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

Consolidated Financial Report
June 30, 2014

Contents

McGladrey

Independent Auditor's Report
on the Financial Statements

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

Report on Financial Statements
We have audited the accompanying consolidated financial statements of Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries (collectively, the Organization) 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. 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 Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries 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.

McGladrey LLP

Gaithersburg, Maryland
October 31, 2014

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

Consolidated Balance Sheets
June 30, 2014 and 2013

Assets	**2014**	2013
Current Assets		
Cash and cash equivalents	**$ 3,795,040**	$ 3,288,381
Accounts receivable	**253,312**	338,309
Promises to give	**44,875**	98,875
Grants receivable	**1,120,491**	1,089,593
Prepaid expenses	**199,852**	290,250
Total current assets	**5,413,570**	5,105,408
Restricted Cash	**2,975,413**	2,878,091
Prepaid Grant, Net of Current Portion	**-**	155,591
Loan Issuance Costs, Net	**3,026,452**	3,333,845
Property and Equipment, Net	**35,368,042**	36,860,251
Deposits	**1,640**	3,325
Loan Receivable	**7,380,291**	7,267,936
	$ 54,165,408	$ 55,604,447

Liabilities and Net Assets	**2014**	2013
Current Liabilities		
Accounts payable and accrued expenses	**$ 849,363**	$ 981,263
Current portion of grant payable	**458,014**	600,674
Current portion of notes payable	**6,134,040**	927,403
Deferred revenue	**32,008**	-
Total current liabilities	**7,473,425**	2,509,340
Accrued Rent	**1,529,812**	1,173,918
Grant Payable, Net of Current Portion and Discount	**-**	439,693
Notes Payable, Net of Current Portion	**40,324,113**	44,392,935
Bonds Payable, Net	**12,619,561**	12,378,203
	61,946,911	60,894,089
Commitments and Contingencies (Notes 12 and 13)		
Net Assets (Deficit)		
Unrestricted:		
Euphemia L. Haynes Public Charter School, Inc.	**561,504**	1,590,559
Noncontrolling interests in ELH QALICB LLC	**(8,884,243)**	(7,436,902)
	(8,322,739)	(5,846,343)
Temporarily restricted	**541,236**	556,701
	(7,781,503)	(5,289,642)
	$ 54,165,408	$ 55,604,447

See Notes to Consolidated Financial Statements.

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

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

	2014			
	Unrestricted	**Temporarily Restricted**	**Total**	2013 Total
Revenue and Support				
Pupil allocation	**$ 19,395,850**	**$ -**	**$ 19,395,850**	$ 17,244,333
Other grants	**524,169**	**765,429**	**1,289,598**	674,133
Federal grants	**2,107,077**	**-**	**2,107,077**	3,103,931
Contributions	**339,482**	**-**	**339,482**	1,108,885
Program revenue	**242,978**	**-**	**242,978**	326,446
Interest income	**613,068**	**-**	**613,068**	602,563
Rental revenue	**9,596**	**-**	**9,596**	494
Net assets released from restrictions	**780,894**	**(780,894)**	**-**	-
Total revenue and support	**24,013,114**	**(15,465)**	**23,997,649**	23,060,785
Expenses				
Program services	**25,215,999**	**-**	**25,215,999**	24,660,678
General and administrative	**639,991**	**-**	**639,991**	707,525
Fundraising	**550,020**	**-**	**550,020**	592,010
Total expenses	**26,406,010**	**-**	**26,406,010**	25,960,213
Change in net assets	**(2,392,896)**	**(15,465)**	**(2,408,361)**	(2,899,428)
Net Assets (Deficit)				
Beginning	**(5,846,343)**	**556,701**	**(5,289,642)**	(2,306,714)
Distributions to noncontrolling interest	**(83,500)**	**-**	**(83,500)**	(83,500)
Ending	**$ (8,322,739)**	**$ 541,236**	**$ (7,781,503)**	$ (5,289,642)

See Notes to Consolidated Financial Statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Pupil allocation	$ 17,244,333	$ -	$ 17,244,333
Other grants	94,320	579,813	674,133
Federal grants	3,103,931	-	3,103,931
Contributions	689,075	419,810	1,108,885
Program revenue	326,446	-	326,446
Interest income	602,563	-	602,563
Rental revenue	494	-	494
Net assets released from restrictions	740,352	(740,352)	-
Total revenue and support	22,801,514	259,271	23,060,785
Expenses			
Program services	24,660,678	-	24,660,678
General and administrative	707,525	-	707,525
Fundraising	592,010	-	592,010
Total expenses	25,960,213	-	25,960,213
Change in net assets	(3,158,699)	259,271	(2,899,428)
Net Assets (Deficit)			
Beginning	(2,604,144)	297,430	(2,306,714)
Distributions to noncontrolling interest	(83,500)	-	(83,500)
Ending	$ (5,846,343)	$ 556,701	$ (5,289,642)

See Notes to Consolidated Financial Statements.

