

Anna Julia Cooper Episcopal School

Report on Financial Statements

For the year ended June 30, 2019

Anna Julia Cooper Episcopal School

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Independent Auditor's Report

To the Officers and Board of Directors
Anna Julia Cooper Episcopal School
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Anna Julia Cooper Episcopal School (the "School"), which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 Anna Julia Cooper Episcopal School as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Kimbee". The signature is written in a cursive style with a prominent dot above the letter 'i'.

Richmond, Virginia
October 8, 2019

Anna Julia Cooper Episcopal School**Statement of Financial Position****As of June 30, 2019**

Assets**Current assets**

Cash and cash equivalents	\$	2,884,071
Pledge receivables		1,697,065
Prepaid expenses		7,847
Total current assets		<u>4,588,983</u>

Property and equipment

Computers		39,830
Furniture and equipment		50,467
Facility improvements		785,250
Vehicles		226,115
Land		576,282
		<u>1,677,944</u>
Less: accumulated depreciation		<u>(238,628)</u>
Total property and equipment, net		<u>1,439,316</u>

Other assets

Pledge receivables - long term		4,425,476
Deposits		11,626
Total assets	\$	<u>10,465,401</u>

Liabilities and Net Assets**Current liabilities**

Accounts payable	\$	9,151
Accrued salaries and related payroll taxes		138,631
Total current liabilities		<u>147,782</u>

Net assets

Without donor restriction		3,011,099
With donor restriction		7,306,520
Total net assets		<u>10,317,619</u>
Total liabilities and net assets	\$	<u>10,465,401</u>

See Notes to Financial Statements

Anna Julia Cooper Episcopal School**Statement of Activities****For the year ended June 30, 2019**

	Net Assets Without	Net Assets With	
	Donor Restrictions	Donor Restrictions	Total
Revenue and support			
Contributions/fund-raisers:			
Individuals	\$ 949,666	\$ 621,043	\$ 1,570,709
Capital campaign	-	6,779,151	6,779,151
Foundation and grants	366,235	50,000	416,235
USDA reimbursements	101,546	-	101,546
Corporations	50,733	-	50,733
Indirect public support	66,645	31,000	97,645
Gifts in kind	60,000	-	60,000
Fundraisers	3,012	-	3,012
Registration and application fees	5,857	-	5,857
Dividend and interest income	5,477	-	5,477
Other income	39,650	-	39,650
	<u>1,648,821</u>	<u>7,481,194</u>	<u>9,130,015</u>
Net assets released from restrictions	<u>1,136,007</u>	<u>(1,136,007)</u>	<u>-</u>
Total revenue and support	<u>2,784,828</u>	<u>6,345,187</u>	<u>9,130,015</u>
Expenses			
Program services:			
Education	1,333,949	-	1,333,949
Facilities	167,420	-	167,420
Food service	91,929	-	91,929
Graduate placement	199,341	-	199,341
Support services:			
Management & general	327,137	-	327,137
Fundraising	69,435	-	69,435
Total expenses	<u>2,189,211</u>	<u>-</u>	<u>2,189,211</u>
Change in net assets	595,617	6,345,187	6,940,804
Net assets, beginning of year	<u>2,415,482</u>	<u>961,333</u>	<u>3,376,815</u>
Net assets, end of year	<u>\$ 3,011,099</u>	<u>\$ 7,306,520</u>	<u>\$ 10,317,619</u>

See Notes to Financial Statements

Anna Julia Cooper Episcopal School
Statement of Functional Expenses
For the year ended June 30, 2019

