

# **REAL School Gardens**

Independent Auditor's Report and Financial Statements

June 30, 2016 and 2015



**REAL School Gardens**  
**June 30, 2016 and 2015**

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## Independent Auditor's Report

Board of Directors  
REAL School Gardens  
Washington, DC

We have audited the accompanying financial statements of REAL School Gardens, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of REAL School Gardens as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplementary Information***

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

**BKD, LLP**

Dallas, Texas  
October 10, 2016

**REAL School Gardens**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**

**Assets**

	<b>2016</b>	<b>2015</b>
Cash	\$ 286,110	\$ 814,395
Accounts receivable	37,182	72,754
Prepaid expenses and other current assets	10,773	9,245
Security deposits	7,100	2,900
Investments	1,051,706	-
Contributions receivable	2,185,594	412,014
Property and equipment, net of accumulated depreciation of 2016, \$286,458 and 2015, \$270,118	28,649	22,015
Total assets	\$ 3,607,114	\$ 1,333,323

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 67,767	\$ 56,113
Accrued expenses	37,921	22,733
Total liabilities	105,688	78,846

**Net Assets**

Unrestricted	1,412,925	498,842
Temporarily restricted	2,088,501	755,635
Total net assets	3,501,426	1,254,477
Total liabilities and net assets	\$ 3,607,114	\$ 1,333,323

**REAL School Gardens**  
**Statements of Activities**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Contributions	\$ 2,057,655	\$ 2,137,000	\$ 4,194,655
Interest income	3,386	-	3,386
Other income	133,672	-	133,672
Net assets released from restrictions	804,134	(804,134)	-
	<u>2,998,847</u>	<u>1,332,866</u>	<u>4,331,713</u>
Total revenues, gains and other support			
<b>Expenses</b>			
Program services	1,559,518	-	1,559,518
Fund raising	373,567	-	373,567
Management and general	151,679	-	151,679
	<u>2,084,764</u>	<u>-</u>	<u>2,084,764</u>
Total expenses			
<b>Change in Net Assets</b>	914,083	1,332,866	2,246,949
<b>Net Assets, Beginning of Year</b>	<u>498,842</u>	<u>755,635</u>	<u>1,254,477</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,412,925</u>	<u>\$ 2,088,501</u>	<u>\$ 3,501,426</u>

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Contributions	\$ 251,821	\$ 1,579,056	\$ 1,830,877
Interest income	837	-	837
Other income	154,619	-	154,619
Net assets released from restrictions	1,336,106	(1,336,106)	-
Total revenues, gains and other support	<u>1,743,383</u>	<u>242,950</u>	<u>1,986,333</u>
<b>Expenses</b>			
Program services	1,209,981	-	1,209,981
Fund raising	263,608	-	263,608
Management and general	126,151	-	126,151
Total expenses	<u>1,599,740</u>	<u>-</u>	<u>1,599,740</u>
<b>Change in Net Assets</b>	143,643	242,950	386,593
<b>Net Assets, Beginning of Year</b>	<u>355,199</u>	<u>512,685</u>	<u>867,884</u>
<b>Net Assets, End of Year</b>	<u>\$ 498,842</u>	<u>\$ 755,635</u>	<u>\$ 1,254,477</u>

**REAL School Gardens**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Change in net assets	\$ 2,246,949	\$ 386,593
Item not requiring cash		
Depreciation	16,339	19,978
Net realized and unrealized gain on investments	(1,792)	-
Changes in		
Accounts receivable	35,572	(22,454)
Contributions receivable	(1,773,580)	19,298
Prepaid expenses and other current assets	(1,528)	(2,576)
Security deposits	(4,200)	-
Accounts payable and accrued expenses	26,842	39,707
	<u>544,602</u>	<u>440,546</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Purchases of investments	(1,049,914)	-
Purchases of property and equipment	(22,973)	(5,163)
	<u>(1,072,887)</u>	<u>(5,163)</u>
Net cash used in investing activities		
<b>Increase (Decrease) in Cash</b>	(528,285)	435,383
<b>Cash, Beginning of Year</b>	<u>814,395</u>	<u>379,012</u>
<b>Cash, End of Year</b>	<u>\$ 286,110</u>	<u>\$ 814,395</u>



# **REAL School Gardens**

## **Notes to Financial Statements**

### **June 30, 2016 and 2015**

#### **Note 1: Nature of Activities and Summary of Significant Accounting Policies**

##### ***Nature of Activities***

A general description of the programs at REAL School Gardens is as follows:

- **School Garden Installation and Support** – School garden design and installation support, including the materials and skilled labor necessary to establish elementary school learning gardens within high-poverty, urban neighborhoods.
- **Educator Training and Resources** – State-accredited training, seminars, educational materials and web-based resources to assist teachers to integrate standards-based curriculum and develop hands-on, experiential teaching methods, which transform a school garden into an outdoor classroom.
- **Community Engagement** – Events, web-based content and capacity building designed to foster a cooperative spirit among teachers, school principals, parents, local businesses and community partners and to help sustain elementary school gardens.

REAL School Gardens presently maintains headquarters in Washington, DC and serves elementary schools across two regional offices: Texas and MidAtlantic (Virginia, Maryland and Washington, DC).

REAL School Gardens launched its growth capital campaign during the year ended June 30, 2016, successfully raising \$2,302,500 in funds to fund future site expansions across the United States.

##### ***Use of Estimates***

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

##### ***Cash***

At June 30, 2016, REAL School Gardens' cash accounts did not exceed the federally insured limits. At June 30, 2015, REAL School Gardens' cash accounts exceeded federally insured limits by approximately \$180,000.

##### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

**REAL School Gardens**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Donations of property and equipment are recorded as support at their fair value. Such 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, REAL School Gardens reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. REAL School Gardens reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Website	3 years
Computer equipment and software	3 – 5 years
Furniture and fixtures	5 – 10 years
Leasehold improvements	15 years

Depreciation expense amounted to \$16,339 and \$19,978 for the years ended June 30, 2016 and 2015, respectively.

***Long-lived Asset Impairment***

REAL School Gardens evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2016 and 2015.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

# **REAL School Gardens**

## **Notes to Financial Statements**

### **June 30, 2016 and 2015**

#### ***Accounts Receivable***

Accounts receivable are related to services provided to elementary schools where REAL School Gardens has agreed to implement a program at the schools that would include support for garden design, installation and professional development. Accounts receivable are stated at the amount billed to the elementary schools and are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 180 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

#### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as permanently or temporarily restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as a contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

#### ***Contributed Services***

Contributed services are recognized as revenue at their estimated fair value only when the services create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For the years ended June 30, 2016 and 2015, revenue recognized from contributed legal and information technology consulting services was \$0 and \$85,000, respectively.

#### ***In-kind Contributions***

In addition to receiving cash contributions, REAL School Gardens receives in-kind contributions from various donors. It is the policy of REAL School Gardens to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended June 30, 2016 and 2015, \$75,973 and \$41,821, respectively, was received in in-kind contributions.

**REAL School Gardens**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Income Taxes**

REAL School Gardens is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, REAL School Gardens is subject to federal income tax on any unrelated business taxable income.

REAL School Gardens files tax returns in the U.S. federal jurisdiction. With a few exceptions, REAL School Gardens is no longer subject to U.S. federal examinations by tax authorities for years before 2012.

**Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on direct salaries, square footage analysis and other methods.

**Note 2: Contributions Receivable**

Contributions receivable consisted of the following:

	<b>June 30, 2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ 308,594	\$ 1,427,000	\$ -	\$ 1,735,594
Due within one to five years	-	450,000	-	450,000
Less allowance for uncollectible contributions	-	-	-	-
	<u>\$ 308,594</u>	<u>\$ 1,877,000</u>	<u>\$ -</u>	<u>\$ 2,185,594</u>
	<b>June 30, 2015</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ -	\$ 412,014	\$ -	\$ 412,014
Less allowance for uncollectible contributions	-	-	-	-
	<u>\$ -</u>	<u>\$ 412,014</u>	<u>\$ -</u>	<u>\$ 412,014</u>

As of June 30, 2016, \$860,000 under temporarily restricted assets is due to time restrictions.

**REAL School Gardens**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 3: Investments and Investment Return**

Investments at June 30, 2016, consisted of the following:

U.S. Treasury Securities	\$ 1,051,706
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All investments will mature within one year from June 30, 2016.

