

Anna Julia Cooper School

Consolidated Financial Statements

June 30, 2021



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ANNA JULIA COOPER SCHOOL

Table of Contents

	<u>Page</u>
Report of Independent Accountants	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	8

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Anna Julia Cooper School
Richmond, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Anna Julia Cooper School and its subsidiaries, Anna Julia Cooper Scholarship Foundation and Anna Julia Cooper RE Holding Company, Inc. (collectively, the "School"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Anna Julia Cooper School and its subsidiaries as of June 30, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matter

As part of our audit of the 2021 consolidated financial statements, we also audited the adjustment described in Note 15 that was applied to restate the 2020 consolidated financial statements. In our opinion, the adjustment is appropriate and has been properly applied. We were not engaged to audit or apply any other procedures to the 2020 consolidated financial statements of the School other than with respect to the adjustment and accordingly, we do not express an opinion or any other form of assurance on the 2020 consolidated financial statements as a whole.

A handwritten signature in black ink, appearing to read "Keita", with a stylized flourish at the end.

October 21, 2021
Glen Allen, Virginia

ANNA JULIA COOPER SCHOOL

Consolidated Statement of Financial Position June 30, 2021

Assets

Current assets:

Cash and cash equivalents	\$ 7,378,146
Restricted cash, current	39,750
Pledge receivables, current	1,868,799
Prepaid expenses and other current assets	<u>6,043</u>
Total current assets	9,292,738

Property and equipment, net

8,490,639

Other assets:

Restricted cash, net of current portion	219,736
Pledge receivables, net of current portion and discount	5,114,654
Note receivable	6,402,600
Security deposit	<u>10,000</u>
Total other assets	<u>11,746,990</u>

Total assets

\$ 29,530,367

Liabilities and Net Assets

Current liabilities:

Current portion of long-term debt	\$ 550,000
Accounts payable	35,978
Construction payables	1,479,279
Accrued salaries and related payroll taxes	<u>93,474</u>
Total current liabilities	2,158,731

Non-current liabilities:

Long-term debt, net of current portion	<u>10,470,000</u>
Total liabilities	<u>12,628,731</u>

Net assets:

Without donor restrictions	3,614,388
With donor restrictions	<u>13,287,248</u>
Total net assets	<u>16,901,636</u>

Total liabilities and net assets

\$ 29,530,367

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statement of Activities
Year Ended June 30, 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Contributions, support and revenue:			
Grants and contributions:			
Capital campaign for Building Hope	\$ -	\$ 3,860,181	\$ 3,860,181
Individuals	1,132,101	654,759	1,786,860
Foundations	332,238	270,000	602,238
Contributions for future endowment	-	371,152	371,152
Corporations	20,876	304,938	325,814
Churches and civic support	18,040	48,000	66,040
USDA reimbursements	54,624	-	54,624
Fundraisers	699	-	699
Registration and application fees	6,273	-	6,273
Interest income	61,378	-	61,378
Miscellaneous revenue	51,719	-	51,719
Total contributions, support and revenue	<u>1,677,948</u>	<u>5,509,030</u>	<u>7,186,978</u>
 Net assets released from restrictions	 <u>912,188</u>	 <u>(912,188)</u>	 <u>-</u>
 Expenses:			
Program services:			
Education	1,313,167	-	1,313,167
Facilities	119,559	-	119,559
Food service	113,371	-	113,371
Graduate placement	162,716	-	162,716
Management and general	371,479	-	371,479
Fundraising	272,666	-	272,666
Total expenses	<u>2,352,958</u>	<u>-</u>	<u>2,352,958</u>
 Total change in net assets	 237,178	 4,596,842	 4,834,020
 Net assets, beginning of year, as restated (see Note 15)	 <u>3,377,210</u>	 <u>8,690,406</u>	 <u>12,067,616</u>
 Net assets, end of year	 <u>\$ 3,614,388</u>	 <u>\$13,287,248</u>	 <u>\$16,901,636</u>