	Program Services					Support Services		
	Education	Facilities	Food Service	Graduate Placement	Total Program Services	Management & General	Fundraising	Total
Personnel costs	\$ 1,002,454	\$ 10,536	\$ 46,473	\$ 37,278	\$ 1,096,741	\$ 236,572	\$ 55,542	\$ 1,388,855
Graduate support	162,969	-	671	162,052	325,692	-	-	325,692
School supplies and computers	88,808	-	-	-	88,808	251	-	89,059
Depreciation expense	49,383	25,439	-	-	74,822	-	-	74,822
Occupancy expense	-	68,445	-	-	68,445	-	-	68,445
Rent - in kind	-	63,000	-	-	63,000	-	-	63,000
USDA expenses	-	-	44,785	-	44,785	-	-	44,785
Insurance expense	-	-	-	-	-	22,045	-	22,045
Professional fees	-	-	-	-	-	16,629	-	16,629
Family assistance	16,509	-	-	-	16,509	-	-	16,509
Professional development	510	-	-	-	510	13,675	-	14,185
Office supplies	-	-	-	-	-	12,389	-	12,389
Transportation	10,081	-	-	-	10,081	-	-	10,081
Miscellaneous expense	-	-	-	-	-	9,571	20	9,591
Printing and copying	-	-	-	-	-	9,004	-	9,004
Fundraising expenses	537	-	-	11	548	-	8,135	8,683
Membership dues	433	-	-	-	433	6,078	-	6,511
Marketing and promotion	-	-	-	-	-	64	5,738	5,802
Community support fund	2,265	-	-	-	2,265	-	-	2,265
Postage and delivery	-	-	-	-	-	859	-	859
	<u>\$ 1,333,949</u>	<u>\$ 167,420</u>	<u>\$ 91,929</u>	<u>\$ 199,341</u>	<u>\$ 1,792,639</u>	<u>\$ 327,137</u>	<u>\$ 69,435</u>	<u>\$ 2,189,211</u>

See Notes to Financial Statements

Anna Julia Cooper Episcopal School**Statement of Cash Flows****For the year ended June 30, 2019**

Cash flows from operating activities

Change in net assets	\$	6,940,804
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		74,822
Change in fair value of pledges receivable		504,363
Change in assets and liabilities:		
Pledge receivables		(6,517,102)
Prepaid expenses		9,626
Deposits		(1,076)
Accounts payable		(4,438)
Accrued salaries and related payroll taxes		(21,288)
Net cash provided by operating activities		<u>985,711</u>

Cash flows from investing activities

Purchase of property and equipment		<u>(640,030)</u>
Net cash used in investing activities		<u>(640,030)</u>

Change in cash and cash equivalents

345,681

Cash and cash equivalents, beginning of year

2,538,390

Cash and cash equivalents, end of year\$ 2,884,071**See Notes to Financial Statements**

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2019

Note 1. Organization

The Anna Julia Cooper Episcopal School (the "School") is a nonprofit Virginia corporation formed in 2009 to serve students in Richmond's east end. Anna Julia Cooper Episcopal School is an independent, faith based school providing tuition-free education to students in grades 4 to 8. Through a program focused on academic, social and spiritual development, the School helps students set their sights on high school, college and a life of responsible citizenship.

As specified in the School's articles of incorporation and bylaws, an additional purpose of the School is to provide financial aid for education of students of low-income families residing in the Commonwealth of Virginia. The Anna Julia Cooper Scholarship Foundation (the "Foundation") was created to fulfill this purpose and to take advantage of the Virginia Education Improvement Scholarship Tax Credit Program. Donors to the Foundation receive a Virginia tax credit. Activities of the Foundation, an operating function controlled and overseen by the School, are included in the School's financial statements.

The School has embarked on a capital campaign with a goal to raise \$16,000,000, the results to date of which are included in this year's financial statements. In addition to constructing a new middle school academic campus and an athletic/multi-purpose center, the campaign includes increasing operational funds and establishing a \$5,000,000 endowment to ensure the future viability of the School. The School began purchasing adjacent properties during the year with an anticipated beginning construction date during 2020.

Note 2. Summary of Significant Accounting Policies

Basis of accounting:

The financial statements of the School have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America; revenues and support are recognized when earned, and expenses are recognized when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of presentation:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) that includes the accrual basis of accounting and requires the School to report information regarding its financial position and activities according to two classes of net assets – with and without donor restrictions, as follows:

Without donor restrictions: Represents net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the School. These net assets may be used at the discretion of management and the board of directors.

With donor restrictions: Represents net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature and will be met by actions of the School or the passage of time. Other donor restrictions are permanent in nature and generally exist because the donor stipulated that funds be maintained in perpetuity.

