010-07 (ASU 2010-07), which provides accounting guidance related to not-for-profit mergers and acquisitions. In addition, ASU 2010-07 provides new guidance on how a not-for-profit parent organization accounts for noncontrolling interests (formerly known as “minority interest”) in the equity (net assets) of consolidated subsidiaries. The guidance requires: (i) noncontrolling interest to be reported as a separate component of the appropriate class of net assets in the consolidated statement of financial position (balance sheet); and (ii) an NFP (parent) that has one or more consolidated subsidiaries with a noncontrolling interest shall provide a schedule of changes in consolidated net assets attributable to the parent and the noncontrolling interest either in the notes to the consolidated financial statements or on the face of financial statements, if practicable. That schedule shall reconcile beginning and ending balances of the parent’s controlling interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists during the reporting period. This standard also requires that the noncontrolling interests continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance.

Subsequent events: Subsequent events have been evaluated through October 31, 2014, which is the date the consolidated financial statements were available to be issued.

Note 2. Promises to Give

Contributions receivable of $74,348 and $63,153 at June 30, 2014 and 2013, respectively, are due within one year or less of the respective balance sheet dates.

Note 3. Cash Accounts Held for Restricted Purposes

Under the terms of the loan documents in connection with the mortgage payable to CSDC Capital III, LLC, TMA and TMA QALICB LLC have pledged certain cash accounts at NCB, FSB (a federally-chartered savings bank) as additional collateral for the loan. The agreements restrict TMA and TMA QALICB LLC’s access to the principal of the cash accounts. Principal cash may be withdrawn subject to certain conditions, which conditions were met around February 27, 2014 and the funds were released. The interest earned on the accounts is transferred to operations quarterly. The following is an analysis of restricted cash accounts at June 30, 2014 and 2013:

	2014	2013
TMA		
Facility Replacement Reserve Money Market Account	$ 862	$ 1,006
Lease Payment Reserve – certificate of deposit; interest at 0.39%; matured February 21, 2014	-	1,185,731
TMA QALICB LLC		
Working Capital Reserve Account – certificate of deposit; interest at 0.39%; matured February 21, 2014	-	735,149
Reserve Account No. 1 – certificate of deposit; interest at 5.20%; matured February 22, 2014	-	557,176
	$ 862	$ 2,479,062

Note 4. Property and Equipment

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

Asset Category	2014	2013
Land	$ 182,000	$ 182,000
Buildings and improvements	15,012,995	14,997,558
Computers and software	891,042	865,227
Office furniture and equipment	805,427	798,545
	16,891,464	16,843,330
Less accumulated depreciation	(4,576,772)	(3,997,922)
	$ 12,314,692	$ 12,845,408

Depreciation expense was $578,851 and $614,531 for the years ended June 30, 2014 and 2013, respectively.

In December 2004, the Academy purchased from the District of Columbia the property then known as the Nichols Avenue School, located at the corner of Howard Road and Martin Luther King, Jr. Avenue in Southeast D.C. The Academy's development of the property as its facility proceeded in two phases. In Phase 1, the Academy renovated and expanded the building as its instructional facility, while also conducting site work on the grounds and on the grounds of the adjacent A. Kiger Savoy Elementary School. In Phase 2, the Academy collaborated with Savoy and District of Columbia officials to renovate the Savoy building and construct an athletic center for use by both schools, as governed by a Use Agreement executed in June 2009 (the Academy invested $1,785,737 in the project and received a $1.5 million D.C. Council appropriation for it).

Note 5. Mortgages Payable

On February 21, 2007, TMA refinanced its mortgage payable in the amount of $10,101,983 by entering into a transaction structured to qualify for the NMTC, as outlined in IRC Section 45D. Total refinancing amounted to $13,073,014. As part of the transaction, TMA formed TMA QALICB LLC (LLC), signed a sale-leaseback agreement with the LLC, and borrowed $1,160,000 from the District.

Under generally accepted accounting principles, the transaction was accounted for as a financing transaction in the accompanying consolidated financial statements. For income tax purposes, the transaction was reported as a sale-leaseback.