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services				Total Program Services	Support Services		
	Education	Facilities	Food Service	Graduate Placement		Management and General	Fundraising	Total
Personnel costs	\$ 1,082,001	\$ 22,343	\$ 63,754	\$ 89,665	\$ 1,257,763	\$ 188,828	\$ 228,440	\$ 1,675,031
Graduate support	62,700	-	-	73,051	135,751	-	-	135,751
School supplies and computers	69,277	-	-	-	69,277	3,376	-	72,653
Occupancy expense	-	79,683	-	-	79,683	7,162	2,686	89,531
Professional fees	-	-	-	-	-	73,099	-	73,099
Depreciation	36,501	17,518	-	-	54,019	5,232	1,962	61,213
USDA expenses	-	-	49,617	-	49,617	-	-	49,617
Scholarships and assistance	45,009	-	-	-	45,009	54	-	45,063
Interest expense	-	-	-	-	-	38,102	-	38,102
Communication expenses	-	-	-	-	-	-	38,458	38,458
Insurance expense	-	-	-	-	-	22,250	-	22,250
Miscellaneous expense	100	15	-	-	115	14,074	250	14,439
Transportation	11,216	-	-	-	11,216	-	-	11,216
Printing and copying	-	-	-	-	-	6,036	206	6,243
Office supplies	17	-	-	-	17	5,799	93	5,909
Membership dues	339	-	-	-	339	5,556	-	5,895
Professional development	3,011	-	-	-	3,011	854	570	4,436
Community support fund	2,996	-	-	-	2,996	100	-	3,096
Postage and delivery	-	-	-	-	-	956	-	956
	<u>\$ 1,313,167</u>	<u>\$ 119,559</u>	<u>\$ 113,371</u>	<u>\$ 162,716</u>	<u>\$ 1,708,813</u>	<u>\$ 371,479</u>	<u>\$ 272,666</u>	<u>\$ 2,352,958</u>

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statement of Cash Flows Year Ended June 30, 2021

Cash flows from operating activities:	
Change in net assets	\$ 4,834,020
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	61,213
Contributions restricted for capital projects	(3,860,181)
Change in operating assets and liabilities:	
Pledges receivable	(425,989)
Prepaid expenses and other current assets	23,845
Accounts payable	(175,946)
Accrued salaries and related payroll taxes	<u>(2,530)</u>
Net cash provided by operating activities	<u>454,432</u>
Cash flows used in investing activities:	
Purchases of property and equipment	(4,821,114)
Issuance of note receivable	<u>(6,402,600)</u>
Net cash used in investing activities	<u>(11,223,714)</u>
Cash flows from financing activities	
Contributions restricted for capital projects	3,860,181
Proceeds from issuance of long-term debt	12,020,000
Principal payments on long-term debt	<u>(1,000,000)</u>
Net cash provided by financing activities	<u>14,880,181</u>
Net change in cash and cash equivalents and restricted cash	4,110,899
Cash and cash equivalents and restricted cash:	
Beginning of year	<u>3,526,733</u>
End of year	<u>\$ 7,637,632</u>

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statement of Cash Flows, Continued
Year Ended June 30, 2021

Supplemental disclosure of cash flow information:	
Cash paid during the year for interest - expensed	\$ 38,102
Cash paid during the year for interest - capitalized	<u>\$ 46,749</u>
Supplemental disclosure of noncash activity:	
Property and equipment purchased through construction payables	<u>\$ 1,479,279</u>
Reconciliation of cash and cash equivalents and restricted cash:	
Cash and cash equivalents	\$ 7,378,146
Restricted cash, current	39,750
Restricted cash, net of current portion	<u>219,736</u>
	<u>\$ 7,637,632</u>

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements

1. Organization and Business:

The Anna Julia Cooper School (the “School”), previously known as Anna Julia Cooper Episcopal School, is a nonprofit Virginia corporation formed in 2009 to serve students in Richmond’s east end. The School is an independent, faith-based school providing tuition-free education to students in grades 2 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.

In 2018, the School embarked on a capital campaign (the “Building Hope Campaign”) with a goal to raise \$16,000,000, the results to date of which are included in the accompanying consolidated financial statements. In addition to constructing a new middle school academic campus and an athletic/multi-purpose center, the campaign includes a goal to increase operational funds (\$3,000,000) and establish a \$5,000,000 endowment to ensure the future viability of the School. The School began purchasing adjacent properties during 2018 and began construction during 2020. The construction was ongoing as of June 30, 2021.

During July 2020, the School incorporated Anna Julia Cooper RE Holding Company, Inc. (the “Holding Company”). The Holding Company is a newly formed 501(c)2 entity which was created to acquire, finance and maintain real estate in support of the School, the Holding Company’s sole member.

The School is utilizing the New Markets Tax Credit Program (the “NMTC Program”) to help finance its expansion which requires the School to remain a qualified active low-income community business (“QALICB”) and its loans under the Program to qualify as a qualified low-income community investment (“QLICI”). On December 18, 2020, the School closed the New Market Tax Credit Transaction (“NMTCT”) which resulted in a note receivable and several QLICI notes being recorded by the School and the transfer of all construction in progress to the Holding Company (see Notes 6 and 7).

