Anna Julia Cooper School

Consolidated Financial Statements

June 30, 2022 and 2021

Keiter
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ANNA JULIA COOPER SCHOOL

Table of Contents

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, 2022 and 2021, 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, 2022 and 2021, 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.

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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.

Keiter

October 25, 2022
Glen Allen, Virginia

ANNA JULIA COOPER SCHOOL

Consolidated Statements of Financial Position
June 30, 2022 and 2021

Assets	2022	2021
Current assets:		
Cash and cash equivalents	$ 3,886,414	$ 7,378,146
Restricted cash, current	39,750	39,750
Pledge receivables, current	1,714,641	1,868,799
Prepaid expenses and other current assets	11,739	6,043
Total current assets	5,652,544	9,292,738
Property and equipment, net	10,250,142	8,490,639
Other assets:		
Investments	912,860	-
Restricted cash, net of current portion	179,986	219,736
Pledge receivables, net of current portion and discount	3,911,925	5,114,654
Note receivable	6,402,600	6,402,600
Security deposit	10,000	10,000
Total other assets	11,417,371	11,746,990
Total assets	$ 27,320,057	$ 29,530,367
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ -	$ 550,000
Accounts payable	55,376	35,978
Construction payables	-	1,479,279
Accrued salaries and related payroll taxes	137,168	93,474
Total current liabilities	192,544	2,158,731
Non-current liabilities:		
Long-term debt, net of current portion	8,720,000	10,470,000
Total liabilities	8,912,544	12,628,731
Net assets:		
Without donor restrictions	10,419,582	3,614,388
With donor restrictions	7,987,931	13,287,248
Total net assets	18,407,513	16,901,636
Total liabilities and net assets	$ 27,320,057	$ 29,530,367

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statements of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
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
USDA reimbursements	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	79,179	-	79,179
Total contributions, support and revenue	2,279,759	2,559,330	4,839,089
Net assets released from restrictions	7,833,507	(7,833,507)	-
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	201,537	-	201,537
Total expenses	3,308,072	-	3,308,072
Loss on uncollectible pledges	-	25,140	25,140
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	3,614,388	13,287,248	16,901,636
Net assets, end of year	$ 10,419,582	$ 7,987,931	$ 18,407,513

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statements of Activities, Continued
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
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 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	1,677,948	5,509,030	7,186,978
Net assets released from restrictions	912,188	(912,188)	-
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	2,352,958	-	2,352,958
Total change in net assets	237,178	4,596,842	4,834,020
Net assets, beginning of year, as restated (see Note 15)	3,377,210	8,690,406	12,067,616
Net assets, end of year	$ 3,614,388	$ 13,287,248	$ 16,901,636

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statements of Functional Expenses
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
USDA expenses	-	-	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
	$ 1,835,137	$ 297,697	$ 265,908	$ 178,214	$ 2,576,956	$ 529,579	$ 201,537	$ 3,308,072

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statements of Functional Expenses, Continued
Year Ended June 30, 2021

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

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 1,505,877	$ 4,834,020
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	235,905	61,213
Cash contributions restricted for capital projects	(918,894)	(440,181)
Cash contributions restricted for endowment	(673,774)	(297,651)
Dividend income reinvested	(3,411)	-
Net unrealized and realized loss on investments	19,241	-
Change in operating assets and liabilities:		
Pledges receivable	10,716	(3,453,521)
Prepaid expenses and other current assets	(5,696)	23,845
Accounts payable	19,398	(175,946)
Accrued salaries and related payroll taxes	43,694	(2,530)
Net cash provided by operating activities	233,056	549,249
Cash flows used in investing activities:		
Purchase of investments	(928,690)	-
Purchases of property and equipment	(3,474,687)	(4,821,114)
Issuance of note receivable	-	(6,402,600)
Net cash used in investing activities	(4,403,377)	(11,223,714)
Cash flows from financing activities		
Contributions restricted for capital projects	2,196,821	3,467,713
Contributions restricted for endowment	742,018	297,651
Proceeds from issuance of long-term debt	-	12,020,000
Principal payments on long-term debt	(2,300,000)	(1,000,000)
Net cash provided by financing activities	638,839	14,785,364
Net change in cash and cash equivalents and restricted cash	(3,531,482)	4,110,899
Cash and cash equivalents and restricted cash:		
Beginning of year	7,637,632	3,526,733
End of year	$ 4,106,150	$ 7,637,632

See accompanying notes to consolidated financial statements.

ANNA JULIA COOPER SCHOOL

Consolidated Statements of Cash Flows, Continued
Years Ended June 30, 2022 and 2021

	2022	2021
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest - expensed	$ 87,988	$ 38,102
Cash paid during the year for interest - capitalized	$ 21,800	$ 46,749
Supplemental disclosure of noncash activity:		
Property and equipment purchased through construction payables	$ -	$ 1,479,279
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents	$ 3,886,414	$ 7,378,146
Restricted cash, current	39,750	39,750
Restricted cash, net of current portion	179,986	219,736
	$ 4,106,150	$ 7,637,632

See accompanying 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 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.

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 $219,736 as of June 30, 2022 and $259,486 as of June 30, 2021 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, 2022 and 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, 2022 and 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.

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, 2022 and 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.

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 2022 and 2021, 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 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.

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.

