



Epiphany

THE EPIPHANY SCHOOL, INC.

FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

THE EPIPHANY SCHOOL, INC.

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JUNE 30, 2012 AND 2011

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Where Every Client Is A Valued Client

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of The Epiphany School, Inc. (a Massachusetts corporation, not for profit) (the School) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, cash flows and functional expenses 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Epiphany School, Inc. as of June 30, 2012 and 2011, and the 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 of America.

Alexander, Aronson Finning & Co. PC

Wellesley, Massachusetts
November 15, 2012

THE EPIPHANY SCHOOL, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011**

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,833,753	\$ 1,660,363
Cash held for others	916	1,599
Accounts receivable	-	48,916
Current portion of pledges receivable	55,000	25,000
Prepaid expenses and deposits	6,740	22,578
	<hr/>	<hr/>
Total current assets	1,896,409	1,758,456
INVESTMENTS	1,914,511	1,621,573
PLEDGES RECEIVABLE , net of current portion	25,000	-
PROPERTY AND EQUIPMENT , net	7,158,483	7,254,876
	<hr/>	<hr/>
Total assets	<u>\$ 10,994,403</u>	<u>\$ 10,634,905</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Current portion of mortgage payable	\$ -	\$ 17,500
Accounts payable and accrued expenses	110,242	75,961
Cash held for others	916	1,599
	<hr/>	<hr/>
Total current liabilities	111,158	95,060
MORTGAGE PAYABLE , net of current portion	-	328,125
	<hr/>	<hr/>
Total liabilities	111,158	423,185
 NET ASSETS:		
Unrestricted:		
Operating	1,681,196	1,359,948
Board designated	1,868,390	1,576,988
Property and equipment	7,158,483	6,909,251
	<hr/>	<hr/>
Total unrestricted	10,708,069	9,846,187
Temporarily restricted	175,176	365,533
	<hr/>	<hr/>
Total net assets	10,883,245	10,211,720
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 10,994,403</u>	<u>\$ 10,634,905</u>

The accompanying notes are an integral part of these statements.

THE EPIPHANY SCHOOL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:						
Contributions	\$ 3,164,764	\$ 330,254	\$ 3,495,018	\$ 2,590,461	\$ 114,553	\$ 2,705,014
Program fees	89,610	-	89,610	122,280	-	122,280
Donated services	54,778	-	54,778	53,263	-	53,263
Rental income	48,309	-	48,309	-	-	-
Interest and dividends	47,928	-	47,928	53,717	-	53,717
Net assets released from restrictions:						
Satisfaction of purpose restriction	430,353	(430,353)	-	91,329	(91,329)	-
Satisfaction of time restriction	35,000	(35,000)	-	10,000	(10,000)	-
Total operating revenue	<u>3,870,742</u>	<u>(135,099)</u>	<u>3,735,643</u>	<u>2,921,050</u>	<u>13,224</u>	<u>2,934,274</u>
OPERATING EXPENSES:						
Instruction and student activities	2,499,435	-	2,499,435	2,363,590	-	2,363,590
Development	335,906	-	335,906	363,470	-	363,470
General and administrative	297,065	-	297,065	268,966	-	268,966
Total operating expenses	<u>3,132,406</u>	<u>-</u>	<u>3,132,406</u>	<u>2,996,026</u>	<u>-</u>	<u>2,996,026</u>
Changes in net assets from operations	<u>738,336</u>	<u>(135,099)</u>	<u>603,237</u>	<u>(74,976)</u>	<u>13,224</u>	<u>(61,752)</u>
OTHER REVENUE:						
Capital contributions	-	130,000	130,000	-	855,000	855,000
Net realized and unrealized gains (losses)	(61,712)	-	(61,712)	188,192	-	188,192
Net assets released from capital restrictions	185,258	(185,258)	-	684,406	(684,406)	-
Total other revenue	<u>123,546</u>	<u>(55,258)</u>	<u>68,288</u>	<u>872,598</u>	<u>170,594</u>	<u>1,043,192</u>
Changes in net assets	861,882	(190,357)	671,525	797,622	183,818	981,440
NET ASSETS, beginning of year	<u>9,846,187</u>	<u>365,533</u>	<u>10,211,720</u>	<u>9,048,565</u>	<u>181,715</u>	<u>9,230,280</u>
NET ASSETS, end of year	<u>\$ 10,708,069</u>	<u>\$ 175,176</u>	<u>\$ 10,883,245</u>	<u>\$ 9,846,187</u>	<u>\$ 365,533</u>	<u>\$ 10,211,720</u>

The accompanying notes are an integral part of these statements.

