

EPIPHANY SCHOOL, INC.
FINANCIAL STATEMENTS
JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Epiphany School, Inc.

We have audited the accompanying statements of financial position of the Epiphany School, Inc. (the "School") as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2009 and 2008, and the results of its operation changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

August 25, 2009

EPIPHANY SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Current assets		
Cash and cash equivalents	\$ 1,568,569	\$ 1,175,372
Accounts receivable, other	17,041	-
Current portion of pledges receivable, net	65,918	228,761
Prepaid expenses and other assets	<u>25,550</u>	<u>12,952</u>
Total current assets	<u>1,677,078</u>	<u>1,417,085</u>
Non-current assets		
Pledges receivable, less current portion	10,814	83,795
Investments, at market	1,013,731	943,429
Property and equipment, net	<u>6,650,394</u>	<u>6,852,663</u>
Total non-current assets	<u>7,674,939</u>	<u>7,879,887</u>
Total assets	<u>\$ 9,352,017</u>	<u>\$ 9,296,972</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 56,146	\$ 44,853
Deferred revenue	<u>24,663</u>	<u>49,664</u>
Total liabilities	<u>80,809</u>	<u>94,517</u>
Net assets		
Unrestricted		
Available for operations, property and equipment	7,906,896	7,501,712
Designated for endowment	979,369	902,636
Temporarily restricted	<u>384,943</u>	<u>798,107</u>
Total net assets	<u>9,271,208</u>	<u>9,202,455</u>
Total liabilities and net assets	<u>\$ 9,352,017</u>	<u>\$ 9,296,972</u>

The accompanying notes are an integral part of the financial statements.

EPIPHANY SCHOOL, INC.

STATEMENT OF ACTIVITIES

**For the Year Ended June 30, 2009
(With comparative totals for 2008)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009</u>	<u>2008</u>
Revenues					
Contributions	\$ 2,226,656	\$ 569,754	\$ -	\$ 2,796,410	\$ 3,355,045
Investment income	27,834	-	-	27,834	36,353
Other income	77,617	-	-	77,617	67,374
Total revenue	<u>2,332,107</u>	<u>569,754</u>	<u>-</u>	<u>2,901,861</u>	<u>3,458,772</u>
Expenses					
Instruction and student activities	1,663,304	-	-	1,663,304	1,518,173
Operating and maintenance	420,234	-	-	420,234	505,216
Development	282,143	-	-	282,143	257,145
General administration	265,898	-	-	265,898	215,174
Total expenses	<u>2,631,579</u>	<u>-</u>	<u>-</u>	<u>2,631,579</u>	<u>2,495,708</u>
(Decrease) increase in net assets from operations	(299,472)	569,754	-	270,282	963,064
Non-operating gains, losses and transfers					
Net assets released from restrictions for operating purposes	915,358	(915,358)	-	-	-
Net assets released from restrictions for capital purchases	67,560	(67,560)	-	-	-
Realized and unrealized (loss) on investments	(201,529)	-	-	(201,529)	(58,781)
(Decrease) increase in net assets	481,917	(413,164)	-	68,753	904,283
Net assets, beginning of year	<u>8,404,348</u>	<u>798,107</u>	<u>-</u>	<u>9,202,455</u>	<u>8,298,172</u>
Net assets, end of year	<u>\$ 8,886,265</u>	<u>\$ 384,943</u>	<u>\$ -</u>	<u>\$ 9,271,208</u>	<u>\$ 9,202,455</u>

EPIPHANY SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2009
 (With comparative totals for 2008)