2. Summary of Significant Accounting Policies, Continued:

Concentrations of Credit Risk: At June 30, 2022 and 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, 2022, one donor accounted for 71% of pledge receivables and one donor accounted for 21% of grants and contributions. As of June 30, 2021, one donor accounted for 68% of pledge receivables and two donors accounted for 42% of grants and contributions.

Newly Adopted Accounting Standards: In September 2020, the FASB issued new guidance related to contributions of non-financial assets received (ASU 2020-07) 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 School adopted the standard during 2022, under the full retrospective transition method. The adoption of this ASU did not have a material impact on the School's consolidated financial statements.

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

Subsequent Events: Management has evaluated subsequent events for potential recognition and/or other disclosure through October 25, 2022, the date the consolidated financial statements were available to be issued, and has determined that there are no subsequent events to be reported in the accompanying consolidated financial statements.

3. Pledge Receivables:

Pledge receivables were as follows at June 30:

	2022	2021
Due within one year	$ 1,714,641	$ 1,868,799
Due in one to five years	4,303,477	5,287,031
Gross unconditional promises to give	6,018,118	7,155,830
Less discount to present value, discount rate of 2.93% for 2022 and 1.02% for 2021	(391,552)	(172,377)
	$ 5,626,566	$ 6,983,453

As of June 30, 2021, pledge receivables included $7,046,190 of pledges related to the Building Hope Campaign. These pledges were subject to a Pledge Agreement between the School and a commercial bank, which stipulated that these pledges were to serve as collateral for certain long-term debt which was fully paid off in 2022 (see Note 7).

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:

	2022	2021
Land	$ 720,654	$ 682,223
Building	8,304,003	-
Leasehold improvements	968,194	950,591
Furniture and equipment	483,951	57,687
Vehicles	277,442	226,115
Computers	65,018	42,186
Construction in progress	37,669	6,902,720
	10,856,931	8,861,522
Less: accumulated depreciation	606,789	370,883
Property and equipment, net	$ 10,250,142	$ 8,490,639

4. Property and Equipment, Continued:

Construction in progress as of June 30, 2021 consisted of site planning, land, and development/construction costs for the new middle school academic campus and an athletic/multi-purpose center. The land was purchased during 2018 - 2019 and development was in progress in 2021 and the building completed in 2022. Depreciation began when the facility was substantially complete and placed into service as of November 1, 2021. Construction in progress as of June 30, 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 2022 as described in Note 8.

Depreciation and amortization expense totaled $235,905 for 2022 and $61,213 for 2021.

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.

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.

5. Investments and Fair Value Measurements, Continued:

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

Pledges receivable at June 30, 2021 totaled $6,983,543. 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 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 due on December 15, 2024. The promissory note reduced the maximum principal balance of the loan each December 31 and June 30 throughout the term, meaning the maximum principal balance would be 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 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 and $38,102 was incurred and paid during 2022 and 2021, respectively.

7. Long-Term Debt, Continued:

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 and $10,722 was incurred and paid during 2022 and 2021, respectively.

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 and $36,027 was incurred and paid during 2022 and 2021, respectively.

Through November 1, 2022, 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 $219,736 at June 30, 2022 and $259,486 at June 30, 2021 and are included in restricted cash on the consolidated statements of financial position.

8. Net Assets with Donor Restrictions:

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

	2022	2021
Scholarship (EISTC)	$ 497,632	$ 717,206
Scholarship (non EISTC)	333,431	283,716
Building Hope/School expansion	5,908,761	11,915,174
Gordon W. Wallace, Jr. Memorial Endowment Fund	1,248,107	371,152
	$ 7,987,931	$13,287,248

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 years ended June 30:

	2022	2021
Building Hope/School Expansion	$ 6,920,307	$ 141,488
Scholarship (EISTC)	878,200	699,700
Scholarship (non EISTC)	35,000	71,000
	$ 7,833,507	$ 912,188

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.

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

9. Endowment Fund, Continued:

Endowment Investing and Spending Policies: The School is currently in the process of developing 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 such a deficit at June 30, 2022 of $15,394 due to investment market conditions during 2022. There was no such deficit at June 30, 2021.

Endowment composition was as follows as of June 30:

	2022	2021
Donor-restricted endowment:		
Original donor-restricted gift amount	$ 1,263,501	$ 371,152
Accumulated investment deficit	(15,394)	-
	$ 1,248,107	$ 371,152

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

	2022	2021
Donor-restricted endowment, beginning of year	$ 371,152	$ -
Investment return:		
Interest and dividends	436	-
Unrealized and realized loss on investments, net	(15,830)	-
Total investment return	(15,394)	-
New gifts	892,349	371,152
Donor-restricted endowment, end of year	$ 1,248,107	$ 371,152

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.

Future minimum payments related to these leases are as follows:

Year Ending June 30,	Amount
2023	$ 8,163
2024	319
	$ 8,482

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 2021 and 2020. As of June 30, 2021, the School had accrued approximately $1.5M in fees due to the contractor for work performed during the year. During 2022, the construction of the new middle school building was completed 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 $64,750 for 2022 and $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.

14. 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:	2022	2021
Cash and cash equivalents without restriction	$ 3,886,414	$ 7,378,146
Pledges receivable, current	1,714,641	1,868,799
Total financial assets available within one year	5,601,055	9,246,945
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	(581,782)	(3,841,478)
Cash held for endowment	(111,415)	(357,651)
Pledges receivable that are restricted for:		
School expansion	(1,646,272)	(1,820,359)
Endowment	(58,269)	(15,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,203,317	$ 3,212,457

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.

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.