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

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

		2014	2013
Cash Flows From Operating Activities			
Change in net assets	$	**(2,408,361)**	(2,899,428)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation		**1,953,976**	1,742,468
Amortization of loan issuance costs		**280,132**	264,779
Interest income added on loan receivable principal		**(112,355)**	(104,526)
Interest expense added to principal of notes and bonds payable		**2,182,324**	2,123,988
Changes in assets and liabilities:			
Decrease (increase) in:			
Accounts receivable		**84,997**	(104,327)
Promises to give		**54,000**	61,196
Grants receivable		**(30,898)**	355,379
Prepaid expenses		**245,989**	181,723
Deposits		**1,685**	39,579
(Decrease) increase in:			
Accounts payable and accrued expenses		**(131,900)**	(1,510,107)
Accrued rent		**355,894**	355,894
Grant payable		**(582,353)**	(752,545)
Deferred revenue		**32,008**	-
Net cash provided by (used in) operating activities		**1,925,138**	(245,927)
Cash Flows From Investing Activities			
Purchases of property and equipment		**(434,506)**	(4,715,921)
(Increase) decrease in restricted cash		**(97,322)**	5,207,141
Net cash (used in) provided by investing activities		**(531,828)**	491,220
Cash Flows From Financing Activities			
Principal payments on bonds and notes payable		**(803,151)**	(641,399)
Minority investors capital distributions		**(83,500)**	(83,500)
Net cash used in financing activities		**(886,651)**	(724,899)
Net increase (decrease) in cash and cash equivalents		**506,659**	(479,606)
Cash and Cash Equivalents			
Beginning		**3,288,381**	3,767,987
Ending	$	**3,795,040**	3,288,381
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest expense	$	**907,292**	663,138
Supplemental Schedule of Noncash Financing Activities			
Interest expense added to principal of notes and bonds payable, net of capitalized interest of $213,756 – 2013	$	**2,182,324**	2,123,988
Interest expense added to principal of loan receivable	$	**112,355**	104,526

See Notes to Consolidated Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries is comprised of three entities: Euphemia L. Haynes Public Charter School, Inc. (the School); ELH QALICB LLC; and ELH Kansas Avenue, Inc. (collectively, the Organization).

The School, commonly referred to as E.L. Haynes Public Charter School, was incorporated as a non-stock and not-for-profit organization on August 14, 2003, under the laws of the District of Columbia. The mission of the School is for every E.L. Haynes student of every race, socioeconomic status, and home language to reach high levels of academic achievement and be prepared to succeed at the college of his or her choice. Every E.L. Haynes student will be adept at mathematical reasoning, will use scientific methods effectively to frame and solve problems, and will develop the lifelong skills needed to be successful individuals, active community members, and responsible citizens. For the year ended June 30, 2014, the School was open to any District of Columbia child in pre-Kindergarten through 11th grade; admission is free. The School will add a grade level each year until 12th grade.

ELH QALICB LLC (ELH Georgia) was formed in 2008 as a Delaware limited liability company, whose members are Euphemia L. Haynes Public Charter School, Inc., as a regular member with an initial 65.1% equity stake; City First Capital XIV, LLC, as an investor member with an initial 34.9% equity stake; and ELH Management Corporation, as a non-member manager. The purpose of ELH Georgia is to negotiate and enter into a Qualified Low Income Community Investment (QLICI) loan with an investor; lease a certain portion of the premises at 3600 Georgia Avenue from the School pursuant to a site lease; sublease a certain portion of the premises at 3600 Georgia Avenue to the School pursuant to a facility lease; pay transaction costs and fund working capital cash reserves; take any and all other actions necessary or appropriate to further the purposes of ELH Georgia within the scope of the ELH QALICB LLC Operating Agreement; and pursue the above purposes in a manner consistent with the tax-exempt status of the QALICB Manager and Regular Member.

ELH Kansas Avenue, Inc. (ELH Kansas) was formed during the year ended June 30, 2010, as a District of Columbia non-profit corporation under the provisions of Section 501(c)(3) of the Internal Revenue Code, specifically for the benefit of Euphemia L. Haynes Public Charter School, Inc. (the School). The purpose of ELH Kansas is to perform the functions of, or to carry out the charitable and educational purposes of, the School.