	Instruction and Student Activities	Development	School House Operating and Maintenance	General and Administrative	2009	2008
Salaries and wages	\$ 868,797	\$ 151,841	\$ 15,291	\$ 153,739	\$ 1,189,668	\$ 1,086,935
Payroll taxes and benefits	213,098	17,101	2,677	39,764	272,640	233,591
Intern benefits	24,918	-	-	-	24,918	26,858
Total salaries and related expenses	1,106,813	168,942	17,968	193,503	1,487,226	1,347,384
Repairs and maintenance	13,154	-	104,840	-	117,994	109,881
Meals expenses	99,455	-	-	-	99,455	88,448
School events	19,317	79,952	-	-	99,269	58,819
Utilities	19,943	-	66,277	-	86,220	106,822
Professional fees	72,683	2,060	926	9,788	85,457	85,025
Financial aid	72,162	-	-	-	72,162	70,651
Summer camp	50,000	-	-	-	50,000	50,000
Educational programs and supplies	46,645	-	-	-	46,645	35,110
Insurance	-	-	-	34,347	34,347	26,205
Bank, investment and payroll fees	-	-	-	23,240	23,240	20,076
Printing and copying	5,292	16,365	-	-	21,657	31,974
Miscellaneous	11,762	3,187	4,489	351	19,789	37,662
Student transportation	15,487	-	-	-	15,487	33,154
Office supplies	6,275	605	3,717	2,955	13,552	15,431
Dues and subscriptions	6,433	1,435	440	1,461	9,769	8,741
Meetings and travel	7,238	1,834	320	-	9,392	17,851
Postage	1,481	7,763	-	58	9,302	8,676
Field trips	6,798	-	-	-	6,798	6,219
Professional development	2,151	-	-	195	2,346	4,313
Total expenses before interest and depreciation	1,563,089	282,143	198,977	265,898	2,310,107	2,162,442
Interest	-	-	-	-	-	15,238
Amortization of deferred financing costs	-	-	-	-	-	57,641
Restricted expenses	67,984	-	-	-	67,984	24,000
Depreciation	32,231	-	221,257	-	253,488	236,387
Total expenses	\$ 1,663,304	\$ 282,143	\$ 420,234	\$ 265,898	\$ 2,631,579	\$ 2,495,708

The accompanying notes are an integral part of the financial statements.

EPIPHANY SCHOOL, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Increase in net assets	\$ 68,753	\$ 904,283
Adjustment to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	253,488	294,028
Realized and unrealized loss (gain) on investments	201,529	58,781
Increase in accounts receivable, other	(17,041)	-
Decrease in pledges receivable	235,824	374,687
(Increase) decrease in prepaids and other assets	(12,598)	8,190
(Decrease) increase in deferred revenue	(25,001)	49,664
Increase (decrease) in accounts payable and accrued expenses	11,293	(49,847)
	<u>716,247</u>	<u>1,639,786</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(51,219)	(104,858)
Net purchases of investments	(271,831)	(818,202)
	<u>(323,050)</u>	<u>(923,060)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Principal payments on long-term debt	-	(650,000)
	<u>-</u>	<u>(650,000)</u>
Net cash provided by financing activities		
Increase in cash and cash equivalents	393,197	66,726
Cash and cash equivalents, beginning of year	<u>1,175,372</u>	<u>1,108,646</u>
Cash and cash equivalents, end of year	<u>\$ 1,568,569</u>	<u>\$ 1,175,372</u>
Supplemental disclosures of cash flow information		
Interest paid in cash	<u>\$ -</u>	<u>\$ 15,238</u>

The accompanying notes are an integral part of the financial statements.

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

The Epiphany School, Inc. (the "School") is an independent middle school dedicated to providing a quality, tuition-free education to boys and girls of all faiths from economically disadvantaged families in Boston's neighborhoods. The School is staffed by master teachers and interns who work closely with the students' families. The School provides an academically challenging and highly structured academic environment along with after school programming to prepare boys and girls for success in high school and in college. The School works to inspire in students a love of learning, an awareness of their own cultures, and an abiding sense of responsibility to their own communities.

Basis of presentation

The accompanying financial statements of the School have been prepared in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-Profit Organizations."

In order to observe restrictions which donors place on grants and other gifts, as well as designations made by the Board of Trustees/Directors, all assets, liabilities, and activities are accounted for in the following net asset classifications:

Unrestricted net assets – not subject to donor restrictions and are neither permanently restricted nor temporarily restricted and are further classified as follows:

- Unrestricted net assets– represent the amount available for the operations of the School and amounts invested in the campus infrastructure utilized in the operations of the School.
- Board designated for endowment - consists of unrestricted resources which have been segregated with the intention of maintaining the principal with the income available for operations.

Temporarily restricted net assets – subject to donor-imposed stipulations that become unrestricted by actions of School to meet the stipulations or the date specified by the donor.

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted net assets – subject to donor-imposed stipulations that they be retained and invested permanently by the School. The donors require all or part of the investment return on these net assets for specified or unspecified purposes.

Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions that are not fulfilled in the accounting period. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. All expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the expiration of the donor-imposed stipulated purpose or the elapsing of the specified time period, are reported as reclassifications of net assets.

