THE EPIPHANY SCHOOL, INC.

FINANCIAL STATEMENTS
JUNE 30, 2011
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

THE EPIPHANY SCHOOL, INC.

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JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Epiphany School, Inc.:

We have audited the accompanying statement of financial position of The Epiphany School, Inc. (a Massachusetts corporation, not for profit) (the School) as of June 30, 2011, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position The Epiphany School, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co. PC

Wellesley, Massachusetts
October 10, 2011

THE EPIPHANY SCHOOL, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 1,660,363
Cash held for others	1,599
Accounts receivable	48,916
Pledge receivable	25,000
Prepaid expenses and deposits	22,578
Total current assets	1,758,456
INVESTMENTS	1,621,573
PROPERTY AND EQUIPMENT, net	7,254,876
Total assets	$ 10,634,905

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Current portion of mortgage payable	$ 17,500
Cash held for others	1,599
Accounts payable and accrued expenses	75,961
Total current liabilities	95,060
MORTGAGE PAYABLE, net of current portion	328,125
Total liabilities	423,185
NET ASSETS:	
Unrestricted:	
Operating	1,359,948
Board designated	1,576,988
Property and equipment	6,909,251
Total unrestricted	9,846,187
Temporarily restricted	365,533
Total net assets	10,211,720
Total liabilities and net assets	$ 10,634,905

The accompanying notes are an integral part of these statements.

THE EPIPHANY SCHOOL, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
OPERATING REVENUE:			
Contributions	$ 2,590,461	$ 114,553	$ 2,705,014
Program fees	122,280	-	122,280
Interest and dividends	53,717	-	53,717
Donated services	53,263	-	53,263
Net assets released from program restrictions	101,329	(101,329)	-
Total operating revenue	2,921,050	13,224	2,934,274
OPERATING EXPENSES:			
Instruction and student activities	1,966,486	-	1,966,486
Development	359,418	-	359,418
Facilities and maintenance	405,208	-	405,208
General and administrative	264,914	-	264,914
Total operating expenses	2,996,026	-	2,996,026
Changes in net assets from operations	(74,976)	13,224	(61,752)
OTHER REVENUE:			
Contributions	-	855,000	855,000
Net realized and unrealized gains	188,192	-	188,192
Net assets released from restrictions	684,406	(684,406)	-
Total other revenue	872,598	170,594	1,043,192
Changes in net assets	797,622	183,818	981,440
NET ASSETS, beginning of year	9,048,565	181,715	9,230,280
NET ASSETS, end of year	$ 9,846,187	$ 365,533	$ 10,211,720

The accompanying notes are an integral part of these statements.

THE EPIPHANY SCHOOL, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ 981,440
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	239,981
Net realized and unrealized gains	(188,192)
Changes in operating assets and liabilities:	
Accounts receivable	(48,916)
Pledge receivable	(12,000)
Prepaid expenses and deposits	5,734
Accounts payable and accrued expenses	(3,077)
Deferred revenue	(20,000)
Net cash provided by operating activities	954,970
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(1,070,654)
Purchase of investments	(1,017,525)
Proceeds from sales of investments	668,658
Net cash used in investing activities	(1,419,521)
CASH FLOW FROM FINANCING ACTIVITIES:	
Proceeds from mortgage payable	350,000
Principal payments on mortgage payable	(4,375)
Net cash provided by financing activities	345,625
NET DECREASE IN CASH AND CASH EQUIVALENTS	(118,926)
CASH AND CASH EQUIVALENTS, beginning of year	1,779,289
CASH AND CASH EQUIVALENTS, end of year	$ 1,660,363
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 2,834
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTION:	
Unrealized gains on investment	$ 148,742

The accompanying notes are an integral part of these statements.