ELH Support Corporation (ELHSC) was formed in 2008 for charitable, educational and literary purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code, specifically for the benefit of Euphemia L. Haynes Public Charter School, Inc. and similar organizations by helping secure resources of financing, fundraising, making or holding loans, etc. The School has no majority board representation, and there were no overlap of board members for the years ended June 30, 2014 and 2013. However, the School has the ability to appoint one member of the ELHSC Board of Directors. As such, the School and ELHSC are considered related parties. ELHSC will not be consolidated with the School as the School does not control ELHSC.

Charter school agreement: The School has been approved by the District of Columbia Public Charter School Board (the Board) to operate a charter school in the District of Columbia. The contract, dated May 17, 2004, provides for a 15-year charter, unless sooner terminated in accordance with the contract. The School’s enrollment ceiling, as registered with the Board, is 1,130 students through the school year 2014–2015. The School is paid an annual fixed rate per student by the Board.

A summary of the Organization’s significant accounting policies follows:

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

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

Principles of consolidation: The consolidated financial statements of the School are prepared in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations and include the accounts of ELH Kansas and ELH Georgia, its majority-owned, for-profit limited liability company. ELH Kansas is consolidated, since the School has both economic interest and controls membership of ELH Kansas' Board of Trustees. All material intercompany balances and transactions have been eliminated in consolidation.

Basis of presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets at June 30, 2014 and 2013.

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

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

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is not recorded on any past due balances. Management has determined that receivables are fully collectible, and there was no allowance for doubtful receivables at June 30, 2014 and 2013.

Promises to give: Promises to give are recognized as revenue or gains in the period acknowledged. Promises to give are carried at original amount pledged less an estimate made for doubtful promises based on a review of all outstanding pledges on a monthly basis. The Organization's promises to give are due in the next year. Management determines the allowance for doubtful accounts by regularly evaluating individual promises to give and considering prior history of donors and proven collectability of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received.

Property and equipment: The Organization capitalizes all property and equipment purchased with a cost of $1,000 or more. Property and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

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

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.

Unamortized loan costs: Loan costs are comprised of various acquisition costs related to the debt acquired to fund the acquisition/rehabilitation of the Organization's school buildings. These costs are being amortized on the effective interest method over the terms of the related debt agreements. Accumulated amortization amounted to $1,500,538 and $1,165,882 as of June 30, 2014 and 2013, respectively.

Grant payable: Grant payable represents the undisbursed balance of funds to grantee. The grantee organization is entitled to collect funds in accordance with the terms of the grant agreement.

Net assets: Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to these stipulations. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received. 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, gymnasium development, and general operations. At June 30, 2014 and 2013, temporarily restricted net assets represented amounts restricted for specific education-related expenses.

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

Grants: The Organization receives grants from federal agencies and private grantors for various purposes. The grants provide for the development and support of the Organization's programs, materials, and equipment. The Organization has accounted for the funds based on the fiscal year of the grants. Receivables related to grant awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant or award. Funds received in advance and those that are unexpended at June 30 are reflected as temporarily restricted net assets or deferred revenue at June 30, depending if the amounts are considered unconditional or conditional, respectively.

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

Income taxes: The School and ELH Kansas are generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the School qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. There was no taxable net unrelated business income for the years ended June 30, 2014 and 2013.

ELH Georgia files a separate partnership income tax return on a calendar-year basis. The partnership income tax return reports the transaction with the School as a sale-leaseback.

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

The Organization files income tax returns in the U.S. federal jurisdiction. As of June 30, 2014, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, the Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years before 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.

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

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

Donated assets and services: Donated services are recognized as contributions in accordance with the Non-Profit Entities Topic of the ASC 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 School. 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.

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

Noncontrolling interest: The Organization follows the FASB-released Accounting Standards Update 2010-07 (ASU 2010-07), which provides accounting guidance related to not-for-profit mergers and acquisitions. In addition, ASU 2010-07 provides 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 the 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 their share of losses even if that attribution results in a deficit noncontrolling interest balance.

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

Note 2. Restricted Cash

Restricted cash represents minimum balances with financial institutions required to be maintained under the terms of certain notes payable and unspent bond proceeds in cash and cash equivalents.

