



# Epiphany

**THE EPIPHANY SCHOOL, INC.**

**FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**THE EPIPHANY SCHOOL, INC.**

Contents  
June 30, 2015 and 2014

---

	<u>Pages</u>
<b>Independent Auditor’s Report</b> .....	1
<b>Financial Statements:</b>	
Statements of Financial Position .....	2
Statements of Activities and Changes in Net Assets .....	3
Statements of Cash Flows .....	4
Statements of Functional Expenses .....	5 - 6
Notes to Financial Statements .....	7 - 16



21 East Main Street  
Westborough, MA 01581  
508.366.9100  
aafcpa.com

## Independent Auditor's Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Epiphany School, Inc. (a Massachusetts corporation, not for profit) which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Alexander, Brown, Fenning & Co., P.C.*

Boston, Massachusetts  
October 1, 2015

**THE EPIPHANY SCHOOL, INC.**Statements of Financial Position  
June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Current Assets:		
Cash and cash equivalents	\$ 1,649,336	\$ 1,429,942
Current portion of operating pledges receivable	92,743	71,150
Prepaid expenses and deposits	7,080	30,700
Total current assets	1,749,159	1,531,792
Restricted Campaign Cash	5,001,172	307,210
Investments	3,113,556	2,179,158
Operating Pledges Receivable, net of current portion and discount	157,525	-
Capital Campaign Pledges Receivable, net of discount	6,100,358	6,451,242
Property and Equipment, net	7,604,308	7,509,052
Total assets	<u>\$ 23,726,078</u>	<u>\$ 17,978,454</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 85,099	\$ 47,418
Net Assets:		
Unrestricted:		
Operating	348,355	1,398,446
Board designated	3,051,293	2,120,096
Property and equipment	7,563,696	7,509,052
Total unrestricted	10,963,344	11,027,594
Temporarily restricted	12,677,635	6,903,442
Total net assets	<u>23,640,979</u>	<u>17,931,036</u>
Total liabilities and net assets	<u>\$ 23,726,078</u>	<u>\$ 17,978,454</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, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Operating Revenues:</b>						
Contributions	\$ 2,851,405	\$ 573,161	\$ 3,424,566	\$ 2,554,315	\$ 397,746	\$ 2,952,061
Investment earnings designated for operations	73,452	-	73,452	71,430	-	71,430
Program fees	47,748	-	47,748	53,375	-	53,375
Donated services	16,065	-	16,065	10,528	-	10,528
Rental income and interest	13,193	-	13,193	37,734	-	37,734
Net assets released from purpose restrictions	313,477	(313,477)	-	453,191	(453,191)	-
Total operating revenues	<u>3,315,340</u>	<u>259,684</u>	<u>3,575,024</u>	<u>3,180,573</u>	<u>(55,445)</u>	<u>3,125,128</u>
<b>Operating Expenses:</b>						
Instruction and student activities	2,633,489	-	2,633,489	2,684,368	-	2,684,368
Development	400,410	-	400,410	386,857	-	386,857
General and administrative	337,717	-	337,717	312,703	-	312,703
Total operating expenses	<u>3,371,616</u>	<u>-</u>	<u>3,371,616</u>	<u>3,383,928</u>	<u>-</u>	<u>3,383,928</u>
Changes in net assets from operations	<u>(56,276)</u>	<u>259,684</u>	<u>203,408</u>	<u>(203,355)</u>	<u>(55,445)</u>	<u>(258,800)</u>
<b>Other Revenues (Expenses):</b>						
Capital campaign contributions	-	5,807,047	5,807,047	-	6,881,794	6,881,794
Donated services - capital campaign	115,147	-	115,147	-	-	-
Investment earnings	40,468	-	40,468	57,362	-	57,362
Net realized and unrealized gains (losses)	(24,990)	-	(24,990)	210,219	-	210,219
Investment earnings designated for operations	(73,452)	-	(73,452)	(71,430)	-	(71,430)
Capital campaign expenses	(357,685)	-	(357,685)	(133,342)	-	(133,342)
Other capital contributions	-	-	-	-	155,100	155,100
Donated property and equipment	-	-	-	3,903	-	3,903
Net assets released from capital campaign restrictions	242,538	(242,538)	-	133,342	(133,342)	-
Net assets released from capital restrictions	50,000	(50,000)	-	105,000	(105,000)	-
Total other revenues (expenses)	<u>(7,974)</u>	<u>5,514,509</u>	<u>5,506,535</u>	<u>305,054</u>	<u>6,798,552</u>	<u>7,103,606</u>
Changes in net assets	<u>(64,250)</u>	<u>5,774,193</u>	<u>5,709,943</u>	<u>101,699</u>	<u>6,743,107</u>	<u>6,844,806</u>
<b>Net Assets:</b>						
Beginning of year	<u>11,027,594</u>	<u>6,903,442</u>	<u>17,931,036</u>	<u>10,925,895</u>	<u>160,335</u>	<u>11,086,230</u>
End of year	<u>\$ 10,963,344</u>	<u>\$ 12,677,635</u>	<u>\$ 23,640,979</u>	<u>\$ 11,027,594</u>	<u>\$ 6,903,442</u>	<u>\$ 17,931,036</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 5,709,943	\$ 6,844,806
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	247,280	255,747
Net realized and unrealized (gains) losses	24,990	(210,219)
Capital campaign contributions	(5,807,047)	(6,881,794)
Other capital contributions	-	(155,100)
Donated property and equipment	-	(3,903)
Changes in operating assets and liabilities:		
Operating pledges receivable	(179,118)	33,850
Prepaid expenses and deposits	23,620	14,415
Accounts payable and accrued expenses	(2,931)	(57,836)
	<u>16,737</u>	<u>(160,034)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(301,924)	(42,915)
Purchase of investments	(3,074,297)	(980,746)
Proceeds from sales of investments	2,114,909	989,942
	<u>(1,261,312)</u>	<u>(33,719)</u>
<b>Cash Flow from Financing Activity:</b>		
Capital contributions released from (to) restricted campaign cash	1,463,969	(307,210)
Capital campaign contributions	-	430,552
Other capital contributions	-	155,100
	<u>1,463,969</u>	<u>278,442</u>
<b>Net Change in Cash and Cash Equivalents</b>	219,394	84,689
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>1,429,942</u>	<u>1,345,253</u>
End of year	<u>\$ 1,649,336</u>	<u>\$ 1,429,942</u>
<b>Supplemental Disclosure of Non-Cash Transactions:</b>		
Property and equipment acquisitions financed via accounts payable	<u>\$ 40,612</u>	<u>\$ -</u>
Unrealized gains (losses) on investments	<u>\$ (6,105)</u>	<u>\$ 94,752</u>
Disposal of fully depreciated property and equipment	<u>\$ -</u>	<u>\$ 125,685</u>