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Estimates:

The preparation of financial statements in accordance 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 amount of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Cash and cash equivalents:

For purposes of the statements of cash flows, the School considers all money market and other highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Pledge receivables:

Pledge receivables represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at June 30, 2019. The discount rate used in the present value technique to determine fair value of pledge receivables is revised at each measurement date to reflect current market conditions and the credit worthiness of donors (see Note 3). In addition, management evaluates payment history and market conditions to estimate an allowance for doubtful pledges. Management believes that all pledge receivables will be received in accordance with the terms of the respective agreements. As of June 30, 2019, management determine that no allowance for uncollectible pledge receivables was necessary.

Fair value of financial instruments:

The School uses a three-tier hierarchy established by accounting standards to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value in these consolidated financial statements. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1: Quoted prices in active markets for identical investments.
- Level 2: Other significant observable inputs (including quoted prices for similar investments in active markets, interest rates and yield curves, prepayment speeds, credit risks, etc.)
- Level 3: Significant unobservable inputs (including the School's own assumptions in determining the fair value of investments).

Pledge receivables are valued using the income approach based on discounted cash flows and are classified as a Level 3 measurement.

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

Fair value of financial instruments, continued:

The table below sets forth a summary of changes in the fair value of the School's pledge receivables (level 3 assets) as of June 30, 2019:

Beginning of year balance	\$ 109,802
New pledges	7,401,070
Pledge collections	(883,968)
Change in fair value	<u>(504,363)</u>
End of year balance	<u>\$ 6,122,541</u>

Property and equipment:

The School's property and equipment consists of building renovations, computer equipment, and classroom and office furniture and equipment. Property and equipment is recorded at cost and depreciated over estimated useful lives (3-39 years) using the straight line method. Acquisitions with a value in excess of \$1,000 and a life of greater than one year are capitalized. Repairs and maintenance, which do not increase the life of the asset, are expensed. Donated assets are capitalized at their fair value at the date of the gift.

Accrued payroll:

Accrued payroll represents salaries, taxes and benefits due to the faculty at June 30, 2019 relating to their services for the prior academic year. Most teachers are paid in twenty-six equal installments, from September through August, for the academic year that begins in September and ends in June.

Contributions:

Contributions received are recorded as net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated goods and services:

Donated goods are reflected as contributions and correspondingly, a charge to operations, in the accompanying financial statements at their estimated fair values determined at the date of receipt. The value of donated volunteer services is not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services, however, a substantial number of volunteers have donated significant amounts of their time for School functions. See Note 6 for additional considerations.

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2019

Note 2. Summary of Significant Accounting Policies, Continued

Functional Allocation of Expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes:

The School is a non-stock corporation incorporated under the laws of Virginia. The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The School qualifies as a public charity under Section 170(b)(1)(A)(ii) and has been classified as a school under Section 509 (a)(1).

The School has evaluated its tax positions and determined that its positions are more likely than not to be sustained on examination. The tax returns for the fiscal years ending on or after June 30, 2016 are open to examination by federal and state authorities.

Credit risk:

The School places its cash on deposit with a single financial institution in the United States. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 of cash held by the School in each separate FDIC insured bank and savings institution. From time to time, the School may have amounts on deposit in excess of the insured limits.

Approximately 88% of capital campaign contributions for the year ended June 30, 2019 and approximately 83% of total receivables were derived from three donors. Due to the nature of the donations and knowledge of the donor's, management believes that these amounts are collectible in the normal course of business.

Recently issued accounting standards:

In August, 2016, the Financial Accounting Standards Board issued an accounting standards update (ASU) that required changes to the net asset classification and provide better information about a not-for-profit entity's liquidity, financial performance and cash flows. This change is intended to enhance the usefulness of a not-for-profit's financial statements. The Organization has adjusted for these changes in the presentation of the accompanying financial statements. See Note 5.

In May 2014, the Financial Accounting Standards Board issued an ASU that replaces all existing revenue recognition guidance in current U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard achieves this through a five step process. The ASU is effective for annual reporting periods beginning after December 15, 2018 (the School's 2020 financial statements) and is not expected to significantly alter the School's financial statements.