Restricted cash at June 30, 2014 and 2013, is as follows:

	2014	2013
Minimum balance maintained	$ 2,925,296	$ 2,827,974
Unspent bond proceeds	50,117	50,117
	$ 2,975,413	$ 2,878,091

Note 3. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2014, and depreciation expense for the year then ended, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Building and improvements	39 years	$ 23,341,006	$ 5,614,866	$ 17,726,140	$ 1,073,858
Leasehold improvements	Life of lease	10,900,296	668,824	10,231,472	413,469
Land	–	6,538,842	-	6,538,842	-
Computers	3 years	1,675,825	1,306,288	369,537	358,339
Software	7 years	13,475	4,602	8,873	2,695
Furniture and equipment	7 years	820,336	327,158	493,178	105,615
		$ 43,289,780	$ 7,921,738	$ 35,368,042	$ 1,953,976

Note 3. Property and Equipment (Continued)

Property and equipment and accumulated depreciation at June 30, 2013, and depreciation expense for the year then ended, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Building and improvements	39 years	$ 23,313,745	$ 4,541,008	$ 18,772,737	$ 1,041,683
Leasehold improvements	Life of lease	10,804,214	255,355	10,548,859	237,925
Land	–	6,538,842	-	6,538,842	-
Computers	3 years	1,519,256	951,676	567,580	384,391
Software	7 years	13,475	1,907	11,568	1,907
Furniture and equipment	7 years	642,208	221,543	420,665	76,562
		$ 42,831,740	$ 5,971,489	$ 36,860,251	$ 1,742,468

Note 4. Grant Payable

In connection with the issuance of the Qualified School Construction Bonds (QSCB) (see Note 6), on February 22, 2012, ELH Georgia committed to making grants to ELHSC. The remaining grant payable at June 30, 2014, is $458,014 which is scheduled to be paid in full during the year ending June 30, 2015.

Note 5. Notes Payable

On April 4, 2008, the School secured permanent financing related to the construction of a school building at 3600 Georgia Avenue, NW, Washington, D.C. (Georgia Avenue Property) by entering into a transaction structured to qualify for the New Markets Tax Credit, as outlined in IRC Section 45(d). Total refinancing amounted to $18,316,021, of which the first payment was received in April 2008 in the amount of $16,742,021, and the second payment was received during the year ended June 30, 2009, in the amount of $1,574,000. As part of the transaction, the School formed ELH Georgia and signed a sale-leaseback agreement with ELH Georgia. Under the terms of the sale-leaseback agreement, the School entered into a 29-year, 11-month site lease with the ELH Georgia, leasing 87.2% of the building and 100% of the land for a total prepaid rental payment of $18,463,508. The School also entered into a 29-year, 11-month facility lease for both the building and land from ELH Georgia at an annual rental payment of $927,455, indexed to the CPI. Both leases are triple-net leases, whereby, the School is responsible for all maintenance, insurance, and taxes.

On May 25, 2010, ELH Kansas secured permanent financing related to the renovation of the facility at 4501 Kansas Avenue, NW, Washington, D.C. (Kansas Avenue Property) by entering into a transaction structured to qualify for the New Markets Tax Credit, as outlined in IRC Section 45(d). Total refinancing amounted to $9,500,000. As part of the transaction, the School entered into a certain ground lease with the District of Columbia on April 30, 2010 (see Note 13). This ground lease was assigned by the School to ELH Kansas on May 25, 2010, for a consideration of $2,000,000. On the same day, ELH Kansas sub-let this back to the School for a period of 20 years. The annual rental payment is $961,992, with annual escalation of 2.5% on July 1st of each year. Both leases are triple-net leases, whereby, the School is responsible for all maintenance, insurance, and taxes.

Note 5. Notes Payable (Continued)

In addition to the notes above, the Organization has entered into other notes payable related to the financing of the Georgia Avenue and Kansas Avenue Properties. The loan payable to The Reinvestment Fund, Inc. (TRF) requires that certain financial covenants be met, including debt service coverage ratio and further limits on indebtedness without prior consent.

On March 23, 2011, ELH Kansas entered into a loan agreement and received $3,200,000 of proceeds for the construction of the high school campus at the Kansas Avenue Property. The loan has an interest of 3% for the first seven months and thereafter shall be 5%. The payments under this loan include interest payments in arrears in semi-annual installments on the second day of May and November each year. Principal payments are schedule on May 2 and July 16, 2015 and annual installments on the second day of May of 2016 through 2019. The loan is due on May 2, 2019.

On May 10, 2010, the School, ELH QALICB, ELH Kansas, the District of Columbia and all other parties involved in the financing arrangements for both the Georgia Avenue and Kansas Avenue properties above and the financing in Note 6, entered into a payment priority and collateral agent agreement. The overall payment priorities are as follows: the payment or deposit to the restricted cash account for lease payments; prior to April 2015, in proportion to the amounts due to each creditor: payment required for the School’s QSCB (Note 6); current due on the loan payable to TRF; distributions to noncontrolling interests (Note 15), among others.