The accompanying notes are an integral part of these statements.

**THE EPIPHANY SCHOOL, INC.**

Statement of Functional Expenses

For the Year Ended June 30, 2015

(With Summarized Comparative Totals for the Year Ended June 30, 2014)

	2015			2014	
	Instruction and Student Activities	Development	General and Administrative	Total	Total
<b>Expenses:</b>					
Salaries and related expenses:					
Salaries and wages	\$ 1,176,549	\$ 193,774	\$ 174,502	\$ 1,544,825	\$ 1,516,559
Payroll taxes and benefits	328,805	45,762	48,275	422,842	406,099
Intern benefits	3,764	-	-	3,764	28,660
Total salaries and related expenses	1,509,118	239,536	222,777	1,971,431	1,951,318
Other:					
Repairs and maintenance	152,440	7,778	7,490	167,708	144,156
Utilities	122,775	7,762	7,762	138,299	129,269
Financial aid	121,394	-	-	121,394	118,732
School events	18,368	88,465	-	106,833	112,467
Professional fees	67,003	5,091	24,177	96,271	115,871
Meals	95,575	-	-	95,575	100,515
Summer camp facility	70,275	-	-	70,275	75,000
Program and supplies	58,246	15	15	58,276	59,931
Miscellaneous	46,639	7,074	790	54,503	79,439
Insurance	14,187	145	24,356	38,688	33,020
Office supplies	28,273	1,741	4,277	34,291	29,531
Student transportation	33,952	-	-	33,952	31,260
Printing and copying	7,489	23,057	-	30,546	41,511
Bank, investment and payroll fees	-	-	25,033	25,033	23,603
Dues and subscriptions	12,339	2,198	2,406	16,943	13,138
Donated services	-	-	16,065	16,065	10,528
Field trips	13,458	-	-	13,458	14,693
Meetings and travel	9,040	4,292	7	13,339	13,770
Postage	508	10,749	55	11,312	11,160
Professional development	10,144	-	-	10,144	19,269
Total expenses before depreciation	2,391,223	397,903	335,210	3,124,336	3,128,181
Depreciation	242,266	2,507	2,507	247,280	255,747
Total expenses	<u>\$ 2,633,489</u>	<u>\$ 400,410</u>	<u>\$ 337,717</u>	<u>\$ 3,371,616</u>	<u>\$ 3,383,928</u>