As disclosed in Note 1, after the conclusion of the New Markets Tax Credits compliance period, the parties to TMA's existing financing arrangements agreed to unwind the transactions; this unwind closed on February 27, 2014. The existing financing included an outstanding mortgage note payable by subsidiary TMA QALICB LLC to CSDC Capital III, LLC and to the TMA Support Corporation. The CSDC Capital III, LLC portion consisted of the principal amount of $11,913,014 and accrued interest of $7,535,197. TMA settled this portion of mortgage payable by exercising its option under the existing agreements to purchase for $6,173,217 the remaining interest of CSDC Capital III, LLC on this loan. TMA Support Corporation donated to TMA its share in this loan, amounting to $13,190,610, including accrued interest. This left TMA with 100% ownership of the loan.

Under the terms of the sale-leaseback agreements, TMA entered into a 99-year site lease with the LLC, leasing 92.2% of the building and 100% of the land for a total prepaid rental payment of $11,731,194. TMA also entered into a 29-year, 11-month facility lease for both the building and land from the LLC at an annual rental payment of $1,200,000. Both leases were triple-net leases, whereby, TMA was responsible for all maintenance, insurance, and taxes.

Note 5. Mortgages Payable (Continued)

On February 27, 2014, both leases were terminated as part of the unwinding of TMA's NMTC and settlement of related financing arrangements.

Also as part of the unwinding of TMA's financing arrangements discussed in Note 1, the principal bond amount of $1,160,000, including accrued interest of $721,816, was effectively contributed to TMA by an entity affiliated with the investor of the new markets tax transaction. This debt was also terminated with no payment by TMA or TMA QALICB.

The components of mortgages payable consist of the following at June 30, 2014 and 2013:

	2014	2013
TMA QALICB LLC		
CSDC Capital III, LLC promissory note, secured by various pledges and assignments of bank accounts, leases and rents under the facility lease; fixed interest at 7% per annum compounded semi-annually for the first seven years, then one-year LIBOR plus 2% for years 8 to 30. Interest accrued with no cash payments until February 21, 2014. The payable was extinguished on February 27, 2014.	$ -	$ 11,913,014
TMA		
Promissory note payable, District of Columbia Revenue Bonds (Thurgood Marshall Academy Issue) Series 2007; interest at 7% per annum compounded on June 1, 2007, and thereafter on each 1st of June and December. Principal and interest are due on December 1, 2041. The original amount is $1,160,000. The balance of the note at June 30, 2013, as presented, is the accreted value, includes the principal amount plus accrued interest. The obligation shall be subordinate to all other TMA debts with no specific pledged collateral. The payable was extinguished on February 27, 2014.	-	1,797,431
	$ -	$ 13,710,445

Note 6. Letter of Credit

TMA had a letter of credit with The Reinvestment Fund, Inc. in the amount of $3,720,000. The letter of credit was available as a de facto guarantee to fund (a) an escrow account on or about the seventh anniversary of February 21, 2007, to secure a portion of the lease payment obligation from TMA to TMA QALICB LLC under the facility lease, or (b) a portion of the purchase of the loan from CSDC Capital III, LLC. As of June 30, 2014, the letter of credit is no longer in place and none has been drawn down. Concurrent with the settlement of TMA's mortgages payable, bond debt, and the termination of the leases (Note 5), this letter of credit was terminated effective February 27, 2014. Prior to its termination, the annual facility maintenance fee for this letter of credit was $55,800, less a credit equal to 1% of the cash balance of TMA's operating account as of June 30 of each year.

Note 7. Loan Payable

On February 27, 2014, TMA obtained a bridge loan from SunTrust Bank totaling $1,400,000 to finance general operations. This included using the proceeds for the Academy to exercise its option to purchase from CSDC Capital III, LLC its remaining share in the loan to TMA QALICB. The bridge loan had a variable interest rate equal to the 30-day London Interbank Offered Rate (LIBOR) and the outstanding balance payable in full September 2024. On March 7, 2014, this loan was refinanced as a term loan with the same terms as the bridge loan. At June 30, 2014, the interest rate on the loan was 2.6%. Simultaneously with the closing of the loan, the Academy entered into a 10.5-year interest rate swap agreement to fix the interest rate at 4.91% (see Note 8). The total interest expense was $16,315 for the year ended June 30, 2014.