Note 5. Notes Payable (Continued)

Notes payable at June 30, 2014 and 2013, are as follows:

	2014	2013
Loan payable to bank for total of $18,316,021, with interest at 7.00%; no interest or principal payments until seventh year anniversary on April 3, 2015; annual payment of $900,000, for interest, payable quarterly and ending on ninth year anniversary, then quarterly payments of interest only until maturity on April 3, 2038; secured by an interest on the property and all of the School's assets. Financial covenants imposed on this loan relates to a minimum appraised value of the property and income from all leases, including the facility lease and limit on future indebtedness	$ 28,099,660	$ 26,231,335
Loan payable to ELHSC with interest at 6.00%; no payments due until maturity on April 4, 2015; the loan is unsecured	1,256,420	1,183,779
Loan payable to ELHSC with interest at 6.00%; quarterly payments of $12,021 to $14,944 with a balloon payment due on April 4, 2015; secured by cash collateral under a credit enhancement from the Office of State Superintendent of Education of the District of Columbia	3,193,294	3,302,993
Loan payable to Building Hope with interest at 6.00%; quarterly payments of $79,976 with a balloon payment due on April 4, 2015; secured by the rights of the School to payments on a loan agreement from the School to Haynes Investment Fund No. 24 LLC	650,342	777,855
Loan payable to The Reinvestment Fund, Inc. with interest only until April 30, 2011, then quarterly payments of $155,651 and a balloon payment due on January 31, 2015; secured by a second priority on security interest on the property and all of the School's assets	454,864	1,020,803
Loan payable to National City NMTC No. 24, LLC with interest at 4.75%; interest only paid semi-annually until November 1, 2017, then $289,695 paid semi-annually with a balloon payment due on May 25, 2035; secured by a mortgage on the Kansas Avenue Property	7,040,222	7,040,222
Loan payable to National City NMTC No. 24, LLC with interest at 4.75%; interest only paid semi-annually until November 1, 2017, then $104,321 paid semi-annually with a balloon payment due on May 25, 2035; secured by a mortgage on the Kansas Avenue Property	2,536,240	2,536,240
Loan payable to PNC Bank with interest at 5.00%; interest only paid semi-annually until May 2, 2019, maturity. Principal payment due beginning on May 2, 2015 for $187,000; $392,120 on July 16, 2015; $608,075 on May 2, 2016; $638,479 on May 2, 2017; $670,403 on May 2, 2018; $703,923 on May 2, 2019 and any outstanding principal, interest and accrued interest due on May 2, 2019; secured by a mortgage on the Kansas Avenue Property	3,227,111	3,227,111
	$ 46,458,153	$ 45,320,338

Note 5. Notes Payable (Continued)

Aggregate maturities of notes payable at June 30, 2014, are due in future years as follows:

Year Ending June 30,		
2015	$	6,134,040
2016		608,075
2017		638,479
2018		1,004,172
2019		1,080,328
Thereafter		36,993,059
	$	46,458,153

Interest expense related to notes payable incurred for the years ended June 30, 2014 and 2013, was $3,089,616 and $2,787,126, respectively.

Interest of $213,756 was capitalized related to these notes payable for the year ended June 30, 2013. There was no interest capitalized during the year ended June 30, 2014.

Note 6. Bonds Payable

During the year ended June 30, 2009, the District of Columbia issued Variable Rate Revenue Bonds (Euphemia L. Haynes Public Charter School Issue), Series 2008 (the Bonds) in the amount of $1,510,000. The Bonds bear interest at 7%. The Bonds are collateralized by an indenture of trust covering substantially all of the School's assets. The accreted value of the Bonds will have a final maturity of June 1, 2043. The proceeds from the Bonds are to be used to finance, refinance, or reimburse costs for new construction and renovation of a school building. The accreted value of the Bonds at June 30, 2014 and 2013, was $2,267,084 and $2,116,348, respectively.

On February 22, 2012, the District of Columbia issued Revenue Bonds (E.L. Haynes Public Charter School Issue) QSCB (Taxable-Tax Credit Bonds), Series 2012, with no interest. The QSCB have a face value of $13,350,000 and proceeds after issued discount were $10,150,000. The QSCB mature at face value on February 22, 2031. The proceeds from the QSCB are used to finance the final phase of development of the Kansas Avenue Property of the School to house upper grades. The QSCB are secured by a shared collateral agreement funded principally by per-pupil payments of the School. In addition, the QSCB is secured with a Leasehold Deed of Trust and Security Agreement. The accreted value of the QSCB at June 30, 2014 and 2013, amounted to $10,352,477 and $10,261,855, respectively.