THE EPIPHANY SCHOOL, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 671,525	\$ 981,440
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	211,441	239,981
Net realized and unrealized (gains) losses	61,712	(188,192)
Changes in operating assets and liabilities:		
Accounts receivable	48,916	(48,916)
Pledges receivable	(55,000)	(12,000)
Prepaid expenses and deposits	15,838	5,734
Accounts payable and accrued expenses	34,281	(3,077)
Deferred revenue	-	(20,000)
	988,713	954,970
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(115,048)	(1,070,654)
Purchase of investments	(1,013,889)	(1,017,525)
Proceeds from sales of investments	659,239	668,658
	(469,698)	(1,419,521)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from mortgage payable	-	350,000
Principal payments on mortgage payable	(345,625)	(4,375)
	(345,625)	345,625
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	173,390	(118,926)
CASH AND CASH EQUIVALENTS, beginning of year	1,660,363	1,779,289
CASH AND CASH EQUIVALENTS, end of year	\$ 1,833,753	\$ 1,660,363
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 11,462	\$ 2,834
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Unrealized gains (losses) on investments	\$ (101,178)	\$ 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, 2012

(With Summarized Comparative Totals for the Year Ended June 30, 2011)

	2012				TOTAL	2011
	INSTRUCTION AND STUDENT ACTIVITIES	DEVELOPMENT	FACILITIES AND MAINTENANCE	GENERAL AND ADMINIS- TRATIVE		TOTAL
EXPENSES:						
Salaries and related expenses:						
Salaries and wages	\$ 1,093,884	\$ 125,917	\$ 15,597	\$ 155,837	\$ 1,391,235	1,325,691
Payroll taxes and benefits	285,630	45,209	2,743	39,201	372,783	320,869
Intern benefits	31,953	-	-	-	31,953	27,581
Total salaries and related expenses	1,411,467	171,126	18,340	195,038	1,795,971	1,674,141
Other:						
Professional fees	118,789	15,250	-	26,577	160,616	193,049
Repairs and maintenance	93,595	-	58,290	-	151,885	108,666
Meals	133,614	-	-	-	133,614	116,054
School events	22,243	95,930	832	-	119,005	115,258
Financial aid	103,615	-	-	-	103,615	110,986
Utilities	29,603	-	60,519	-	90,122	99,667
Miscellaneous	49,886	13,123	1,290	3,533	67,832	54,764
Donated services	54,778	-	-	-	54,778	53,263
Program and supplies	45,960	-	-	79	46,039	49,007
Printing and copying	9,170	23,684	-	-	32,854	30,509
Insurance	-	-	1,000	30,241	31,241	31,603
Office supplies	14,013	979	11,083	3,249	29,324	15,160
Bank, investment and payroll fees	151	-	-	22,458	22,609	20,028
Meetings and travel	13,194	2,714	595	-	16,503	11,186
Student transportation	15,016	-	-	-	15,016	28,779
Field trips	12,590	-	-	-	12,590	8,637
Interest expense	-	-	446	11,016	11,462	2,834
Professional development	8,404	195	-	325	8,924	16,102
Postage	91	8,706	12	66	8,875	8,792
Dues and subscriptions	5,792	882	250	1,166	8,090	7,560
Total expense before depreciation and facilities and maintenance allocation	2,141,971	332,589	152,657	293,748	2,920,965	2,756,045
Depreciation	32,427	-	179,014	-	211,441	239,981
Total expenses before facilities and maintenance allocation	2,174,398	332,589	331,671	293,748	3,132,406	2,996,026
Facilities and maintenance allocation	325,037	3,317	(331,671)	3,317	-	-
Total expenses	\$ 2,499,435	\$ 335,906	\$ -	\$ 297,065	\$ 3,132,406	\$ 2,996,026