2. Summary of Significant Accounting Policies:

Basis of Consolidation: The consolidated financial statements include the resources and financial activities of the School, the Foundation and Holding Company (hereinafter, collectively referred to as the “School”). All significant inter-company transactions and balances have been eliminated in consolidation.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Basis of Accounting: The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

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

Net Assets: The School classifies its net assets into two categories: net assets with donor restrictions and net assets without donor restrictions.

Net assets without donor restrictions include funds that have no donor-imposed restrictions on the School as to their use, purpose, or timing. The funds are currently available, at the discretion of the Board of Directors, for use in the School's operations.

Net assets with donor restrictions include funds that are limited by donor or grant-imposed time and/or purpose restrictions or are restricted to investment in perpetuity. When a restriction expires, the assets are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Cash and Cash Equivalents: 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.

Restricted Cash: As part of the long-term debt agreements entered into by the School during 2021 (as described in Notes 1 and 7), cash balances totaling \$259,486 are restricted for interest and other payments due to lenders and required operating reserves. Disbursements from these accounts are permitted only for specific purposes and require advance approval.

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, 2021. 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. As of June 30, 2021, management believes that all pledge receivables will be received in accordance with the terms of the respective agreement and that no allowance for uncollectible pledge receivables was necessary.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Property and Equipment: The School's property and equipment consists of improvements made to the original School facility, equipment, land acquired for future School expansion, and capitalized construction planning and construction related costs incurred in connection with expansion to the School facilities. Interest expense incurred on long-term debt and other financing used for construction of property is capitalized as incurred.

Property and equipment are stated at cost or estimated fair market value if donated. Acquisitions with a value in excess of \$1,000 and a life of greater than one year are capitalized. Donated assets are capitalized at their fair value at the date of the gift. Repairs and maintenance, which do not increase the life of the asset, are expensed as incurred.

Property and equipment is depreciated over estimated useful lives, which range from three to thirty-nine years, using the straight line method. Depreciation is not recorded on construction in process until such time as the relevant assets are completed and put into service.

Accrued Salaries: Accrued salaries and related payroll taxes represent salaries, taxes and benefits due to the faculty at June 30, 2021 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.

Grants and Contributions: The School recognizes grants and contributions when cash, securities or other assets; an unconditional promise to give; or a notice of a grant award is received. All grants and contributions are considered to be available for general use unless specifically restricted by the grantor or donor.

In-Kind Contributions: The value of in-kind contributions that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, were provided by individuals possessing those skills, and would typically need to be purchased if they had not been contributed, is recorded as a contribution at fair value in the period received. Contributed property and equipment and inventory is recorded at fair value. There were no in-kind contributions for the year ended June 30, 2021. In addition, a number of unpaid volunteers has made significant contributions of their time in the furtherance of the School's programs. The value of this contributed time is not reflected in these consolidated statements because the criteria for recognition under guidance provided by FASB related to accounting for contributions received and contributions made, had not been satisfied.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis by natural classification in the accompanying consolidated statement of functional expenses. Costs that benefit multiple functional areas, primarily salaries, have been allocated across programs and other supporting services based on time and effort incurred.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Income Taxes: The Internal Revenue Service (the "IRS") has determined that the Anna Julia Cooper School is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "IRC" or "the Code"), 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 IRS has determined that the Holding Company is exempt from Federal income tax under Section 501(c)(2) of the IRC.

Income Tax Uncertainties: The School follows FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the School's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. Management evaluated the School's tax position and concluded that the School had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. The School is not currently under audit by any tax jurisdiction.

Concentrations of Credit Risk: At June 30, 2021 deposits were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. The School maintains cash balances at several financial institutions and at times, the balances exceed the insured amounts.

Pledge receivables are from individuals, corporations, and foundations. The School believes its credit risk related to these receivables is limited due to the nature of its donors. As of June 30, 2021, one donor accounted for 68% of pledge receivables. For the year ended June 30, 2021, two donors accounted for 42% of grants and contributions.