Note 6. Bonds Payable (Continued)

The QSCB requires the following sinking fund installment payments:

Year Ending June 30,	
2015	$ -
2016	387,949
2017	387,949
2018	387,949
2019	387,949
Thereafter	11,798,204
	$ 13,350,000

Note 7. Loan Receivable

On May 26, 2010, the School loaned $6,984,010 to Haynes Investment Fund No. 24, LLC. The loan receivable balance was $7,380,291 and $7,267,936 at June 30 2014 and 2013, respectively. This loan was made to qualify for the New Markets Tax Credit transaction related to the Kansas Avenue Property. This bears an interest rate of 7.29% per annum. The loan requires payment of $213,125 on the second day of May and November of each year; during the period commencing November 2, 2017, $385,372 shall be payable, and on May 2, 2035, the entire principal amount, together with accrued and unpaid interest, will be due. Interest income on the loan of $539,968 and $532,052 was earned for the years ended June 30, 2014 and 2013, respectively.

Note 8. Pension Plan

The School offers a 403(b) pension plan option (the Plan) for substantially all of its employees. In addition, the School contributes a percentage of compensation, which is determined by the Board of Trustees. For the years ended June 30, 2014 and 2013, the Trustees approved a 3% employer contribution. Total expense for the Plan amounted to $355,790 for the years ended June 30, 2014 and 2013.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets of $541,236 and $556,701 at June 30, 2014 and 2013, respectively, were for student education and services. Net assets of $780,894 and $740,352 for the years ended June 30, 2014 and 2013, respectively, were released from restrictions either as expenses were incurred, which satisfied the restricted purposes of the net assets, or by the occurrence of other events, as specified by the donors.

Note 10. Concentrations

The School is supported primarily through local appropriations from the District of Columbia. For the years ended June 30, 2014 and 2013, approximately 81% and 75%, respectively, of total revenue was provided from the District of Columbia. Reduction of this source of support would have a significant impact on the School’s programs and activities.

Note 11. Pupil Allocation

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

	2014	2013
General education	$ 11,536,738	$ 10,236,925
Special education and English as a second language	4,649,112	4,160,408
Facility allowance	3,210,000	2,847,000
	$ 19,395,850	$ 17,244,333

Note 12. Commitments and Contingencies

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

Puts, calls, and security agreements: The School and ELH Georgia have entered into several puts, calls, and security agreements as part of the refinancing of their long-term debt. The following are highlights of the agreements:

Commencing on the seventh anniversary, the School shall have a non-expiring "put" option to sell at any time to ELH Georgia 98.62% of the School's 65.10% Membership Interest in ELH Georgia (representing a total of 64.2% Membership Interest in ELH Georgia as a Regular Member), which it may exercise by notice to ELH Georgia, and ELH Georgia shall have a non-expiring "call" option to purchase at any time from the Regular Member 98.62% of the School's 65.10% Membership Interest in ELH Georgia (representing a total of 64.2% Membership Interest in ELH Georgia as a Regular Member), which it may exercise by notice to the School.

The sale or purchase price under either of the foregoing "put" and "call" options shall be equal to an amount equal to that portion of the Membership Interest to be purchased, multiplied by the fair market value of the School's Membership Interest determined at the time the "put" or "call" option is exercised, provided that the purchase price of 98.62% of the Regular Member's Membership Interest by ELH Georgia pursuant to the "call" option shall not, in any event, be less than $207,868. If the School and ELH Georgia are unable to agree on the fair market value of the School's Membership Interest, the fair market value shall be determined by a process stipulated in the Operating Agreement.

In the event that either party exercises their "put" or "call" options:

- The exercising party shall specify a reasonably convenient time and place to close the transfer of the School's Membership Interest by notice to the other party.

- The School shall execute all documents and instruments reasonably necessary to transfer its Membership Interest to ELH Georgia, free and clear of encumbrances, and shall execute all documents and instruments as shall be required by ELH Georgia to signify satisfaction of the requirements of the agreement.

At the option of the Manager or at the request of the Investor (Minority) Member or the School, the Manager shall cause ELH Georgia to exercise the "call" option set forth in the agreement.

Note 13. Leases

The School executed a lease contract with the District of Columbia for the real property located at 4501 Kansas Avenue, NW, Washington, D.C. The term of the lease is for 25 years, with annual base rent due of $693,000. The lease commencement date was April 2010. The lease provides for rent credits for certain approved construction and related costs. The rent credits are used to offset the minimum rent due on a dollar-for-dollar basis.

As of June 30, 2014, future minimum rental obligations required under this lease, net of rent abatement, are as follows:

Year Ending June 30,	Rent Obligation	Rent Abatements	Net Obligation
2015	$ 693,000	$ (693,000)	$ -
2016	693,000	(693,000)	-
2017	693,000	(693,000)	-
2018	693,000	(693,000)	-
2019	693,000	(693,000)	-
Thereafter	11,088,000	(1,900,449)	9,187,551
	$ 14,553,000	$ (5,365,449)	$ 9,187,551

Rent expense under this lease was $355,894 for each of the years ended June 30, 2014 and 2013.

