

# Anna Julia Cooper School

Consolidated Financial Statements

June 30, 2023 and 2022



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# ANNA JULIA COOPER SCHOOL

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

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 statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the 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, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



November 6, 2023  
Glen Allen, Virginia

**ANNA JULIA COOPER SCHOOL**

Consolidated Statements of Financial Position  
June 30, 2023 and 2022

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 4,973,679	\$ 3,886,414
Restricted cash, current	39,750	39,750
Pledge receivables, current	995,931	1,714,641
Prepaid expenses and other current assets	<u>18,874</u>	<u>11,739</u>
Total current assets	6,028,234	5,652,544
Property and equipment, net	<u>10,209,202</u>	<u>10,250,142</u>
Other assets:		
Right-of-use operating lease assets, net	39,552	-
Right-of-use finance lease asset, net	19,103	-
Investments	1,462,835	912,860
Restricted cash, net of current portion	140,236	179,986
Pledge receivables, net of current portion and discount	3,226,792	3,911,925
Note receivable	6,402,600	6,402,600
Deposits	<u>30,417</u>	<u>10,000</u>
Total other assets	<u>11,321,535</u>	<u>11,417,371</u>
Total assets	<u>\$ 27,558,971</u>	<u>\$ 27,320,057</u>

See accompanying notes to consolidated financial statements.

**ANNA JULIA COOPER SCHOOL**

Consolidated Statements of Financial Position, Continued  
June 30, 2023 and 2022

<u>Liabilities and Net Assets</u>	<u>2023</u>	<u>2022</u>
Current liabilities:		
Accounts payable	\$ 50,090	\$ 55,376
Accrued salaries and related payroll taxes	150,250	137,168
Operating lease liabilities	15,135	-
Finance lease liability	<u>2,292</u>	<u>-</u>
Total current liabilities	217,767	192,544
Non-current liabilities:		
Long-term debt, net of current portion	8,720,000	8,720,000
Operating lease liabilities, net of current portion	24,417	-
Finance lease liability, net of current portion	<u>16,808</u>	<u>-</u>
Total liabilities	<u>8,978,992</u>	<u>8,912,544</u>
Net assets:		
Without donor restrictions	10,251,427	10,419,582
With donor restrictions	<u>8,328,552</u>	<u>7,987,931</u>
Total net assets	<u>18,579,979</u>	<u>18,407,513</u>
Total liabilities and net assets	<u>\$ 27,558,971</u>	<u>\$ 27,320,057</u>

See accompanying notes to consolidated financial statements.

**ANNA JULIA COOPER SCHOOL**

Consolidated Statements of Activities  
Year Ended June 30, 2023

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Contributions, support and revenue:			
Grants and contributions:			
Capital campaign for Building Hope	\$ -	\$ 59,583	\$ 59,583
Individuals	1,830,470	451,647	2,282,117
Foundations	665,819	206,889	872,708
Contributions for endowment	-	310,525	310,525
Corporations	19,041	-	19,041
Churches and civic support	98,643	12,500	111,143
Grants and other contributions	628,043	-	628,043
Fundraisers	1,738	-	1,738
Registration and application fees	8,340	-	8,340
Interest and dividend income	107,926	34,908	142,834
Investment income, net	3,905	87,486	91,391
Miscellaneous revenue	20,196	-	20,196
Total contributions, support and revenue	<u>3,384,121</u>	<u>1,163,538</u>	<u>4,547,659</u>
 Net assets released from restrictions	 <u>797,917</u>	 <u>(797,917)</u>	 <u>-</u>
 Expenses:			
Program services:			
Education	2,479,225	-	2,479,225
Facilities	421,198	-	421,198
Food service	362,664	-	362,664
Graduate placement	242,634	-	242,634
Management and general	560,415	-	560,415
Fundraising	284,057	-	284,057
Total expenses	<u>4,350,193</u>	<u>-</u>	<u>4,350,193</u>
Loss on uncollectible pledges	-	25,000	25,000
Total expenses and losses	<u>4,350,193</u>	<u>25,000</u>	<u>4,375,193</u>
 Total change in net assets	 (168,155)	 340,621	 172,466
 Net assets, beginning of year	 <u>10,419,582</u>	 <u>7,987,931</u>	 <u>18,407,513</u>
 Net assets, end of year	 <u>\$ 10,251,427</u>	 <u>\$ 8,328,552</u>	 <u>\$ 18,579,979</u>

See accompanying notes to consolidated financial statements.