Total investment return for the years ended June 30, 2016 and 2015, is comprised of the following:

	2015	2014
Interest and dividend income	\$ 1,594	\$ 837
Net realized and unrealized gain on investments reported at fair value	1,792	-
	\$ 3,386	\$ 837

**Note 4: Conditional Gifts**

REAL School Gardens has received the following conditional promises to give at June 30 that are not recognized in the financial statements:

	2016	2015
Conditional promise to give upon obtaining equal matching contributions or other requirements	\$ 300,000	\$ 150,000

**Note 5: Property and Equipment**

Property and equipment at June 30 consists of:

	2016	2015
Website	\$ 217,802	\$ 200,895
Computer equipment and software	50,519	44,452
Furniture and fixtures	46,786	38,738
Office equipment	-	8,048
	315,107	292,133
Less accumulated depreciation	(286,458)	(270,118)
	\$ 28,649	\$ 22,015

**REAL School Gardens**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 6: Net Assets**

Temporarily restricted net assets were \$2,088,501 and \$755,635 at June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, \$1,228,501 and \$755,635, respectively, were restricted by the donor for a specific community engagement, educator training, or school garden program activity provided during the year. At June 30, 2016, \$860,000 was restricted due to the time the funds will be available. Net assets were released from donor restrictions by incurring expenses satisfying the time or purpose imposed restrictions.

**Note 7: Operating Leases**

REAL School Gardens leases its facilities and equipment under operating lease agreements. Future minimum lease commitments under the agreements are as follows:

2017	\$	95,509
2018		56,502
2019		22,920
	\$	174,931

Rent expense, excluding donated facilities, totaled \$54,999 and \$39,583 for the years ended June 30, 2016 and 2015, respectively.

**Note 8: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1**     Quoted prices in active markets for identical assets
- Level 2**     Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3**     Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

**REAL School Gardens**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

***Recurring Measurements***

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2016</b>				
U.S. Treasury Securities	\$ 1,051,706	\$ -	\$ 1,051,706	\$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2016.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. REAL School Gardens has no Level 3 investments at June 30, 2016.

**Note 9: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Contributions***

During the year ended June 30, 2016, REAL School Gardens received contributions from three donors of approximately \$2,650,000 or 63% of total revenues, gains and other support. During the year ended June 30, 2015, REAL School Gardens received contributions from one donor of approximately \$225,000 or 11% total revenue, gains and other support.

**REAL School Gardens**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 10: Subsequent Events**

On July 1, 2016, REAL School Gardens launched operations in the Carolinas Region via an asset transfer transaction with Green Teachers Network, entered into on June 17, 2016. Also, on July 1, 2016, a new Washington DC location was leased.

Subsequent events have been evaluated through October 10, 2016, which is the date the financial statements were available to be issued.



## **Supplementary Information**

**REAL School Gardens**  
**Schedule of Functional Expenses**  
**Year Ended June 30, 2016**  
**(with Comparative Totals for 2015)**

	Program Services			Supporting Services			2016 Total Expenses	2015 Total Expenses
	Community Engagement	Educator Training	School Gardens	Total Program Expenses	Fundraising	Management and General		
Garden materials and skilled labor	\$ 1,172	\$ 32,540	\$ 267,141	\$ 300,853	\$ -	\$ -	\$ -	\$ 124,630
Education events	-	57,222	2,907	60,129	-	-	-	56,213
Salaries and wages	177,036	268,990	240,843	686,869	268,178	92,395	360,573	769,342
Benefits	35,439	53,846	48,211	137,496	53,683	18,495	72,178	147,294
Professional fees	51,988	74,769	81,693	208,450	20,084	16,067	36,151	264,662
Facilities and Equipment	11,569	19,282	36,645	67,496	11,570	7,713	19,283	63,305
Depreciation	2,451	4,085	5,718	12,254	2,451	1,634	4,085	19,978
Communications and publications	1,836	3,456	10,960	16,252	1,835	1,224	3,059	57,781
Office expenses	2,472	4,121	5,769	12,362	2,472	1,648	4,120	14,694
Insurance	745	1,242	1,739	3,726	745	497	1,242	4,389
Other general operating	6,341	11,945	17,669	35,955	4,944	3,299	8,243	42,496
Travel and transportation	2,380	8,235	7,061	17,676	7,605	8,707	16,312	34,956
<b>Total</b>	<b>\$ 293,429</b>	<b>\$ 539,733</b>	<b>\$ 726,356</b>	<b>\$ 1,559,518</b>	<b>\$ 373,567</b>	<b>\$ 151,679</b>	<b>\$ 525,246</b>	<b>\$ 1,599,740</b>