Note 14. Related Party Transactions

The Organization had notes payable outstanding in the amount $650,342 and $777,855 at June 30, 2014 and 2013, respectively, with an organization that shares a Board member with ELH Kansas. The shared Board member is a requirement of the note payable with that organization.

ELH Georgia made a grant to ELHSC (see Note 4) in relation to the requirements of the issuance of the QSCBs (see Note 6). ELH Kansas also made a grant to ELHSC that is being amortized over the life of the loan in relation to the 2010 New Market Tax Credit transaction (see Note 5). This is presented as prepaid grant in the accompanying consolidated balance sheets. ELH Kansas had notes payable outstanding in the amount of $4,449,714 and $4,486,772 at June 30, 2014 and 2013, respectively, with ELHSC (see Note 5).

Note 15. Changes in Consolidated Unrestricted Net Assets

The schedule of changes in consolidated unrestricted net assets related to the Organization and noncontrolling interest in ELH Georgia is as follows:

	The Organization	Noncontrolling Interest	Total
Unrestricted Net Assets			
Balance, June 30, 2012	$ 3,810,987	$ (6,415,131)	$ (2,604,144)
Change in unrestricted net assets – FY13	(2,220,428)	(938,271)	(3,158,699)
Distributions to noncontrolling interest – FY13	-	(83,500)	(83,500)
Balance, June 30, 2013	1,590,559	(7,436,902)	(5,846,343)
Change in unrestricted net assets – FY14	(1,029,055)	(1,363,841)	(2,392,896)
Distributions to noncontrolling interest – FY14	-	(83,500)	(83,500)
Balance, June 30, 2014	$ 561,504	$ (8,884,243)	$ (8,322,739)

McGladrey

Independent Auditor's Report
on the Supplementary Information

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

We have audited the consolidated financial statements of Euphemia L. Haynes Public Charter School, Inc. and Subsidiaries as of and for the year ended June 30, 2014 and 2013, and have issued our report thereon, dated October 31, 2014, which contained an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating 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

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

Consolidating Balance Sheet
June 30, 2014

Assets	EL Haynes	ELH QALICB LLC	ELH Kansas, Inc.	Elimination Entries	Total
Current Assets					
Cash and cash equivalents	$ 3,702,543	$ 92,494	$ 3	$ -	$ 3,795,040
Accounts receivable	253,093	219	-	-	253,312
Promises to give	44,875	-	-	-	44,875
Grants receivable	1,120,491	-	-	-	1,120,491
Prepaid expenses	1,027,607	-	1,687,493	(2,515,248)	199,852
Total current assets	6,148,609	92,713	1,687,496	(2,515,248)	5,413,570
Restricted Cash	1,802,082	1,173,331	-	-	2,975,413
Loan Issuance Costs, Net	883,473	1,343,304	799,675	-	3,026,452
Prepaid Rent	8,949,338	-	-	(8,949,338)	-
Property and Equipment, Net	34,167,472	247,910	18,207,639	(17,254,979)	35,368,042
Due (to) From E.L. Haynes	(152,410)	18,864,664	19,932,747	(38,645,001)	-
Investment in ELH QALICB LLC	2,011,931	-	-	(2,011,931)	-
Deposits	1,640	-	-	-	1,640
Loan Receivable	7,380,291	-	-	-	7,380,291
	$ 61,192,426	$ 21,721,922	$ 40,627,557	$ (69,376,497)	$ 54,165,408

Liabilities and Net Assets	EL Haynes	ELH QALICB LLC	ELH Kansas, Inc.	Elimination Entries	Total
Current Liabilities					
Accounts payable and accrued expenses	$ 812,803	$ 36,560	$ -	$ -	$ 849,363
Current portion of grant payable	-	458,014	-	-	458,014
Current portion of notes payable	5,554,920	-	579,120	-	6,134,040
Deferred revenue	32,008	-	8,567,408	(8,567,408)	32,008
Total current liabilities	6,399,731	494,574	9,146,528	(8,567,408)	7,473,425
Due to ELH QALICB LLC and ELH Kansas LLC	38,645,001	-	-	(38,645,001)	-
Accrued Rent	-	-	1,529,812	-	1,529,812
Deferred Gain on Sale-Leaseback	2,341,774	-	8,861,045	(11,202,819)	-
Deferred Revenue	-	-	8,949,338	(8,949,338)	-
Notes Payable, Net of Current Portion	-	28,099,660	12,224,453	-	40,324,113
Bonds Payable, Net	12,619,561	-	-	-	12,619,561
	60,006,067	28,594,234	40,711,176	(67,364,566)	61,946,911
Net Assets (Deficit)					
Unrestricted	645,123	(6,872,312)	(83,619)	(2,011,931)	(8,322,739)
Temporarily restricted	541,236	-	-	-	541,236
Total net assets	1,186,359	(6,872,312)	(83,619)	(2,011,931)	(7,781,503)
	$ 61,192,426	$ 21,721,922	$ 40,627,557	$ (69,376,497)	$ 54,165,408