THE EPIPHANY SCHOOL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	INSTRUCTION AND STUDENT ACTIVITIES	DEVELOPMENT	FACILITIES AND MAINTENANCE	GENERAL AND ADMINIS-TRATIVE	TOTAL
EXPENSES:					
Salaries and related expenses:					
Salaries and wages	$ 1,017,816	$ 144,097	$ 10,569	$ 153,209	$ 1,325,691
Payroll taxes and benefits	243,299	39,065	1,532	36,973	320,869
Intern benefits	27,581	-	-	-	27,581
Total salaries and related expenses	1,288,696	183,162	12,101	190,182	1,674,141
Other:					
Professional fees	154,193	30,249	-	8,607	193,049
Meals	116,054	-	-	-	116,054
School events	20,622	94,636	-	-	115,258
Financial aid	110,986	-	-	-	110,986
Repairs and maintenance	38,797	-	69,869	-	108,666
Utilities	17,629	-	82,038	-	99,667
Miscellaneous	35,885	13,107	5,720	52	54,764
Donated services	37,763	-	-	15,500	53,263
Program and supplies	48,763	-	165	79	49,007
Insurance	101	-	6,084	25,418	31,603
Printing and copying	7,688	22,821	-	-	30,509
Student transportation	28,779	-	-	-	28,779
Bank, investment and payroll fees	-	-	-	20,028	20,028
Professional development	15,627	250	-	225	16,102
Office supplies	4,489	2,385	5,453	2,833	15,160
Meetings and travel	7,426	3,630	106	24	11,186
Postage	223	8,473	-	96	8,792
Field trips	8,637	-	-	-	8,637
Dues and subscriptions	4,900	705	85	1,870	7,560
Interest expense	-	-	2,834	-	2,834
Total expense before depreciation and amortization	1,947,258	359,418	184,455	264,914	2,756,045
Depreciation	19,228	-	220,753	-	239,981
Total expenses before facilities and maintenance allocation	1,966,486	359,418	405,208	264,914	2,996,026
Facilities and maintenance allocation	397,104	4,052	(405,208)	4,052	-
Total expenses	$ 2,363,590	$ 363,470	$ -	$ 268,966	$ 2,996,026

The accompanying notes are an integral part of these statements.

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

The Epiphany School, Inc. (the School) is an independent, tuition-free, middle school for children of low-income families from Boston neighborhoods. We admit children of diverse faiths, races, cultures, and cognitive profiles, believing in the Episcopal tradition that we find God in and through each other's presence.

Our small classes, individualized curricula, and extended school days provide rigorous academic, moral and social instruction. In close partnership with families, we are an innovative learning community that affords structured support to help students thrive. Together, we are a school that never gives up on a child.

We challenge students to discover and develop the fullness of their individual gifts. We seek to prepare graduates who will contribute intelligently, morally, and actively to the society they will inherit.

The School is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The School is also exempt from state income taxes. Donors may deduct contributions made to the School within the Internal Revenue Code regulations.

SIGNIFICANT ACCOUNTING POLICIES

The School prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the School. The School has grouped its unrestricted net assets into the following categories:

Operating net assets – Consists of unrestricted resources available for the School's operations.

Property and equipment net assets – Reflect amount expended and resources available for property and equipment, net of related debt.

Board designated net assets – Represents funds set aside by the Board of Trustees to function as an endowment (Quasi-Endowment), which earnings will be used for retirement of long-term financing and other strategic expenditures (see Note 8). The use of these funds requires approval of the Board of Trustees.

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts received or committed services which are designated by the donors for specific purposes. These contributions are recorded as temporarily restricted net assets until they are expended for their designated purpose.

Temporarily restricted net assets are available for the following as of June 30, 2011:

232 Centre Street	$169,307
Time	60,000
Purpose:	
Landscaping	45,892
Scholarships	34,553
Special education	16,703
Urban achievers	9,822
Green fund	7,711
Technology	7,065
Library	6,899
Greenhouse	5,547
Other	2,034
Total	$365,533

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of demand deposits and highly liquid investments with an initial maturity of three months or less.