Essentially all of the Academy's assets serve as collateral for the note. In connection with the loan, the School has agreed, among other things, to maintain a minimum liquidity balance and a debt service coverage ratio.

Aggregate maturities of the long-term debt at June 30, 2014, are due in future years as follows:

Year Ending June 30,		
2015	$	104,724
2016		109,983
2017		115,506
2018		121,307
2019		127,399
Thereafter		795,692
	$	1,374,611

Note 8. Interest Rate Swap Agreement

During the year ended June 30, 2014, the Academy entered into an interest rate swap agreement with SunTrust Bank for a notional amount equal to the obligation under the loan payable, whereby, a portion of the floating rate was swapped into a fixed rate. The agreement calls for a fixed rate of 4.91% through the termination date of the swap, which is September 7, 2024. The swap mechanism is intended to allow the Academy to realize the potential benefit of a lower fixed rate. As of June 30, 2014, the fair value of the swap agreement was a liability of $40,302. The Academy has recognized this liability in its June 30, 2014, consolidated balance sheet.

Note 9. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets by purpose during the years ended June 30, 2014 and 2013, were as follows:

	Balance June 30, 2013	Additions	Released From Restriction	Balance June 30, 2014
Purpose Restricted				
After-school programs	$ 80,000	$ 115,459	$ 157,437	$ 38,022
Improve technology in the public school system	-	19,850	199	19,651
Alumni Fund	-	35,434	-	35,434
J. Kern scholarship fund	9,350	-	-	9,350
Text books for Social Studies	6,982	-	284	6,698
After school enrichment	-	5,000	-	5,000
Robotics programs	-	5,000	1,000	4,000
College board innovation	2,623	-	-	2,623
Advancing student math program	-	4,400	1,860	2,540
Education Innovation Fellowship	-	2,440	-	2,440
Clubs and athletics activities	1,572	-	-	1,572
Build-A-Bear Workshop Bear Hug Foundation	972	-	333	639
Debate club camera	-	500	-	500
Music programs	-	500	-	500
Ridgeway Hall	440	-	-	440
Celebrating Our Roots Art program	-	5,000	5,000	-
Art programs	-	2,000	2,000	-
Art programs	-	5,000	5,000	-
	$ 101,939	$ 200,583	$ 173,113	$ 129,409

	Balance June 30, 2012	Additions	Released From Restriction	Balance June 30, 2013
Purpose Restricted				
After-school programs	$ 72,701	$ 165,000	$ 157,701	$ 80,000
J. Kern scholarship fund	9,350	-	-	9,350
Text books for Social Studies	45,998	-	39,016	6,982
College board innovation	4,702	-	2,079	2,623
Clubs and athletics activities	1,649	-	77	1,572
Build-A-Bear Workshop Bear Hug Foundation	-	1,500	528	972
Ridgeway Hall	-	440	-	440
Quality schools initiative	26,465	-	26,465	-
LSTA	20,000	-	20,000	-
Humanities Council	1,550	-	1,550	-
Student learning at home	18	-	18	-
Action for Healthy Kids	-	2,000	2,000	-
General Mills/United Way/OSSE	-	13,000	13,000	-
DC Commission on the Arts and Humanities	-	5,000	5,000	-
	$ 182,433	$ 186,940	$ 267,434	$ 101,939

Note 10. Contingencies

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

Note 11. Per-Pupil Allocation

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

Category	2014	2013
General education	$ 4,307,364	$ 4,201,738
Summer and special education	1,067,644	697,659
Facility allowance	1,197,000	1,191,000
	$ 6,572,008	$ 6,090,397

Note 12. Non-Cash Contributions

For the years ended June 30, 2014 and 2013, non-cash professional fees, supplies, and service contributions with a fair value of $444,324 and $508,215, respectively, were received.

Note 13. Retirement Plans

Effective June 1, 2004, the Academy adopted a 403(b) plan (the Plan), which provides for employee and employer contributions for substantially all full-time employees. Employer contributions to the Plan are based on a percentage of eligible wages for the Plan year, as determined by management. The Academy's contribution to the Plan was $100,029 and $82,421 for the years ended June 30, 2014 and 2013, respectively.