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

Consolidating Statement of Activities
Year Ended June 30, 2014

	EL Haynes			ELH QALICB LLC	ELH Kansas, Inc.		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Unrestricted	Elimination Entries	Total
Revenue and Support							
Pupil allocation	$ 19,395,850	$ -	$ 19,395,850	$ -	$ -	$ -	$ 19,395,850
Other grants	524,169	765,429	1,289,598	-	-	-	1,289,598
Federal grants	2,107,077	-	2,107,077	-	-	-	2,107,077
Contributions	639,482	-	639,482	-	-	(300,000)	339,482
Program revenue	242,978	-	242,978	-	-	-	242,978
Recognition of leaseback gain	68,203	-	68,203	-	-	(68,203)	-
Interest income	611,909	-	611,909	1,152	796,455	(796,448)	613,068
Rental revenue	9,600	-	9,600	1,038,940	976,508	(2,015,452)	9,596
Loss on investment in ELH			-				
QALICB LLC	(13,592)	-	(13,592)	-	-	13,592	-
Net assets released from restrictions	780,894	(780,894)	-	-	-	-	-
Total revenue and support	24,366,570	(15,465)	24,351,105	1,040,092	1,772,963	(3,166,511)	23,997,649
Expenses							
Program services	24,483,220	-	24,483,220	2,309,309	1,460,990	(3,037,520)	25,215,999
General and administrative	621,591	-	621,591	57,985	36,685	(76,270)	639,991
Fundraising	534,023	-	534,023	50,415	31,895	(66,313)	550,020
Total expenses	25,638,834	-	25,638,834	2,417,709	1,529,570	(3,180,103)	26,406,010
Change in net assets	(1,272,264)	(15,465)	(1,287,729)	(1,377,617)	243,393	13,592	(2,408,361)
Net Assets (Deficit)							
Beginning	1,917,387	556,701	2,474,088	(5,411,195)	(327,012)	(2,025,523)	(5,289,642)
Distributions to noncontrolling interest	-	-	-	(83,500)	-	-	(83,500)
Ending	$ 645,123	$ 541,236	$ 1,186,359	$ (6,872,312)	$ (83,619)	$ (2,011,931)	$ (7,781,503)

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

Consolidated Schedule of Functional Expenses
Year Ended June 30, 2014
(With Comparative Totals for 2013)

	2014				
	Program Services	General and Administrative	Fundraising	Total	2013 Total
Salaries	$ 13,089,173	$ 439,568	$ 290,807	$ 13,819,548	$ 12,798,875
Interest	3,028,591	30,059	30,966	3,089,616	2,787,126
Professional fees	1,217,371	19,374	114,204	1,350,949	2,491,293
Grant expense	17,959	178	184	18,321	114,479
Depreciation and amortization	2,174,535	32,039	27,534	2,234,108	2,007,247
Occupancy	1,316,602	13,067	13,462	1,343,131	1,480,655
Benefits	1,224,797	41,132	27,212	1,293,141	1,131,943
Payroll taxes	1,046,262	35,136	23,245	1,104,643	1,061,250
Supplies	471,443	3,560	2,355	477,358	536,043
Food service	521,373	-	-	521,373	447,968
Dues, fees, and fines (recovery)	84,579	2,515	1,879	88,973	50,503
Professional development	128,827	4,326	2,862	136,015	158,351
Equipment rent and maintenance	139,802	4,695	3,106	147,603	95,865
Travel	169,119	216	143	169,478	185,103
Telephone	89,670	3,011	1,992	94,673	132,507
Insurance	97,871	3,287	2,174	103,332	83,317
Other staff expense	116,201	3,902	2,582	122,685	69,641
Printing and duplication	254	9	6	269	57,053
Contracted staff	21,326	716	474	22,516	10,753
Postage and delivery	18,465	620	410	19,495	13,322
Bad debt	-	-	1,992	1,992	15,000
Other expenses	241,779	2,581	2,431	246,791	231,919
	$ 25,215,999	$ 639,991	$ 550,020	$ 26,406,010	$ 25,960,213