**ANNA JULIA COOPER SCHOOL**

Consolidated Statements of Activities, Continued  
Year Ended June 30, 2022

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Contributions, support and revenue:			
Grants and contributions:			
Capital campaign for Building Hope	\$ -	\$ 933,894	\$ 933,894
Individuals	1,399,972	663,766	2,063,738
Foundations	439,492	84,715	524,207
Contributions for endowment	-	892,349	892,349
Corporations	48,856	-	48,856
Churches and civic support	81,642	-	81,642
Grants and other contributions	130,387	-	130,387
Registration and application fees	10,968	-	10,968
Interest income	89,263	436	89,699
Investment loss, net	-	(15,830)	(15,830)
Miscellaneous revenue	<u>79,179</u>	<u>-</u>	<u>79,179</u>
Total contributions, support and revenue	<u>2,279,759</u>	<u>2,559,330</u>	<u>4,839,089</u>
Net assets released from restrictions	<u>7,833,507</u>	<u>(7,833,507)</u>	<u>-</u>
Expenses:			
Program services:			
Education	1,835,137	-	1,835,137
Facilities	297,697	-	297,697
Food service	265,908	-	265,908
Graduate placement	178,214	-	178,214
Management and general	529,579	-	529,579
Fundraising	<u>201,537</u>	<u>-</u>	<u>201,537</u>
Total expenses	3,308,072	-	3,308,072
Loss on uncollectible pledges	<u>-</u>	<u>25,140</u>	<u>25,140</u>
Total expenses and losses	3,308,072	25,140	3,333,212
Total change in net assets	6,805,194	(5,299,317)	1,505,877
Net assets, beginning of year	<u>3,614,388</u>	<u>13,287,248</u>	<u>16,901,636</u>
Net assets, end of year	<u>\$ 10,419,582</u>	<u>\$ 7,987,931</u>	<u>\$ 18,407,513</u>

See accompanying notes to consolidated financial statements.



## ANNA JULIA COOPER SCHOOL

### Consolidated Statements of Functional Expenses Year Ended June 30, 2023

	Program Services					Support Services		
	Education	Facilities	Food Service	Graduate Placement	Total Program Services	Management and General	Fundraising	Total
Personnel costs	\$ 2,012,699	\$ 146,477	\$ 259,972	\$ 115,320	\$ 2,534,468	\$ 271,804	\$ 241,122	\$ 3,047,394
Depreciation and amortization	193,733	95,421	-	-	289,154	25,991	9,747	324,892
Graduate support	75,048	-	-	126,299	201,347	-	-	201,347
Occupancy expense	-	178,247	-	-	178,247	876	-	179,123
School supplies and computers	119,959	431	-	-	120,390	-	-	120,390
Food service expense	-	-	102,692	-	102,692	-	-	102,692
Professional fees	-	-	-	-	-	89,788	-	89,788
Interest expense	-	-	-	-	-	87,258	-	87,258
Miscellaneous expense	23,993	573	-	-	24,566	21,705	-	46,271
Insurance expense	-	-	-	-	-	35,686	-	35,686
Marketing and promotion	315	-	-	459	774	150	33,188	34,112
Scholarships and assistance	20,219	-	-	439	20,658	-	-	20,658
Transportation	20,253	-	-	117	20,370	91	-	20,461
Professional development	4,873	-	-	-	4,873	6,369	-	11,242
Office supplies	-	49	-	-	49	10,338	-	10,387
Printing and copying	-	-	-	-	-	9,009	-	9,009
Membership dues	5,935	-	-	-	5,935	711	-	6,646
Community support fund	2,198	-	-	-	2,198	-	-	2,198
Postage and delivery	-	-	-	-	-	639	-	639
	<u>\$ 2,479,225</u>	<u>\$ 421,198</u>	<u>\$ 362,664</u>	<u>\$ 242,634</u>	<u>\$ 3,505,721</u>	<u>\$ 560,415</u>	<u>\$ 284,057</u>	<u>\$ 4,350,193</u>