Pledge Receivable and Allowance for Doubtful Accounts

Pledge receivable consists of contributions committed to the School. Pledges are recorded at their net present value when unconditionally committed. The pledge receivable at June 30, 2011, is expected to be collected during fiscal year 2012 and is due from one donor. An allowance for doubtful accounts is calculated based on management's best estimate of the amount of uncollectible pledges. Estimates of uncollectible pledges are based on past collection experience together with a review of the current status of existing receivables. There was no allowance for uncollectible pledges at June 30, 2011.

Property and Equipment

Property and equipment are recorded at cost or, if acquired by donation, at fair market value at the date of acquisition. Major additions and improvements are capitalized, while ordinary maintenance and repairs are expensed as incurred. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and gains or losses are reflected in the statement of activities and changes in net assets.

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Property and equipment are depreciated using the straight line method over the following useful lives:

	Estimated Useful Life
Buildings and improvements	20 – 40 years
Computers and software	5 – 7 years
Furniture, fixtures and equipment	5 – 7 years

Land is not depreciated.

Fair Value Measurements

The School follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and expand disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The School values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

Investments are recorded at market value (see Note 2). The School's management values all investments, which are publicly traded, using observable, or Level 1, inputs.

Estimates

The preparation of financial statements in accordance with U.S. 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 financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Aid

Financial aid is awarded to students who graduate from the School and go on to attend private high schools, which require tuition. Financial aid is awarded based on need.

Accounting for Uncertainty in Income Taxes

The School follows the *Accounting for Uncertainty in Income Taxes* standard which requires the School to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2011, the School determined that there are no material unrecognized tax benefits to report.

Information returns filed for the past three years remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts.

Subsequent Events

Subsequent events have been evaluated through October 10, 2011, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Revenue Recognition

The School recognizes donor designated contributions as temporarily restricted revenue and net assets when received or unconditionally committed by the donor. Unrestricted contributions are recognized as revenue when received or unconditionally pledged. Net assets released from restrictions represent transfers to unrestricted net assets as costs are incurred, time restrictions have lapsed, or services are provided satisfying the restricted purposes specified by donors.

Interest and dividends are recognized when earned. Gains and losses are recognized as incurred upon sale or maturities of investments or based on fair value changes during the period.

Program fees and all other revenues are recorded when earned.

Donated Services

Individuals and other organizations contribute goods and services to the School in support of various aspects of its programs. These were services, which are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers, agencies, or management, were valued at $53,263 for the year ended June 30, 2011.

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based upon management's estimate of the percentage attributed to each function.

(2) INVESTMENTS

Investments are comprised of the following at June 30, 2011:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Mutual and Exchange Traded Funds:			
Bond Funds	$ 463,889	$ 502,608	$ 38,719
U.S equities	231,708	280,434	48,726
International	21,963	21,820	(143)
Commodities	19,001	21,778	2,777
Emerging markets	198,931	202,574	3,643
Natural resources	154,985	218,359	63,374
Real estate	96,604	135,740	39,136
Absolute return	77,511	76,310	(1,201)
Balanced funds	33,354	35,675	2,321
Cash and cash equivalents:			
Cash	117,365	117,365	-
Money Market Fund	8,910	8,910	-
	$1,424,221	$1,621,573	197,352

The following schedule summarizes the components of realized and unrealized gains on investments for the year ended June 30, 2011:

Unrealized gains	$148,742
Realized gains	39,450
Net realized and unrealized gains	$188,192

Investment management fees were $4,220 which are included in bank, investment and payroll fees in the accompanying statement of functional expenses for the year end June 30, 2011. Investments are not insured and are subject to ongoing market fluctuations.

(3) PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2011:

Buildings and improvements	$7,520,371
Land	1,500,514
Computers and software	355,692
Furniture, fixtures and equipment	192,381
	9,568,958
Less - accumulated depreciation	2,314,082
	$7,254,876

Depreciation and amortization expense was $239,981 for the year ended June 30, 2011.