The accompanying notes are an integral part of these statements.

**THE EPIPHANY SCHOOL, INC.**

Statement of Functional Expenses  
For the Year Ended June 30, 2014

	<u>Instruction and Student Activities</u>	<u>Development</u>	<u>General and Adminis- trative</u>	<u>Total</u>
<b>Expenses:</b>				
Salaries and related expenses:				
Salaries and wages	\$ 1,198,456	\$ 164,291	\$ 153,812	\$ 1,516,559
Payroll taxes and benefits	311,470	39,659	54,970	406,099
Intern benefits	28,660	-	-	28,660
	<u>1,538,586</u>	<u>203,950</u>	<u>208,782</u>	<u>1,951,318</u>
Total salaries and related expenses				
Other:				
Repairs and maintenance	131,182	6,487	6,487	144,156
Utilities	114,219	7,525	7,525	129,269
Financial aid	118,732	-	-	118,732
School events	19,490	92,977	-	112,467
Professional fees	84,724	2,028	29,119	115,871
Meals	100,515	-	-	100,515
Summer camp facility	75,000	-	-	75,000
Program and supplies	59,911	10	10	59,931
Miscellaneous	64,937	14,496	6	79,439
Insurance	14,485	147	18,388	33,020
Office supplies	22,707	2,514	4,310	29,531
Student transportation	31,260	-	-	31,260
Printing and copying	7,392	34,119	-	41,511
Bank, investment and payroll fees	38	-	23,565	23,603
Dues and subscriptions	6,435	1,848	4,855	13,138
Donated services	-	3,533	6,995	10,528
Field trips	14,555	69	69	14,693
Meetings and travel	10,075	3,667	28	13,770
Postage	223	10,930	7	11,160
Professional development	19,269	-	-	19,269
	<u>2,433,735</u>	<u>384,300</u>	<u>310,146</u>	<u>3,128,181</u>
Total expenses before depreciation				
Depreciation	250,633	2,557	2,557	255,747
	<u>250,633</u>	<u>2,557</u>	<u>2,557</u>	<u>255,747</u>
Total expenses				
	<u>\$ 2,684,368</u>	<u>\$ 386,857</u>	<u>\$ 312,703</u>	<u>\$ 3,383,928</u>

The accompanying notes are an integral part of these statements.



## THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements  
June 30, 2015 and 2014

---

### 1. OPERATIONS AND NONPROFIT STATUS

The Epiphany School, Inc. (the School) is an independent, tuition-free, middle school for children of economically-disadvantaged families from Boston neighborhoods. The School admits 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 (IRC). The School is also exempt from state income taxes. Donors may deduct contributions made to the School within the IRC regulations.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The School prepares its financial statements in accordance with accounting standards generally accepted in the United States of America (U.S. GAAP). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

#### **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, 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.

#### **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** consist of unrestricted resources available for the School's operations.
- **Property and equipment net assets** reflect amounts expended and resources available for property and equipment.
- **Board designated net assets** represent funds set aside by the Board of Trustees to function as an endowment (Quasi-Endowment). Earnings will be used for strategic expenditures as well as operating expenses as part of the Board approved annual operating budget (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, 2015 and 2014

---

### 2. 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 or time frames. These contributions are recorded as temporarily restricted net assets until they are expended in accordance with their restrictions.