See accompanying notes to consolidated financial statements.

## ANNA JULIA COOPER SCHOOL

### Consolidated Statements of Functional Expenses, Continued Year Ended June 30, 2022

	Program Services					Support Services		
	Education	Facilities	Food Service	Graduate Placement	Total Program Services	Management and General	Fundraising	Total
Personnel costs	\$ 1,458,841	\$ 82,417	\$ 159,984	\$ 77,858	\$ 1,779,100	\$ 238,216	\$ 170,329	\$ 2,187,645
Depreciation and amortization	140,670	69,286	-	-	209,956	18,872	7,077	235,905
Graduate support	70,000	-	-	100,356	170,356	-	-	170,356
Occupancy expense	-	145,705	-	-	145,705	13,097	4,911	163,713
Food service expense	-	-	105,924	-	105,924	-	-	105,924
School supplies and computers	98,796	-	-	-	98,796	-	-	98,796
Interest expense	-	-	-	-	-	87,988	-	87,988
Professional fees	-	-	-	-	-	83,098	-	83,098
Marketing and promotion	-	-	-	-	-	22,500	16,531	39,031
Scholarships and assistance	33,440	-	-	-	33,440	-	-	33,440
Insurance expense	-	-	-	-	-	25,918	-	25,918
Transportation	17,021	-	-	-	17,021	-	-	17,021
Miscellaneous expense	100	289	-	-	389	15,943	-	16,332
Professional development	5,033	-	-	-	5,033	6,324	2,369	13,726
Printing and copying	6,576	-	-	-	6,576	4,384	-	10,960
Membership dues	1,800	-	-	-	1,800	5,980	320	8,100
Office supplies	-	-	-	-	-	6,111	-	6,111
Community support fund	2,860	-	-	-	2,860	-	-	2,860
Postage and delivery	-	-	-	-	-	1,148	-	1,148
	<u>\$ 1,835,137</u>	<u>\$ 297,697</u>	<u>\$ 265,908</u>	<u>\$ 178,214</u>	<u>\$ 2,576,956</u>	<u>\$ 529,579</u>	<u>\$ 201,537</u>	<u>\$ 3,308,072</u>

See accompanying notes to consolidated financial statements.

## ANNA JULIA COOPER SCHOOL

### Consolidated Statements of Cash Flows Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 172,466	\$ 1,505,877
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	324,892	235,905
Amortization of finance right-of-use asset	321	-
Cash contributions restricted for capital projects	(34,582)	(918,894)
Cash contributions restricted for endowment	(327,980)	(673,774)
Dividend income reinvested	(27,852)	(3,411)
Net unrealized and realized (gain) loss on investments	(89,585)	19,241
Change in operating assets and liabilities:		
Pledges receivable	(198,404)	10,716
Prepaid expenses and other current assets	(7,135)	(5,696)
Deposits	(20,417)	-
Accounts payable	(5,286)	19,398
Accrued salaries and related payroll taxes	13,082	43,694
Net cash (used in) provided by operating activities	(200,480)	233,056
Cash flows from investing activities:		
Purchase of investments	(432,538)	(928,690)
Purchases of property and equipment	(283,952)	(3,474,687)
Net cash used in investing activities	(716,490)	(4,403,377)
Cash flows from financing activities		
Contributions restricted for capital projects	1,615,829	2,196,821
Contributions restricted for endowment	348,980	742,018
Payments on finance lease liability	(324)	-
Principal payments on long-term debt	-	(2,300,000)
Net cash provided by financing activities	1,964,485	638,839

See accompanying notes to consolidated financial statements.