Subsequent Events: Management has evaluated subsequent events for potential recognition and/or other disclosure through October 21, 2021, the date the consolidated financial statements were available to be issued and has determined that other than as described in Note 11, there are no subsequent events to be reported in the accompanying consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

3. Pledge Receivables:

Pledge receivables were as follows at June 30, 2021:

Due within one year	\$ 1,868,799
Due in one to five years	<u>5,287,031</u>
Gross unconditional promises to give	7,155,830
Less discount to present value, discount rate of 1.02%	<u>(172,377)</u>
	<u>\$ 6,983,453</u>

As of June 30, 2021, pledge receivables include \$7,046,190 of pledges related to the Building Hope Campaign. These pledges are subject to a Pledge Agreement between the School and a commercial bank, which stipulates that these pledges are to serve as collateral for certain long-term debt (see Note 7).

4. Property and Equipment:

The School's property and equipment consists of improvements made to the original School facility, equipment (computers, furniture, vehicles and other equipment), land acquired for future School expansion and capitalized construction planning and construction related costs incurred in connection with the expansion to the School facilities. Property and equipment consists of the following at June 30, 2021:

Land	\$ 682,223
Leasehold improvements	950,591
Furniture and equipment	57,687
Vehicles	226,115
Computers	42,186
Construction in progress	<u>6,902,720</u>
	8,861,522
Less: accumulated depreciation	<u>370,883</u>
Property and equipment, net	<u>\$ 8,490,639</u>

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

4. Property and Equipment, Continued:

Construction in progress consists of site planning, land, and development costs for the new middle school academic campus and an athletic/multi-purpose center. The land was purchased during 2018 - 2019 and development is in progress, with expected completion in fiscal year 2022. Depreciation will begin when the project is complete and in-service. For other depreciable categories of property and equipment, depreciation expense totaled \$61,213 for 2021. Under FASB guidance, contributions with donor restrictions related to construction in progress are held in net assets with restrictions until placed in service.

5. Fair Value Measurements:

The School has adopted FASB guidance on fair value measurements. The provisions of the guidance provide a framework for measuring fair value under GAAP and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels.

Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels:

- Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 – Directly or indirectly observable valuations in the marketplace at the measurement date other than Level 1 inputs
- Level 3 – Valuations unobservable in the marketplace at the measurement date

Pledge receivables are valued at the net realizable value using a quoted discount rate and classified as a Level 2 asset. The School did not have any assets or liabilities classified as Level 1 or Level 3 at June 30, 2021.

6. Note Receivable:

To facilitate and structure the NMTCT in connection with the expansion of the School described in Note 1, the School entered into a promissory note with an unrelated entity for a total principal amount of \$6,402,600. The note requires quarterly interest only payments of 1.358% through September 15, 2028, at which time quarterly principal and interest payments are due through loan maturity on June 15, 2048.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

7. Long-Term Debt:

On December 15, 2020, the School entered into a \$3,300,000 promissory note with a commercial bank. Payments of interest, calculated at the LIBOR rate plus 1.45%, with a minimum rate of 2%, are due monthly, with principal and all accrued unpaid interest due on December 15, 2024. The promissory note reduces the maximum principal balance of the loan each December 31 and June 30 throughout the term, meaning the maximum principal balance is reduced to \$1,750,000 at June 30, 2022; \$1,050,000 at June 30, 2023; and \$350,000 at June 30, 2024. To satisfy these reductions, the School plans to use pledge payments made on pledge receivables from the Building Hope Campaign, which serve as collateral for the note as described in a Pledge Agreement between the School and the commercial bank. Interest of \$38,102 was incurred and paid during 2021.

To facilitate and structure the NMTCT in connection with the expansion of the School described in Note 1, the Holding Company entered into two separate QLICI promissory notes dated December 18, 2020 with a lender, totaling \$2,000,000. The notes require quarterly interest only payments at 1% through September 1, 2028, at which time quarterly principal and interest payments are due until the loan matures on December 31, 2054.

Further, to facilitate and structure the NMTCT in connection with the expansion of the School described in Note 1, the Holding Company also entered into a QLICI promissory note dated December 18, 2020 with a lender totaling \$6,720,000. The notes require quarterly interest only payments at 1% through September 1, 2028, at which time quarterly principal and interest payments are due until the loan matures on December 31, 2054.

Interest related to these QLICI promissory notes has been capitalized as construction in progress and included in property and equipment on the accompanying consolidated financial statements. Further, per the loan agreements, \$39,750 is due to the lender as part of accounting and other fee reimbursements annually. Aggregate required cash reserves related to these loans totaled \$297,627 at June 30, 2021 and are included in restricted cash on the consolidated statement of financial position.