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2019

Note 3. Pledge Receivables

Pledge receivables consist of the following at June 30, 2019:

Due within one year	\$ 1,697,065
Due within two - five years	3,808,037
Due within six - seven years	<u>1,125,000</u>
	6,630,102
Discounts at 2.88%	<u>(507,561)</u>
	<u>\$ 6,122,541</u>

In order to simplify the accounting process for pledge receivables, the School has elected to record all pledge receivables at fair value on a recurring basis. The process utilizes the income approach with discounted cash flows, providing a single discounted value for all pledges.

The fair value adjustment was charged against contribution income in the statement of activities. No changes in the fair value measurement were attributed to instrument specific credit risk.

Note 4. Restrictions on Net Assets

Net assets were released from donor restrictions by incurring expenditures satisfying the purpose restrictions specified by donors, as follows, for the year ended June 30, 2019:

Graduate placement services	\$ 67,695
Building Hope/School expansion	561,325
Scholarship (EISTC)	<u>506,987</u>
	<u>\$ 1,136,007</u>

Net assets with donor restrictions are available for the following purposes as of June 30, 2019:

Building Hope/School expansion	\$ 6,242,826
Scholarship (EISTC)	834,229
Scholarship (non EISTC)	224,465
Violin project	<u>5,000</u>
	<u>\$ 7,306,520</u>

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2019

Note 5. Management of Liquidity

The following represents the School's financial assets available to meet cash needs for general expenditures through June 30, 2020.

Total assets at end of year – June 30, 2019	\$ 10,465,401
Less: amounts not available to be used within one year due to illiquidity	
Prepaid expenses	(7,847)
Deposits	(11,626)
Property and equipment, net	(1,439,316)
Pledges receivable – long term	(4,425,476)
Pledges receivable – current pledges designated for School expansion	<u>(1,566,315)</u>
Financial assets available to meet cash needs for general expenditures through June 30, 2020	<u>\$ 3,014,821</u>

The School receives various contributions with purpose or time restrictions from donors. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

As of June, 30, 2019, the School has approximately \$3.0 million of financial assets available to meet cash needs for general expenditure, consisting of cash and contributions receivable, through June 30, 2020. These current contributions receivable are subject to implied time restrictions but are expected to be collected and available for use within one year.

The School has a goal to maintain financial assets on hand to six months of normal operating expenses, which are on average \$182,000 per month. Additionally, the School has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

Note 6. Facility Rent and In-Kind Contributions

The School leases its building from Richmond Redevelopment and Housing Authority (RRHA) for \$250 per month, expiring July 31, 2020. The lease can be renewed, at the same monthly amount of rent, for two consecutive periods of three years following the expiration of the lease term. The lease also provides the School with a first right of refusal to acquire the property if RRHA receives a bona fide offer to acquire the School's building.

Based upon the appraised value of the School building, the School estimates that the fair value of the building's use approximates \$63,000 annually. As such, an in-kind contribution of \$60,000 is recorded to represent the fair value of the benefit arising from the below market rate paid by the School.

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2019

Note 7. Retirement Plan

Full time employees of the School are covered by a defined contribution plan. For enrolled full time employees the School will contribute 3% of salary plus a match of the employee's contribution up to 1% of salary. Retirement plan contributions for the year ended June 30, 2019 were \$38,207.

Note 8. Related Parties

Members of the School's Board of Directors and staff made contributions to the School totaling \$753,824 during 2019.

Note 9. Indemnification

The School has certain obligations to indemnify the current and former officers and trustees for certain events or occurrences while the officer or trustee is, or was, serving at the Schools request in such capacities. The maximum liability under these obligations is limited under the Code of Virginia and the School's insurance policies serve to further limit its exposure. The School believes that the estimated fair value of these indemnification obligations is minimal.

Note 10. Subsequent Events

During July 2019, the School entered into an agreement with a contractor for \$6,500,000 for construction of the School's new facility. See Note 1.

Except as disclosed above, in preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 8, 2019, the date the financial statements were available to be issued.