**ANNA JULIA COOPER SCHOOL**

Consolidated Statements of Cash Flows, Continued  
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net change in cash and cash equivalents and restricted cash	\$ 1,047,515	\$ (3,531,482)
Cash and cash equivalents and restricted cash:		
Beginning of year	<u>4,106,150</u>	<u>7,637,632</u>
End of year	<u>\$ 5,153,665</u>	<u>\$ 4,106,150</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest - expensed	<u>\$ 87,258</u>	<u>\$ 87,988</u>
Cash paid during the year for interest - capitalized	<u>\$ -</u>	<u>\$ 21,800</u>
Supplemental disclosure of cash flow information related to leases:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 15,135	\$ -
Operating cash flows from finance leases	382	-
Financing cash flows from finance lease	<u>58</u>	<u>-</u>
Total cash paid for amounts included in the measurement of lease liabilities	<u>\$ 15,575</u>	<u>\$ -</u>
Operating lease right-of-use assets obtained in exchange for lease liabilities	<u>\$ 53,474</u>	<u>\$ -</u>
Finance lease right-of-use asset obtained in exchange for lease liability	<u>\$ 19,424</u>	<u>\$ -</u>
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 4,973,679	\$ 3,886,414
Restricted cash, current	39,750	39,750
Restricted cash, net of current portion	<u>140,236</u>	<u>179,986</u>
	<u>\$ 5,153,665</u>	<u>\$ 4,106,150</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 of limited financial resources in Richmond’s east end. The School is an independent, faith-based school providing full-tuition scholarships and education to students in kindergarten through grade 8. The School also supports students and graduates as they transition to high school and pursue their own paths into adulthood.

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 \$3,000,000 for future operational funding and \$5,000,000 to establish an 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 completed and the middle school campus was in service as of November 1, 2021.

During July 2020, the School incorporated Anna Julia Cooper RE Holding Company, Inc. (the “Holding Company”). The Holding Company is a 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 \$179,986 as of June 30, 2023 and \$219,736 as of June 30, 2022 were 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, 2023 and 2022. 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, 2023 and 2022, 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.

**Investments:** Investments in marketable securities are carried at fair value as determined by the investment managers. Unrealized gains and losses are included in the consolidated statements of activities. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain marketable securities and the level of uncertainty related to changes in the value of marketable securities, it is at least reasonably possible that changes in the investment markets in the near term could materially affect amounts reported on the consolidated financial statements.

**Accrued Salaries:** Accrued salaries and related payroll taxes represent salaries, taxes and benefits due to the faculty at June 30, 2023 and 2022 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.

## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Contributed Goods and Services:** 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. During 2023 and 2022, the value of contributed goods and services meeting this recognition criteria was insignificant to the consolidated financial statements and; therefore, not reflected in the accompanying consolidated financial statements. 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 statements 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.

**Income Taxes:** The Internal Revenue Service (the "IRS") has determined that the Anna Julia Cooper School and Foundation are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "IRC" or "the Code"), qualify as a public charity under Section 170(b)(1)(A)(ii), and have 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.



## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Concentrations of Credit Risk:** At June 30, 2023 and 2022, 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, 2023, one donor accounted for 81% of pledges receivable. As of June 30, 2022, one donor accounted for 71% of pledge receivables and one donor accounted for 21% of grants and contributions.

**Leases:** In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes ASC 840 and creates a new topic, ASC 842. ASC 842 requires lessees to recognize a right-of-use asset and a lease liability on the statement of financial position for substantially all leases with a term of 12 months or greater. Leases are classified as either finance or operating, with classification affecting expense recognition in the School's operations.

