

Anna Julia Cooper Episcopal School

Report on Financial Statements

For the year ended June 30, 2018

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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the beginning, July 1, 2017, net assets have been restated to record pledge receivables erroneously excluded from prior year accounting. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink, appearing to read "Kimbee". The signature is written in a cursive, flowing style.

Richmond, Virginia
November 13, 2018

Anna Julia Cooper Episcopal School**Statement of Financial Position****As of June 30, 2018**

Assets**Current assets**

Cash and cash equivalents	\$ 2,538,390
Pledge receivables	63,000
Prepaid expenses	17,473
Total current assets	<u>2,618,863</u>

Property and equipment

Computers	39,830
Furniture and equipment	50,467
Facility improvements	785,250
Vehicles	153,288
Land	19,079
	<u>1,047,914</u>
Less: accumulated depreciation	<u>(173,806)</u>
Total property and equipment, net	<u>874,108</u>

Other assets

Pledge receivables - long term	46,802
Deposits	10,550
Total assets	<u>\$ 3,550,323</u>

Liabilities and Net Assets**Current liabilities**

Accounts payable	\$ 13,589
Accrued salaries and related payroll taxes	159,919
Total current liabilities	<u>173,508</u>

Net assets

Unrestricted assets	2,415,482
Temporarily restricted net assets	961,333
Total net assets	<u>3,376,815</u>
Total liabilities and net assets	<u>\$ 3,550,323</u>

See Notes to Financial Statements

Anna Julia Cooper Episcopal School**Statement of Activities****As of June 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
Contributions/fund-raisers:			
Individuals	\$ 884,606	\$ 570,492	\$ 1,455,098
Foundation and grants	520,471	28,402	548,873
Corporations	63,669	30,000	93,669
Indirect public support	44,985	15,500	60,485
Gifts in kind	62,617	-	62,617
Fundraisers	2,939	-	2,939
Registration and application fees	5,141	-	5,141
Dividend and interest income	1,287	-	1,287
Other income	3,831	-	3,831
	<u>1,589,546</u>	<u>644,394</u>	<u>2,233,940</u>
Net assets released from restrictions	604,686	(604,686)	-
Total revenue and support	<u>2,194,232</u>	<u>39,708</u>	<u>2,233,940</u>
Expenses			
Program services:			
Education	1,148,259	-	1,148,259
Facilities	181,190	-	181,190
Food service	79,188	-	79,188
Graduate placement	259,249	-	259,249
Support services:			
Management & general	142,047	-	142,047
Fundraising	163,591	-	163,591
Total expenses	<u>1,973,524</u>	<u>-</u>	<u>1,973,524</u>
Change in net assets	220,708	39,708	260,416
Net assets, beginning of year (restated, see Note 3)	2,194,774	921,625	3,116,399
Net assets, end of year	<u>\$ 2,415,482</u>	<u>\$ 961,333</u>	<u>\$ 3,376,815</u>

See Notes to Financial Statements

Anna Julia Cooper Episcopal School
Statement of Functional Expenses
As of June 30, 2018

	Program Services					Support Services		
	Education	Facilities	Food Service	Graduate Placement	Total Program Services	Management & General	Fundraising	Total
Personnel costs	\$ 872,885	\$ 32,719	\$ 38,587	\$ 124,244	\$ 1,068,435	\$ 110,143	\$ 151,647	\$ 1,330,225
Graduate support	70,785	-	-	135,005	205,790	-	-	205,790
School supplies and computers	75,869	20	101	-	75,990	66	-	76,056
Occupancy expense	-	66,873	-	-	66,873	-	-	66,873
Depreciation expense	41,299	21,308	-	-	62,607	-	-	62,607
Rent - in kind	-	60,000	-	-	60,000	-	-	60,000
USDA expenses	-	-	40,500	-	40,500	-	-	40,500
Insurance expense	26,706	-	-	-	26,706	10,243	-	36,949
Family assistance	19,689	-	-	-	19,689	-	-	19,689
Professional development	12,264	-	-	-	12,264	999	2,249	15,512
Professional fees	643	-	-	-	643	12,241	-	12,884
Fundraising expenses	730	-	-	-	730	475	9,206	10,411
Transportation	9,480	190	-	-	9,670	-	-	9,670
Miscellaneous expense	2,122	-	-	-	2,122	6,625	325	9,072
Printing and copying	7,014	-	-	-	7,014	-	-	7,014
Membership dues	5,265	-	-	-	5,265	-	-	5,265
Community support fund	2,378	-	-	-	2,378	-	-	2,378
Office supplies	905	80	-	-	985	396	74	1,455
Postage and delivery	225	-	-	-	225	859	-	1,084
Marketing and promotion	-	-	-	-	-	-	90	90
	<u>\$ 1,148,259</u>	<u>\$ 181,190</u>	<u>\$ 79,188</u>	<u>\$ 259,249</u>	<u>\$ 1,667,886</u>	<u>\$ 142,047</u>	<u>\$ 163,591</u>	<u>\$ 1,973,524</u>