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**

	<u>INSTRUCTION AND STUDENT ACTIVITIES</u>	<u>DEVELOPMENT</u>	<u>FACILITIES AND MAINTENANCE</u>	<u>GENERAL AND ADMINIS- TRATIVE</u>	<u>TOTAL</u>
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
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
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
Repairs and maintenance	38,797	-	69,869	-	108,666
Meals	116,054	-	-	-	116,054
School events	20,622	94,636	-	-	115,258
Financial aid	110,986	-	-	-	110,986
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
Printing and copying	7,688	22,821	-	-	30,509
Insurance	101	-	6,084	25,418	31,603
Office supplies	4,489	2,385	5,453	2,833	15,160
Bank, investment and payroll fees	-	-	-	20,028	20,028
Meetings and travel	7,426	3,630	106	24	11,186
Student transportation	28,779	-	-	-	28,779
Field trips	8,637	-	-	-	8,637
Interest expense	-	-	2,834	-	2,834
Professional development	15,627	250	-	225	16,102
Postage	223	8,473	-	96	8,792
Dues and subscriptions	4,900	705	85	1,870	7,560
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expense before depreciation and facilities and maintenance allocation	1,947,258	359,418	184,455	264,914	2,756,045
Depreciation	19,228	-	220,753	-	239,981
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
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	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 2,363,590</u>	<u>\$ 363,470</u>	<u>\$ -</u>	<u>\$ 268,966</u>	<u>\$ 2,996,026</u>

The accompanying notes are an integral part of these statements.

THE EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(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.

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 amounts 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). 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.

THE EPIPHANY SCHOOL, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

(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 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:

	<u>2012</u>	<u>2011</u>
Time Purpose:	\$ 25,000	\$ 60,000
Summer	51,000	-
Scholarships	34,253	34,553
Special education	16,321	16,703
Greenhouse composting	12,601	-
Foster fund	8,530	-
Green fund	7,711	7,711
Greenhouse	5,547	5,547
Library	5,038	6,899
Student support director	5,000	-
Other	2,355	2,034
Urban achievers	1,820	9,822
Landscaping	-	45,892
Technology	-	7,065
232 Centre Street	-	<u>169,307</u>
Total	<u>\$175,176</u>	<u>\$365,533</u>

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of demand deposits and highly liquid investments with an initial maturity of three months or less, excluding those held as part of the investment portfolio.

Pledges Receivable and Allowance for Doubtful Accounts

Pledges receivable consists of contributions committed to the School (see Note 11). Pledges are recorded at their net present value when unconditionally committed. 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, 2012 and 2011.

THE EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

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 statements of activities and changes in net assets.

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

	<u>Estimated Useful Life</u>
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 mandate 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. Investments are reflected as long-term assets in accordance with the School's intent to hold those investments for long-term purposes.

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.

THE EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(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, 2012 and 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 November 15, 2012, 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 maturity of investments or based on fair value changes during the period.

Program fees and all other revenues are recorded when earned.

Rental income is recorded over the term of the lease.

Donated Services

Individuals and other organizations contribute goods and services to the School in support of various aspects of its programs. These 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 \$54,778 and \$53,263 for the years ended June 30, 2012 and 2011, respectively.

THE EPIPHANY SCHOOL, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

(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 statements 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

The School's investments are carried at fair value and consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Mutual and Exchange Traded Funds:		
Bond funds	\$ 632,645	\$ 502,608
U.S equities	288,539	280,434
Natural resources	209,962	218,359
Real estate	181,002	135,740
Emerging markets	102,821	202,574
Absolute return	79,457	76,310
International	64,416	21,820
Balanced funds	37,209	35,675
Commodities	19,364	21,778
Cash and cash equivalents:		
Cash	290,186	117,365
Money market fund	<u>8,910</u>	<u>8,910</u>
	<u>\$1,914,511</u>	<u>\$1,621,573</u>

The following schedule summarizes the components of realized and unrealized gains (losses) on investments for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Unrealized gains (losses)	\$(101,178)	\$148,742
Realized gains	<u>39,466</u>	<u>39,450</u>
Net realized and unrealized gains (losses)	<u>\$ (61,712)</u>	<u>\$188,192</u>

Investment management fees were \$5,175 and \$4,220 which are included in bank, investment and payroll fees in the accompanying statements of functional expenses for the years end June 30, 2012 and 2011, respectively. Investments are not insured and are subject to ongoing market fluctuations.