The lease liabilities are initially measured at the present value of future lease payments, measured on a discounted basis, as of the lease commencement date or the adoption date, whichever is later. The right-of-use assets are initially measured at the value of the lease liability, adjusted for initial direct lease costs, lease incentives, and prepaid or deferred rent. The School elected to use the risk-free discount rate for any leases for which the rate implicit in the lease was not readily determinable. The right-of-use assets and lease liabilities are calculated to include options to extend or terminate the lease when the School determines that it is reasonably certain it will exercise those options. In making those determinations, the School considers various existing economic and market factors, business strategies as well as the nature, length, and terms of the lease agreements.

At July 1, 2022, the School adopted the provisions of ASC 842, using the modified retrospective adoption method. In addition, the School utilized the simplified transition option available in ASC 842, which allows entities to continue to apply the legacy guidance in ASC 840, including its disclosure requirements, in the comparative periods presented in the year of adoption.

Upon adoption of ASC 842, the School elected the transitional package of practical expedients that allow an entity to not reassess (1) whether any expired or existing contracts contain a lease, (2) the lease classification of any expired or existing lease, and (3) initial direct costs for any existing lease, and the use of hindsight in determining the lease term. In addition, the School elected to not record a lease liability and corresponding right-of-use asset for leases with terms of 12 months or less, and to account for lease and non-lease components as a single lease component.

## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Leases, continued:** The adoption of ASC 842 resulted in the recognition of operating lease right-of-use assets and lease liabilities of \$53,474 and a finance right-of-use asset and lease liability of \$19,424 as of July 1, 2022. The standard did not materially impact the School's operations and cash flows.

**Reclassifications:** Certain prior year balances have been reclassified to conform to the current year presentation.

**Subsequent Events:** In August 2023, the School closed on the purchase of a parcel of land. The purchase price was \$200,000 and the School intends to use the land in its continued expansion.

Management has evaluated subsequent events for potential recognition and/or other disclosure through November 6, 2023, the date the consolidated financial statements were available to be issued, and has determined that other than describe above, there are no other subsequent events to be reported in the accompanying consolidated financial statements.

#### 3. Pledge Receivables:

Pledge receivables were as follows at June 30:

	<u>2023</u>	<u>2022</u>
Due within one year	\$ 995,931	\$ 1,714,641
Due in one to five years	<u>3,568,813</u>	<u>4,303,477</u>
Gross unconditional promises to give	4,564,744	6,018,118
Less discount to present value, discount rate of 3.57% for 2023 and 2.93% for 2022	<u>(342,021)</u>	<u>(391,552)</u>
	<u>\$ 4,222,723</u>	<u>\$ 5,626,566</u>

## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 4. Property and Equipment:

The School's property and equipment primarily consists of improvements made to the original School facility, equipment (computers, furniture, vehicles and other equipment), land acquired for future School expansion, and the newly constructed middle school building. Property and equipment consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 901,572	\$ 720,654
Building	8,304,003	8,304,003
Leasehold improvements	1,021,717	968,194
Furniture and equipment	502,501	483,951
Vehicles	277,442	277,442
Computers	97,118	65,018
Construction in progress	<u>36,530</u>	<u>37,669</u>
	11,140,883	10,856,931
Less: accumulated depreciation	<u>931,681</u>	<u>606,789</u>
Property and equipment, net	<u>\$ 10,209,202</u>	<u>\$ 10,250,142</u>

Construction in progress as of June 30, 2023 and 2022 consisted of additional development costs associated with the construction of a new athletic field. Under FASB guidance, contributions with donor restrictions related to construction in progress were held in net assets with restrictions until placed in service, and were released accordingly in 2023 and 2022 as described in Note 8.

Depreciation and amortization expense totaled \$324,892 for 2023 and \$235,905 for 2022.