Contributions subject to donor-imposed restrictions are recorded as temporarily restricted support and are reclassified as unrestricted when the donor-imposed restriction has been fulfilled or the stipulated time period has elapsed. Promises to give that are scheduled to be received after the end of the reporting period are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restriction is met. Promises to give subject to donor-imposed stipulations that the principal be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at the risk-free rate on the last day of the fiscal year in which the promises are received. Amortization of the discount is recorded as contribution revenue.

Comparative information

The financial statements include certain prior-year summarized comparative information, but do not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's audited financial statements for the year ended June 30, 2008, from which the summarized information was derived.

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-profit organization

The School applied for and has been granted recognition of exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Section 501(c)(3) of the Code provides for the exemption of organizations that are organized and operated exclusively for religious, charitable, scientific, literary or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholders or individuals.

Accrual basis

The financial statements of the School have been prepared on the accrual basis. The statement of activities is a statement of financial activities related to the current reporting period. It does not purport to present the net income or loss for the period, as would a statement of income.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of assets, ranging from 3 to 39.5 years. Donated property and equipment are recorded at their fair value on the date of gift. Additions to property and equipment are generally capitalized and minor improvements are charged as expense.

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Cash equivalents

For purposes of cash flow presentation, all highly liquid instruments purchased with a remaining maturity of three months or less is considered to be cash equivalents.

Concentration of credit risk

The School maintains its cash balances, including certain investment cash, in two financial institutions located in Boston, Massachusetts. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2009 the School's uninsured cash balances totaled approximately \$125,015.

Investments

Investments in marketable equity and debt securities with readily determinable fair values are recorded at their fair market value.

Deferred financing costs

The School incurred expenses in connection with the refinancing of its long term debt obligation described in Note 5. These costs were being amortized over the maturity period of five years on a straight line basis which was completed in 2008.

Functional allocation of expense

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

Fair value of financial instruments

Cash, trade and other accounts receivable, accounts payable, accrued expenses and other liabilities are carried in the financial statements at amounts which approximate fair value due to the inherently short-term nature of the transactions. The fair values determined for financial instruments are estimates, which for certain accounts may differ significantly from the amounts that could be realized upon immediate liquidation.

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. PROPERTY AND EQUIPMENT

Property and equipment comprise of the following at June 30:

	<u>2009</u>	<u>2008</u>
Land, building and improvements	\$ 7,806,391	\$ 7,794,311
Computers and software	342,368	306,057
Equipment	<u>165,507</u>	<u>162,679</u>
	<u>8,314,266</u>	<u>8,263,047</u>
Less accumulated depreciation	<u>(1,663,872)</u>	<u>(1,410,384)</u>
Net property and equipment	<u>\$ 6,650,394</u>	<u>\$ 6,852,663</u>

Note 3. INVESTMENTS

The cost and market values of investment securities are as follows at June 30:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Money market, cash	\$ 234,397	\$ 234,397	\$ 8,907	\$ 8,907
Mutual funds	<u>748,362</u>	<u>779,334</u>	<u>977,408</u>	<u>934,522</u>
	<u>\$ 982,759</u>	<u>\$ 1,013,731</u>	<u>\$ 986,315</u>	<u>\$ 943,429</u>

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. INVESTMENTS (concluded)

The following tabulation summarizes the relationship between carrying values and market values of investment assets:

	<u>Cost</u>	<u>Market Value</u>	<u>Excess of Market Over Cost</u>
Balance, end of year	<u>\$982,759</u>	<u>\$1,013,731</u>	\$ 30,972
Balance, beginning of year	<u>\$986,315</u>	<u>\$ 943,429</u>	<u>(42,886)</u>
Net change in unrealized depreciation			<u>\$(11,914)</u>

Investment return is summarized as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividends*	\$ 27,834	\$ 36,353
Net unrealized (loss)	<u>(201,529)</u>	<u>(58,781)</u>
Total investment (loss)	<u>\$(173,695)</u>	<u>\$ (22,428)</u>

*Interest includes interest earned on all cash deposits of all cash accounts.