8. Net Assets with Donor Restrictions:

Net assets with donor restrictions are held by the School and are restricted for the following purposes at June 30, 2021:

Scholarship (EISTC)	\$ 717,206
Scholarship (non EISTC)	283,716
Building Hope/School expansion	11,913,675
Gordon W. Wallace, Jr. Memorial Endowment Fund	<u>372,651</u>
	<u>\$13,287,248</u>

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

8. Net Assets with Donor Restrictions, Continued:

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, 2021:

Building Hope/School Expansion	\$ 141,488
Scholarship (EISTC)	699,700
Scholarship (non EISTC)	<u>71,000</u>
	<u>\$ 912,188</u>

9. Endowment Fund:

The School received donor-restricted contributions in the form of cash and pledges totaling \$372,651 for the year ended June 30, 2021, intended to establish the School's endowment fund. As required by GAAP, the cash and pledge receivables are classified as net assets with donor restrictions and will be maintained into perpetuity. The School intends to invest the endowment with the assistance of a professional investment company and after a period of time, intends to draw a small percentage from the fund on an annual basis to be used in operations.

10. Leasing Activities:

The School leases its building from Richmond Redevelopment and Housing Authority ("RRHA") for \$250 per month, with an initial lease term that expired July 31, 2020. The lease can be renewed, at the same monthly amount of rent, for five consecutive periods of three years following the expiration of the initial 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. The School utilized their renewal option and the lease now expires July 31, 2023.

The School also leases a copier under a five-year term, expiring July 5, 2023. The agreement requires monthly payments totaling \$430.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

10. Leasing Activities, Continued:

Future minimum payments related to these leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 8,163
2023	8,163
2024	<u>319</u>
	<u>\$ 16,645</u>

11. Commitments and Contingencies:

As part of the school expansion and the related NMTCT referenced in Note 1, the School entered into a contract for construction, design and other renovation services in 2019, for work to be completed in phases during 2020 and 2021. As of June 30, 2021, the School had accrued approximately \$1.5M in fees due to the contractor for work performed during the year. Subsequent to June 30, 2021 and prior to issuance of the consolidated financial statements, the construction on the new buildings were substantially complete and all commitments related to this contract were fulfilled.

12. Retirement Plan:

The School sponsors a 403(b) plan for all full-time salaried employees whereby the School contributes 3% of salary plus a match of the employee's contribution up to 1% of salary. The School's total contributions were \$75,040 for 2021.

13. 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.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

14. Liquidity and Availability of Resources:

The following table reflects the School's financial assets as of June 30, 2021 reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when restricted by a donor for a time or purpose.

Financial assets:	
Cash and cash equivalents without restriction	\$ 7,378,146
Pledges receivable, current	1,868,799
Prepaid expenses and other current assets	<u>6,043</u>
 Total financial assets available within one year	 9,252,988
 Less those unavailable for general expenditure within one year due to:	
Cash held for school expansion or payments on note payable, not yet used or paid	(3,841,478)
Cash held for future endowment	(357,651)
Pledges receivable that are restricted for	
School expansion	(1,820,359)
Future endowment	<u>(15,000)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 3,218,500</u>

The School has a policy to structure its financial assets as its general expenditures, liabilities, and other obligations come due.

15. Prior Period Adjustment – Correction of Error:

During 2021, the School determined that there was an entry needed to accurately reflect the balances of net assets as of June 30, 2020 in accordance with accounting principles generally accepted in the United States. Accordingly, in the accompanying consolidated financial statements, previously reported net assets with donor restrictions was increased by \$725,665 and previously reported net assets without donor restrictions was decreased by the same amount. This adjustment is reflected in the accompanying consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Notes to Consolidated Financial Statements, Continued

16. Upcoming Accounting Guidance:

Leases: In February 2016, the FASB issued ASU 2016-02 which requires that all leasing activity with initial terms in excess of twelve months be recognized on the statement of financial position with a right of use asset and a lease liability. The standard will require entities to classify leases as either a finance or operating lease based upon the contractual terms. The standard is effective for private companies for fiscal years beginning after December 15, 2021, with early adoption permitted. The School is currently evaluating the reporting and economic implications of this new standard.

In-kind contributions: In September 2020, the FASB issued ASU 2020-07 related to contributions of non-financial assets received, which amends previous guidance concerning presentation and disclosure of non-financial assets received. Specifically, the amendments require (1) presentation as a separate line item of contributed non-financial assets and (2) disclosure of information about each category of non-financial assets. The new standard will be effective for periods beginning after June 15, 2021 and will require entities to use a retrospective approach to the earliest period presented. The School is currently evaluating the reporting and economic implications of the new standard.