Note 14. Changes in Consolidated Unrestricted Net Assets

Changes in consolidated unrestricted net assets relating to the Academy and noncontrolling interest in TMA QALICB LLC, are as follows:

	Academy	Noncontrolling Interest	Total
Unrestricted Net Assets			
Balance, June 30, 2012	$ 6,276,330	$ (4,450,222)	$ 1,826,108
Change in unrestricted net assets – FY13	334,500	(1,377,068)	(1,042,568)
Distributions to noncontrolling interest – FY13	-	(124,321)	(124,321)
Balance, June 30, 2013	6,610,830	(5,951,611)	659,219
Change in unrestricted net assets – FY14	13,624,423	(929,372)	12,695,051
Loss on acquisition of noncontrolling interest by the Academy	(6,961,280)	6,961,280	-
Distributions to noncontrolling interest – FY14	-	(80,297)	(80,297)
Balance, June 30, 2014	$ 13,273,973	$ -	$ 13,273,973

McGladrey

Independent Auditor's Report
on the Supplementary Information

To the Board of Trustees
Thurgood Marshall Academy
Washington, D.C.

We have audited the consolidated financial statements of Thurgood Marshall Academy and Subsidiary 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. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

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

McGladrey LLP

Gaithersburg, Maryland
October 31, 2014

Thurgood Marshall Academy and Subsidiary

Consolidating Balance Sheet
June 30, 2014

Assets	Thurgood Marshall Academy	TMA QALICB LLC	Eliminations	Total
Current Assets				
Cash and cash equivalents	$ 2,576,243	$ -	$ -	$ 2,576,243
Grants receivable	291,544	-	-	291,544
Accounts receivable, net	424	-	-	424
Promises to give	74,348	-	-	74,348
Prepaid expenses	98,739	-	-	98,739
Total current assets	3,041,298	-	-	3,041,298
Cash Accounts Held for Restricted Purposes	862	-	-	862
Property and Equipment, Net	12,314,692	-	-	12,314,692
Loan Issuance Costs, Net	190,057	-	-	190,057
	$ 15,546,909	$ -	$ -	$ 15,546,909

Liabilities and Net Assets	Thurgood Marshall Academy	TMA QALICB LLC	Eliminations	Total
Current Liabilities				
Loan payable, current portion	$ 104,724	$ -	$ -	$ 104,724
Accounts payable and accrued expenses	195,730	-		195,730
Accrued salaries and benefits	259,989	-	-	259,989
Deferred contract revenue – tuition	272,895	-	-	272,895
Total current liabilities	833,338	-	-	833,338
Long-Term Debt				
Loan payable, long-term portion	1,269,887	-	-	1,269,887
Interest rate swap agreement	40,302	-	-	40,302
	1,310,189	-	-	1,310,189
Net Assets				
Unrestricted	13,273,973	-	-	13,273,973
Temporarily restricted	129,409	-	-	129,409
	13,403,382	-	-	13,403,382
	$ 15,546,909	$ -	$ -	$ 15,546,909