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

	<u>2015</u>	<u>2014</u>
Purpose restricted:		
Capital campaign (see Note 10)	\$ 12,312,961	\$ 6,748,452
Scholarships	34,253	34,253
Special education	25,681	28,653
Other	19,552	23,931
Sailing	15,922	2,322
Foster fund	7,618	7,872
Outreach	6,200	2,779
Leadership	5,180	5,180
218 Centre Street	-	50,000
Total purpose restricted	<u>12,427,367</u>	<u>6,903,442</u>
Time restricted	<u>250,268</u>	<u>-</u>
Total	<u>\$ 12,677,635</u>	<u>\$ 6,903,442</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 Pledges

Pledges receivable consist of contributions committed to the School (see Note 10). Pledges are recorded at their net present value when unconditionally committed. An allowance for doubtful pledges 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, 2015 and 2014.

#### Property and Equipment and Depreciation

Property and equipment are recorded at cost or, if acquired by donation, at fair 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.

**THE EPIPHANY SCHOOL, INC.**

Notes to Financial Statements  
June 30, 2015 and 2014

---

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment and Depreciation (Continued)**

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

	<b><u>Estimated Useful Life</u></b>
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 accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the School would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The School uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the School. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An 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.

## THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements  
June 30, 2015 and 2014

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair Value Measurements (Continued)

##### *Investments*

Investments (see Note 3) are recorded in the accompanying financial statements at fair value. If an investment is directly held by the School and an active market with quoted prices exists, the market price of an identical security is used to report fair value. As of June 30, 2015, the School maintained other investments in non-publicly traded securities that are valued using the basis of the School's equity in the net asset value of the investment vehicle, which has been valued using primarily Level 2 inputs, in accordance with standards pertaining to *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. As of June 30, 2015 and 2014, the School had no plans to sell investments at amounts different from net asset value (NAV).

A summary of inputs used in valuing the School's investments as of June 30, 2015 and 2014, is included in Note 3.

The Board has established investment policies governing long-term investments, which are held in several investment accounts, based on the purpose for those investment accounts and their earnings. These policies take into account liquidity, risk and return characteristics appropriate for the different categories of the School's holdings.

##### *All Other Assets and Liabilities*

The carrying value of all other assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

##### **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 and is recorded as an expense when paid by the School to the private high schools.

##### **Income Taxes**

The School accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The School has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2015 and 2014. The School's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

##### **Subsequent Events**

Subsequent events have been evaluated through October 1, 2015, 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.

## THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements  
June 30, 2015 and 2014

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs associated with purpose restrictions are incurred or time restrictions have lapsed.

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 and Property and Equipment

Individuals and other organizations contribute 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 donors or management, were valued at \$16,065 and \$10,528 for the years ended June 30, 2015 and 2014, respectively. For the year ended June 30, 2015, the School received \$115,147 of services from other organizations related to the School's capital campaign (see Note 10).

During fiscal year 2014, the School received donated property and equipment of \$3,903, which is reflected as donated property and equipment in the accompanying 2014 statement of activities and changes in net assets.

#### 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.

### 3. INVESTMENTS

The following table presents the School's investments by level within the valuation framework (see Note 2) as of June 30:

Investment Type	2015			Total
	Level 1	Level 2	Level 3	
Equity securities:				
Non-publicly traded equity fund	\$ -	\$ 1,992,175	\$ -	\$ 1,992,175
Bond securities:				
Non-publicly traded bond fund	-	1,059,118	-	1,059,118
Mutual and exchange traded funds:				
Balanced funds	53,349	-	-	53,349
Cash and cash equivalents	<u>8,914</u>	<u>-</u>	<u>-</u>	<u>8,914</u>
Total	<u>\$ 62,263</u>	<u>\$ 3,051,293</u>	<u>\$ -</u>	<u>\$ 3,113,556</u>