(4) EMPLOYEE BENEFIT PLANS

The School established a deferred compensation plan covering all qualified employees beginning after three months of employment. At the present time, the employee may defer an amount annually allowed by law. The School will match the employee's deferment up to one-third of 10% of his/her annual salary. For the year ended June 30, 2011, the School's contribution to the plan totaled $18,127, which is included in the payroll taxes and benefits on the accompanying statement of functional expenses.

(5) LINE OF CREDIT

The School has available a $400,000 line of credit with a bank. Any amounts drawn on the line of credit are payable on demand of the bank's prime interest rate, adjustable on the date of each change (3.25% at June 30, 2011). The line of credit is secured by all assets of the School. At June 30, 2011, there was no outstanding balance on the line of credit. The line of credit contains certain covenants which the School was in compliance with as of June 30, 2011. The line of credit is renewable each year in January.

(6) MORTGAGE PAYABLE

During fiscal year 2011, the School entered into a $350,000 mortgage payable agreement with a bank to purchase property in Dorchester, Massachusetts. This note bears interest at a variable rate based on the LIBOR advantage rate plus the LA margin as defined in the agreement (3.19% at June 30, 2011). The School is required to make monthly payments of principal under the note in the amount of $1,458, plus interest throughout the life of the loan. The loan maturity date is March, 2016, at which time any principal and interest outstanding must be paid. The mortgage is secured by the property. The mortgage payable contains certain covenants which the School was in compliance with as of June 30, 2011.

(6) MORTGAGE PAYABLE (Continued)

Future minimum payments under this agreement for the next five years are as follows:

Year Ending June 30,	
2012	$ 17,500
2013	$ 17,500
2014	$ 17,500
2015	$ 17,500
2016	$ 275,625

(7) CONCENTRATION OF CREDIT RISK

The School maintains its cash and cash equivalents in various financial institutions insured within limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, balances exceeded the insured amounts. The School has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash and cash equivalents. The School performs periodic evaluations of the relative credit standings and limits the amount of credit exposure with these financial institutions.

(8) ENDOWMENT

The School follows an investment and spending policy to ensure a total return (income plus capital change) necessary to preserve and enhance the principal of the fund and, at the same time, provide a dependable source of support for current operations and programs. The withdrawal from the fund in support of current operations is expected to remain a constant percentage of the total fund (3-5% of endowments average value over the previous twelve months), adjusted for new gifts to the fund.

In recognition of the prudence required by fiduciaries, reasonable diversification is sought where possible. Experience has shown financial markets and inflation rates are cyclical and, therefore, control of volatility will be achieved through diversification of asset classes and selection of investment managers of diverse investment styles. Asset allocation parameters have been developed for various funds within the structure, based on investment objectives, liquidity needs and time horizon for intended use.

Measurement of investment performance against policy objective will be computed on a total return basis. Total return is defined as dividend or interest income plus realized and unrealized capital appreciation or depreciation at fair market value.

(8) ENDOWMENT (Continued)

Changes in endowment net assets are as follows for the year ended June 30, 2011:

	Unrestricted
Endowment net assets, June 30, 2010	$1,046,116
Contributions	361,808
Investment return:	
Investment income	38,963
Realized and unrealized gains	182,635
Appropriation for operations	(52,534)
Endowment net assets, June 30, 2011	$1,576,988

(9) CASH HELD FOR OTHERS

The School held and disbursed funds for two separate entities during fiscal year 2011. At June 30, 2011, the School held $1,599 for these entities, which is reflected as cash held for others in the accompanying statement of financial position.

(10) LEASE AGREEMENTS

The School leases office equipment under operating lease agreements, which expire at various dates through October, 2014. Future minimum lease payments under these agreements over the remainder of the lease terms are expected as follows:

2012	$6,657
2013	$6,657
2014	$6,657
2015	$2,219

During the year ended June 30, 2011, the School incurred equipment lease expense of approximately $8,000, which is included in printing and copying and office supplies in the accompanying statement of functional expenses.