Thurgood Marshall Academy and Subsidiary

Consolidating Statement of Activities
Year Ended June 30, 2014

	Thurgood Marshall Academy	TMA QALICB LLC	Eliminations	Total
Support and Revenue				
Tuition – per-pupil funding allocation	$ 6,572,008	$ -	$ -	$ 6,572,008
Federal entitlements	735,195	-	-	735,195
Free and reduced lunch program	74,656	-	-	74,656
Grants, donations, and other fundraising activities	933,152	-	-	933,152
Interest	3,259	718,120	(697,785)	23,594
Contributions	699,349	-	(695,568)	3,781
Other revenue	85,119	-	-	85,119
Total support and revenue	9,102,738	718,120	(1,393,353)	8,427,505
Expenses				
Program services:				
Education:				
Instructional	6,200,336	-	-	6,200,336
Support services:				
Occupancy costs	702,015	-	-	702,015
Depreciation expense	572,092	-	-	572,092
Debt service cost	750,101	839,888	(697,785)	892,204
	8,224,544	839,888	(697,785)	8,366,647
Management and general:				
General and administrative	389,065	816,992	(695,568)	510,489
Fundraising	528,533	-	-	528,533
	917,598	816,992	(695,568)	1,039,022
Total expenses	9,142,142	1,656,880	(1,393,353)	9,405,669
Change in net assets from before other gain and (losses)	(39,404)	(938,760)	-	(978,164)
Gain/contribution from the unwind of original financing transaction	15,072,425	-	-	15,072,425
Loss on liquidation of TMA QALICB LLC	(13,403,325)	-	13,403,325	-
Loss on write-off of unamortized loan issuance costs	(1,371,740)	-	-	(1,371,740)
Change in net assets	257,956	(938,760)	13,403,325	12,722,521
Net Assets (Deficit)				
Beginning	6,712,769	(4,611,286)	(1,340,325)	761,158
Distributions to Thurgood Marshall Academy	(5,630,343)	5,630,343	-	-
Distributions to noncontrolling interest	-	(80,297)	-	(80,297)
Ending	$ 1,340,382	$ -	$ 12,063,000	$ 13,403,382

Thurgood Marshall Academy and Subsidiary

Consolidated Schedule of Functional Expenses
Year Ended June 30, 2014

	Education	General and Administrative	Fundraising	Total
Personnel Salaries and Benefits				
Principal/executive salaries	$ 269,058	$ 62,792	$ 29,479	$ 361,329
Teachers' salaries	2,708,665	-	-	2,708,665
Other educational professional salaries	896,435	-	-	896,435
Clerical salaries	-	-	-	-
Other staff salaries	151,468	-	216,373	367,841
Staff program stipends	58,670	-	-	58,670
Employee benefits	424,692	6,532	25,581	456,805
Payroll taxes	294,703	4,533	17,751	316,987
Staff development costs	43,188	664	2,601	46,453
Other staff related expenses	81,207	1,249	4,891	87,347
Total personnel salaries and benefits	4,928,086	75,770	296,676	5,300,532
Direct Student Costs				
Food service	125,415	-	-	125,415
Textbooks and subscriptions	6,051	-	-	6,051
Student supplies and materials	113,621	-	-	113,621
Student assessment materials	11,107	-	-	11,107
Contracted instructional/student services	-	-	-	-
Student travel and field trips	86,402	-	-	86,402
Library and media materials	25,434	-	-	25,434
Miscellaneous direct student costs	72,220	-	-	72,220
Total direct student costs	440,250	-	-	440,250
Occupancy Costs				
Maintenance, repairs, and supplies	51,422	791	3,097	55,310
Utilities	182,126	2,801	10,970	195,897
Equipment rental and maintenance	63,760	981	3,841	68,582
Contracted building services	404,707	6,225	24,377	435,309
Total occupancy costs	702,015	10,798	42,285	755,098
Depreciation Expense	538,157	8,278	32,416	578,851

(Continued)

Thurgood Marshall Academy and Subsidiary

Consolidated Schedule of Functional Expenses (Continued)
Year Ended June 30, 2014

	Education	General and Administrative	Fundraising	Total
Debt Service Costs				
Interest expense	$ 854,735	$ 13,147	$ 51,485	$ 919,367
Loss on swap agreement	37,469	576	2,257	40,302
Loan cost amortization	33,935	522	2,044	36,501
Total debt service costs	926,139	14,245	55,786	996,170
Management and General				
Office supplies and materials	54,681	841	3,294	58,816
Telephone/telecommunications	56,771	873	3,420	61,064
Professional fees	-	374,321	-	374,321
Printing and copying	26,730	411	1,610	28,751
Postage and shipping	13,498	208	813	14,519
Insurance	44,731	688	2,694	48,113
Other professional fees	3,849	59	232	4,140
Other fundraising costs	-	-	67,981	67,981
Administrative fees	48,350	-	-	48,350
Dues	16,831	259	1,014	18,104
Computer consulting	97,068	1,493	5,847	104,408
Other general expenses	57,527	885	3,465	61,877
In-kind expense	411,964	21,360	11,000	444,324
Total management and general	832,000	401,398	101,370	1,334,768
Total expenses	$ 8,366,647	$ 510,489	$ 528,533	$ 9,405,669