See Notes to Financial Statements

Anna Julia Cooper Episcopal School**Statement of Cash Flows****As of June 30, 2018**

Cash flows from operating activities

Change in net assets	\$ 260,416
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	62,607
Change in assets and liabilities:	
Pledge receivables	86,458
Prepaid expenses	9,302
Deposits	(180)
Accounts payable	(2,700)
Accrued salaries and related payroll taxes	52,416
Net cash provided by operating activities	<u>468,319</u>

Cash flows from investing activities

Purchase of property and equipment	<u>(49,329)</u>
Net cash used in investing activities	(49,329)

Change in cash and cash equivalents

418,990

Cash and cash equivalents, beginning of year2,119,400**Cash and cash equivalents, end of year**\$ 2,538,390**See Notes to Financial Statements**

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2018

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.

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:

In accordance with generally accepted accounting principles for nonprofit entities, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The financial statements report amounts separately by class of net assets, as follows:

Unrestricted amounts are all resources which are not subject to donor-imposed restriction which includes those currently available at the discretion of the School's Board of Directors for use in the School's operations.

Temporarily restricted amounts are those which are stipulated by donors to have a specific purpose or time restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions. The School did not have permanently restricted net assets during the year ended June 30, 2018.

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2018

Note 2. Summary of Significant Accounting Policies, Continued

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, 2018. 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 4). 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, 2018, 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, 2018

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, 2018:

Beginning of year balance	\$ 196,260
New pledges	26,000
Pledge collections	(109,260)
Change in fair value	<u>(3,198)</u>
End of year balance	<u>\$ 109,802</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 two months of salaries, taxes and benefits due to the faculty at June 30, 2018 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 unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the same reporting period. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets 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. Donated goods received for the year ended June 30, 2018 was \$2,617. See Note 6 for additional considerations.

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2018

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 ended June 30, 2015 through 2018 are open to examination by federal and state authorities.

Credit risk:

The School places its cash on deposit with financial institutions 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.

Recently issued accounting standards:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities that would require changes to the net asset classification and provide better information about a not-for-profit entity's liquidity, financial performance and cash flows. These changes are intended to enhance the usefulness of a non-for-profit's financial statements. The ASU is effective for fiscal years beginning after December 15, 2017 (the School's 2019 financial statements). The School does not expect a significant change to net assets as a result of adopting ASU 2016-14.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all industries.

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made which is intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profits. The ASU provides guidance on if a transaction should be accounted for as a contribution or an exchange, helps organizations evaluate whether a contribution is conditional or restricted, and better distinguishes a donor-imposed condition from a donor-imposed restriction. Both ASU 2014-09 and 2018-08 are effective for annual reporting periods beginning after December 15, 2018 (the School's 2020 financial statements). The School has not determined the full impact that adopting the new guidance will have on revenue recognition in its future financial statements.

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2018

Note 3. Restatement

In connection with the School's efforts to prepare for the audit of the June 30, 2018 financial statements, management identified certain pledges that existed at June 30, 2017 which were erroneously excluded from the prior year accounting. The School has restated its beginning net assets to include \$196,260 of pledge receivables that should have been recorded as temporarily restricted funds as of June 30, 2017.

Note 4. Pledge Receivables

Pledge receivables consist of the following at June 30, 2018:

Due within one year	\$ 63,000
Due within two-three years	<u>50,000</u>
	113,000
Discounts at 3.36% for 2018	<u>(3,198)</u>
	<u>\$ 109,802</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 5. 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, 2018:

Graduate placement services	\$ 31,695
Education	57,500
Scholarship (EISTC)	<u>515,491</u>
	<u>\$ 604,686</u>

Temporarily restricted net assets are available for the following purposes as of June 30, 2018:

Scholarship (non EISTC)	\$ 211,160
Violin project	5,000
Capital campaign	25,000
Scholarship (EISTC)	<u>720,173</u>
	<u>\$ 961,333</u>

Anna Julia Cooper Episcopal School

Notes to Financial Statements

June 30, 2018

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.

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, 2018 were \$33,571.

Note 8. Related Parties

Members of the School's Board of Directors and staff made contributions to the School totaling approximately \$180,014 during 2018.

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

In August and September 2018, the School purchased multiple properties around the School to construct a gymnasium and new middle school building. The properties were purchased for approximately \$235,000.

Except as disclosed above, in preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through November 13, 2018, the date the financial statements were available to be issued.