**THE EPIPHANY SCHOOL, INC.**

Notes to Financial Statements  
June 30, 2015 and 2014

**3. INVESTMENTS (Continued)**

<u>Investment Type</u>	<u>2014</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Mutual and exchange traded funds:				
U.S. equities	\$ 665,664	\$ -	\$ -	\$ 665,664
Balanced funds	619,548	-	-	619,548
International	313,457	-	-	313,457
Natural resources	167,667	-	-	167,667
Real estate	111,061	-	-	111,061
Emerging markets	99,587	-	-	99,587
Absolute return	79,941	-	-	79,941
Balanced funds	<u>50,150</u>	<u>-</u>	<u>-</u>	<u>50,150</u>
Total mutual and exchange traded funds	<u>2,107,075</u>	<u>-</u>	<u>-</u>	<u>2,107,075</u>
Cash and cash equivalents:				
Cash	63,171	-	-	63,171
Money market funds	<u>8,912</u>	<u>-</u>	<u>-</u>	<u>8,912</u>
Total cash and cash equivalents	<u>72,083</u>	<u>-</u>	<u>-</u>	<u>72,083</u>
Total	<u>\$ 2,179,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,179,158</u>

Invested resources of the School's endowment as well as other investments are presented as non-current assets. The balances of each were as follows at June 30:

	<u>2015</u>	<u>2014</u>
Endowment investments in securities	\$ 3,051,293	\$ 2,120,096
Other investments in securities	<u>62,263</u>	<u>59,062</u>
Net realized and unrealized gains (losses)	<u>\$ 3,113,556</u>	<u>\$ 2,179,158</u>

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

	<u>2015</u>	<u>2014</u>
Realized gains (losses)	\$ (18,885)	\$ 115,467
Unrealized gains (losses)	<u>(6,105)</u>	<u>94,752</u>
Net realized and unrealized gains (losses)	<u>\$ (24,990)</u>	<u>\$ 210,219</u>

Investment management fees were \$4,654 and \$1,556, which are included in bank, investment and payroll fees in the accompanying statements of functional expenses for the years ended June 30, 2015 and 2014, respectively. Investments are not insured and are subject to ongoing market fluctuations.

## THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements  
June 30, 2015 and 2014

---

### 4. PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 8,031,575	\$ 7,971,408
Land	1,752,614	1,752,614
Computers and software	320,402	320,402
Construction in process	272,352	-
Furniture, fixtures and equipment	<u>221,434</u>	<u>211,417</u>
	10,598,377	10,255,841
Less - accumulated depreciation	<u>2,994,069</u>	<u>2,746,789</u>
	<u>\$ 7,604,308</u>	<u>\$ 7,509,052</u>

During the year ended June 30, 2015, the School began contracting with an architect to begin the plans for the Early Learning building as part of the capital project (see Note 10). These amounts are classified as construction in process since the building is not in service. The amount of construction in process for the year ended June 30, 2015, totaled \$272,352 and is included in property and equipment in the accompanying statement of financial position.

### 5. 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-half of 10% of their annual salary. For the years ended June 30, 2015 and 2014, the School's contribution to the plan totaled \$28,247 and \$30,108, respectively, which is included in payroll taxes and benefits in the accompanying statements of functional expenses.

### 6. LINE OF CREDIT

The School has a \$400,000 line of credit with a bank. Any amounts drawn on the line of credit are payable on demand. Interest accrues on all amounts advanced at a rate equal to the London Interbank Offered Rate (LIBOR) plus 2.5% (2.69% and 2.65% at June 30, 2015 and 2014, respectively). There were no draws on the line of credit during fiscal years 2015 and 2014. The line of credit is unsecured under a non-encumbrance agreement. The line of credit requires the School to meet certain covenants. The School was in compliance with these covenants as of June 30, 2015 and 2014.

### 7. CONCENTRATION OF CREDIT RISK

The School maintains its cash and cash equivalent balances 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.