THE EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Continued)

(3) **PROPERTY AND EQUIPMENT**

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

	<u>2012</u>	<u>2011</u>
Buildings and improvements	\$7,469,128	\$7,400,571
Land	1,620,314	1,620,314
Computers and software	402,183	355,692
Furniture, fixtures and equipment	<u>192,381</u>	<u>192,381</u>
	9,684,006	9,568,958
Less - accumulated depreciation	<u>2,525,523</u>	<u>2,314,082</u>
	<u>\$7,158,483</u>	<u>\$7,254,876</u>

(4) **EMPLOYEE BENEFIT PLANS**

The School established a deferred compensation plan covering all qualified employees beginning after three months of employment. 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 their annual salary. For the years ended June 30, 2012 and 2011, the School's contribution to the plan totaled \$18,202 and \$18,127, respectively, which is included in the payroll taxes and benefits on the accompanying statements of functional expenses.

(5) **LINE OF CREDIT**

The School had available a \$400,000 line of credit with a bank. Any amounts drawn on the line of credit were payable on demand. Interest was at the bank's prime interest rate, adjustable on the date of each rate change (3.25% at June 30, 2011). The line of credit was secured by all assets of the School and the School was required to meet certain covenants. The School was in compliance with these covenants through expiration of the agreement. The School did not renew this agreement when it expired in January, 2012.

(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 bore interest at a variable rate based on the London Interbank Offered Rate (LIBOR) plus 3% as defined in the agreement (3.19% at June 30, 2011). The School was required to make monthly payments of principal under the note of \$1,458, plus interest throughout the life of the loan. The loan maturity date was March, 2016, at which time any outstanding principal and interest was to be paid. The mortgage was secured by the property. The mortgage payable contained certain covenants which the School was in compliance with through the date of which the loan was paid off. This note was repaid in June, 2012.

THE EPIPHANY SCHOOL, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

(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 gains and losses and unrealized capital appreciation or depreciation at fair market value.

Changes in endowment net assets are as follows:

	<u>Unrestricted</u>
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
Contributions	352,066
Investment return:	
Investment income	47,225
Realized and unrealized losses	(63,248)
Appropriation for operations	(44,641)
Endowment net assets, June 30, 2012	<u>\$1,868,390</u>

THE EPIPHANY SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(9) **CASH HELD FOR OTHERS**

The School held and disbursed funds for one entity in fiscal year 2012 and two separate entities during fiscal year 2011. At June 30, 2012 and 2011, the School held \$916 and \$1,599, respectively, for these entities, which is reflected as cash held for others in the accompanying statements of financial position.

(10) **LEASE AGREEMENTS**

The School leases office equipment under an operating lease agreement that expires in October, 2014. Future minimum lease payments under this agreement are expected as follows:

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

During the years ended June 30, 2012 and 2011, the School incurred equipment lease expenses of approximately \$6,657 and \$8,000, respectively, which are included in printing, copying and office supplies in the accompanying statements of functional expenses.

During fiscal year 2012, the School had six lease agreements with interns of the School and another school to lease residential rooms. These leases expire at various dates through June, 2013. Revenue under the leases of approximately \$48,000 for the year ended June 30, 2012, has been included in rental income in the accompanying 2012 statement of activities and changes in net assets. Future minimum lease payments under these lease agreements are expected to be \$8,675 for fiscal year 2013.

(11) **PLEDGES RECEIVABLE**

As of June 30, 2012, the School has unconditional pledges for current and future operations. These pledges are due as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$55,000
2014	<u>25,000</u>
	80,000
Less - current portion	<u>55,000</u>
	<u>\$25,000</u>

The pledges receivable have not been discounted as the discount would be immaterial to the accompanying financial statements.