#### 5. Investments and 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.

## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 5. Investments and Fair Value Measurements, Continued:

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

The School invests in marketable securities held by Vanguard, which are valued at the closing price of identical assets in active markets (mutual funds) or valued at the realizable cash value equivalent to the specific sum of money held in cash or money market funds (cash and equivalents). Pledge receivables are valued at the net realizable value using a quoted discount rate and are classified as a Level 2 asset.

Assets measured at fair value on a recurring basis at June 30, 2023 include the following:

	Level 1	Level 2	Total
Investments:			
Cash and equivalents	\$ 43,405	\$ -	\$ 43,405
Equity securities	940,139	-	940,139
Fixed income securities	412,056	-	412,056
Liquid alternative securities	67,235	-	67,235
Total investments	1,462,835	-	1,462,835
Pledges receivable, net	-	4,222,723	4,222,723
Total assets at fair value	\$ 1,462,835	\$ 4,222,723	\$ 5,685,558

Assets measured at fair value on a recurring basis at June 30, 2022 include the following:

	Level 1	Level 2	Total
Investments:			
Cash and equivalents	\$ 267,901	\$ -	\$ 267,901
Equity securities	417,830	-	417,830
Fixed income securities	168,047	-	168,047
Liquid alternative securities	59,082	-	59,082
Total investments	912,860	-	912,860
Pledges receivable, net	-	5,626,566	5,626,566
Total assets at fair value	\$ 912,860	\$ 5,626,566	\$ 6,539,426

## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 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 note receivable 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.

#### 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%, were due monthly, with principal and all accrued unpaid interest originally due on December 15, 2024. To satisfy the required principal payments, the School used pledge payments made on pledge receivables from the Building Hope Campaign, which served as collateral for the note as described in a Pledge Agreement between the School and the commercial bank. During 2022, the School paid off the remaining balance in full. Interest of \$22,588 was incurred and paid during 2022.

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. Interest of \$20,000 was incurred and paid during each of 2023 and 2022.

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 of \$67,200 was incurred and paid during each of 2023 and 2022.

Through November 1, 2021, interest related to these QLICI promissory notes was 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 \$179,986 at June 30, 2023 and \$219,736 at June 30, 2022 and are included in restricted cash on the consolidated statements of financial position.

## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 8. Net Assets with Donor Restrictions:

Net assets with donor restrictions were available for the following purposes at June 30:

	2023	2022
Scholarship (EISTC)	\$ 267,952	\$ 497,632
Scholarship (non EISTC)	333,431	333,431
Building Hope/School expansion	5,828,427	5,908,761
Gordon W. Wallace, Jr. Memorial Endowment Fund	1,681,026	1,248,107
Graduate support	50,000	-
Science teacher salaries	5,000	-
Trauma and crisis intervention	144,889	-
School equipment	17,827	-
	\$ 8,328,552	\$ 7,987,931

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

	2023	2022
Building Hope/School Expansion	\$ 114,917	\$ 6,920,307
Scholarship (EISTC)	683,000	878,200
Scholarship (non EISTC)	-	35,000
	\$ 797,917	\$ 7,833,507

#### 9. Endowment Fund:

The School has one endowment fund, the Gordon W. Wallace, Jr. Memorial Endowment Fund. As required by GAAP, the contributions for endowment are classified as net assets with donor restrictions to be maintained into perpetuity. In 2022, the School formally established an Endowment Committee and engaged a professional investment manager and began transferring funds to an investment account.

## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 9. Endowment Fund, Continued:

**Interpretation of Relevant Law:** The Board of Directors of the School has interpreted Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as net assets with donor restrictions to be held in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as restricted in perpetuity are only reclassified as net assets without donor restriction until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

**Endowment Investing and Spending Policies:** The School adopted an investment and spending policy and after a period of time, intends to draw a small percentage from the fund on an annual basis to be used in operations.

**Funds with Deficits:** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the School to retain as a fund of perpetual duration. There was no such deficit at June 30, 2023. There was such a deficit at June 30, 2022 of \$15,394 due to investment market conditions during 2022.