Note 4. PLEDGES RECEIVABLE

Pledges receivable were as follows at June 30:

	<u>2009</u>	<u>2008</u>
Promise to give to be collected in		
Less than one year	\$ 73,440	\$ 247,309
One to four years	<u>14,633</u>	<u>99,600</u>
	<u>88,073</u>	346,909
Less discount	<u>(11,341)</u>	<u>(34,353)</u>
Net pledges receivable	<u>\$ 76,732</u>	<u>\$ 312,556</u>

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. EMPLOYEE BENEFIT PLANS

The School established a deferred compensation plan covering all qualified full-time employees beginning after six months of employment. At the present time, the employee may defer up to 15% of his/her annual salary. The School will match the employee's deferment up to one-third of 10% of his/her annual salary. For the years ended June 30, 2009 and 2008, the School's contribution to the plan totaled \$16,245 and \$13,084, respectively.

Note 6. LEASES

The School leases equipment with the following future minimum lease payments:

Year ending, <u>June 30,</u>	<u>Total</u>
2010	\$ 4,074
2011	<u>1,485</u>
Total	<u><u>\$ 5,559</u></u>

Note 7. FAIR VALUE MEASUREMENTS

As defined in Statement No.157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Association uses various methods including market, income and cost approaches. Based on these approaches, the Association often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Association is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. FAIR VALUE MEASUREMENTS (continued)

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange, Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Fair values of assets measured on a recurring basis at June 30, 2009 and 2008 are as follows:

<u>June 30, 2009</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Long-term investments	\$ 1,057,340	\$ 1,013,731	\$ -	\$ 43,609
Pledges receivable	76,732	-	-	76,732
Less: valuation reserve	<u>(43,609)</u>	<u>-</u>	<u>-</u>	<u>(43,609)</u>
Total	<u>\$ 1,090,463</u>	<u>\$ 1,013,731</u>	<u>\$ -</u>	<u>\$ 76,732</u>
 <u>June 30, 2008</u>				
Long-term investments	\$ 943,429	\$ 943,429	\$ -	\$ -
Pledges receivable	<u>312,556</u>	<u>-</u>	<u>-</u>	<u>312,556</u>
Total	<u>\$ 1,255,985</u>	<u>\$ 943,429</u>	<u>\$ -</u>	<u>\$ 312,556</u>

EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

Note 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted assets were available as follows at June 30:

	<u>2009</u>	<u>2008</u>
Building reserve	\$ 229,064	\$ 182,176
Landscaping/fencing	47,575	45,735
Special education	34,025	-
Scholarships	34,553	34,553
Library	11,716	-
Green Fund	10,808	-
Greenhouse	8,700	-
Hixon sustainability	6,960	-
Other	1,542	3,525
Legacy campaign	-	532,118
	<hr/>	<hr/>
Total	<u>\$ 384,943</u>	<u>\$ 798,107</u>

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Trustees
Epiphany School, Inc.

Our report on our audit of the basic financial statements of Epiphany School, Inc., for June 30, 2009 appears on page one. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial ratios are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Manchester, New Hampshire
August 25, 2009

EPIPHANY SCHOOL, INC.

FINANCIAL RATIOS

JUNE 30, 2009

CURRENT RATIO:

	<u>2009</u>	<u>2008</u>
Current assets	\$ 1,677,078	\$ 1,417,085
Current liabilities	\$ 80,809	\$ 94,517
Ratio	20.75	14.99

This ratio measures Epiphany's ability to pay its current maturing debts. A ratio of 1.5 or greater generally indicates adequate liquidity to pay current debts.

DEBT TO EQUITY RATIO:

	<u>2009</u>	<u>2008</u>
Total liabilities	\$ 80,809	\$ 94,517
Total net assets	\$ 9,271,208	\$ 9,202,455
Ratio	0.01	0.01

This ratio measures the proportion of Epiphany's assets which are externally financed against those provided from accumulated net earnings (net assets). A ratio greater than 1.0 indicates externally that more of the assets are financed.

EPIPHANY SCHOOL, INC.

FINANCIAL RATIOS

JUNE 30, 2009

COST OF SUPPORTING SERVICES (Administrative and Fundraising Costs):

	<u>2009</u>	<u>2008</u>
Total supporting services	\$ 548,041	\$ 472,319
Total revenues	\$ 2,901,861	\$ 3,458,772
Cost of supporting services	18.9%	13.7%

This ratio shows how much of each dollar raised goes to the cost of raising and administering those fund National watchdog groups look at percentages as high as 50%. One third (33%) is considered good.