**THE EPIPHANY SCHOOL, INC.**

Notes to Financial Statements  
June 30, 2015 and 2014

---

**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% to 5% of endowments average value over the previous twelve quarters), 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>
<b>Endowment net assets, June 30, 2013</b>	\$ 1,927,336
Contributions	3,584
Investment return:	
Realized and unrealized gains	204,843
Investment income	57,319
Appropriation for operations	(71,430)
Investment fees	<u>(1,556)</u>
<b>Endowment net assets, June 30, 2014</b>	2,120,096
Contributions	1,000,000
Investment return:	
Realized and unrealized losses	(29,773)
Investment income	36,411
Appropriation for operations	(73,452)
Investment fees	<u>(1,989)</u>
<b>Endowment net assets, June 30, 2015</b>	<u>\$ 3,051,293</u>



## THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements  
June 30, 2015 and 2014

---

### 9. LEASE AGREEMENTS

#### Equipment Leases

The School leases office equipment under operating lease agreements that expires at various times through August 2019. Future minimum lease payments under these agreements are expected as follows:

<u>Fiscal Year</u>	
2016	\$ 7,391
2017	\$ 7,391
2018	\$ 7,391
2019	\$ 7,391
2020	\$ 616

During the years ended June 30, 2015 and 2014, the School incurred equipment lease expenses of approximately \$9,000 and \$6,700, respectively, which are included in printing and copying in the accompanying statements of functional expenses.

#### Lessor Agreements

During fiscal year 2013, the School entered into a lease agreement to rent a building the School purchased in 2013 to the building's former owners. This lease terminated in June 2014 and was not renewed. Revenue under this lease was approximately \$18,000 for the year ended June 30, 2014, and is included in rental income and interest in the accompanying statements of activities and changes in net assets.

The School has a lease agreement to rent parking spaces. This lease agreement expires in September 2015. Rental income was approximately \$5,700 and \$6,100 for the years ended June 30, 2015 and 2014, respectively, and is included in rental income and interest in the accompanying statements of activities and changes in net assets.

Future minimum lease payments under the above lease agreement is expected to be \$1,050 for fiscal year 2016.

During fiscal year 2013, the School renewed a lease agreement to lease residential property owned by the School. This lease expired in June 2014 and was not renewed. Revenue under the lease of approximately \$6,000 for the year ended June 30, 2014, and is included in rental income in the accompanying statements of activities and changes in net assets.

### 10. PLEDGES RECEIVABLE

#### Capital Campaign

During the year ended June 30, 2014, the School launched a capital campaign to raise \$25,000,000 to build capital and support other initiatives identified by the Board of Trustees. The School has recognized \$5,807,047 and \$6,881,794, respectively, of contributions in connection with the capital campaign and incurred \$357,685 and \$133,342, respectively, of costs associated with this capital campaign during fiscal years 2015 and 2014.

**THE EPIPHANY SCHOOL, INC.**

Notes to Financial Statements  
June 30, 2015 and 2014

---

**10. PLEDGES RECEIVABLE (Continued)**

**Capital Campaign (Continued)**

As of June 30, 2015 and 2014, the School has unconditional pledges for the capital campaign which are due as follows:

	<u>2015</u>	<u>2014</u>
Due within one year	\$ 2,027,098	\$ 1,779,499
Due in two to five years	<u>4,249,772</u>	<u>4,908,501</u>
	6,276,870	6,688,000
Less - discount	<u>176,512</u>	<u>236,758</u>
	<u>\$ 6,100,358</u>	<u>\$ 6,451,242</u>

Capital campaign pledges receivable are presented as long-term assets regardless of their expected collection dates due to the long-term nature of the intended usage of those contributions.

The capital campaign pledges have been discounted using a 2.5% interest rate. Four donors' balances represent approximately 64% and 70% of the total outstanding capital campaign pledge balance at June 30, 2015 and 2014, respectively.

The cash received and not spent for the capital campaign is reflected as restricted campaign cash.

**Operating**

As of June 30, 2015, the School has unconditional pledges to be used for the operating budget which are due as follows:

Due within one year	\$ 92,743
Due in two to five years	<u>166,243</u>
	258,986
Less - discount	<u>8,718</u>
	250,268
Less - current portion	<u>92,743</u>
	<u>\$ 157,525</u>

Operating pledges receivable were \$71,150 at June 30, 2014, and were collected in fiscal year 2015.