**ANNA JULIA COOPER SCHOOL**

Notes to Consolidated Financial Statements, Continued

**9. Endowment Fund, Continued:**

Endowment composition was as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Donor-restricted endowment:		
Original donor-restricted gift amount	\$ 1,574,026	\$ 1,263,501
Accumulated investment income (deficit)	<u>107,000</u>	<u>(15,394)</u>
	<u>\$ 1,681,026</u>	<u>\$ 1,248,107</u>

Changes in the donor-restricted endowment were as follows for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Donor-restricted endowment, beginning of year	<u>\$ 1,248,107</u>	<u>\$ 371,152</u>
Investment return:		
Interest and dividends	34,908	436
Unrealized and realized income (loss) on investments, net	<u>87,486</u>	<u>(15,830)</u>
Total investment return	<u>122,394</u>	<u>(15,394)</u>
New gifts	<u>310,525</u>	<u>892,349</u>
Donor-restricted endowment, end of year	<u>\$ 1,681,026</u>	<u>\$ 1,248,107</u>

**10. Leasing Activities:**

The School leases a building determined to be an operating lease 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, 2026.

The School also leases equipment under noncancellable agreements determined to be operating and finance leases which expire at various times through May 2033.



**ANNA JULIA COOPER SCHOOL**

Notes to Consolidated Financial Statements, Continued

**10. Leasing Activities, Continued:**

Minimum future lease payments consist of the following at June 30, 2023:

Year Ending June 30:	Finance Lease	Operating Leases
2024	\$ 2,292	\$ 15,135
2025	2,292	14,705
2026	2,292	9,972
2027	2,292	1,412
2028	2,292	-
Thereafter	11,269	-
Total lease payments	22,729	41,224
Less amount representing interest	(3,629)	(1,672)
Total finance and operating lease liabilities	\$ 19,100	\$ 39,552

Weighted average remaining lease terms and discount rates at June 30, 2023 are as follows:

Weighted-average remaining lease terms (years):	
Operating leases	2.9
Finance leases	9.9
Weighted-average discount rates:	
Operating leases	2.9%
Finance leases	3.6%

The components of lease expense for the year ended June 30, 2023, are as follows:

Operating lease cost	\$ 15,135
Finance lease cost	
Amortization of leased assets	\$ 321
Interest on lease liabilities	58
Total finance lease cost	\$ 379

**11. 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 \$69,441 for 2023 and \$64,750 for 2022.

## ANNA JULIA COOPER SCHOOL

### Notes to Consolidated Financial Statements, Continued

#### 12. 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.

#### 13. Liquidity and Availability of Resources:

As of June 30, the following table reflects the School's financial assets 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:	2023	2022
Cash and cash equivalents without restriction	\$ 4,973,679	\$ 3,886,414
Pledges receivable, current	995,931	1,714,641
Total financial assets available within one year	5,969,610	5,601,055
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	(2,036,563)	(581,782)
Cash held for endowment	-	(111,415)
Pledges receivable that are restricted for:		
School expansion	(830,729)	(1,646,272)
Endowment	(69,000)	(58,269)
Trauma and crisis intervention	(50,000)	-
Graduate support	(25,000)	-
School equipment	(11,200)	-
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,033,318	\$ 3,203,317

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

## **ANNA JULIA COOPER SCHOOL**

### Notes to Consolidated Financial Statements, Continued

#### **14. Employee Retention Credit (ERC):**

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, provides for an Employee Retention Credit ("ERC") that is designed to encourage eligible employers to keep employees on their payroll despite experiencing an economic hardship related to COVID-19. The credit consists of a refundable payroll tax credit for 70% of wages paid by employers to employees for 2021 and 50% of wages paid by employers to employees for 2020. The School has accounted for the Employee Retention Credits in accordance with FASB ASC 958-605. The School applied for and received an ERC in the amount of \$492,380 during the fiscal year ended June 30, 2023. The amount is recognized as grants and other contributions in the consolidated statement of activities for the year ended June 30, 2023.