



Epiphany

THE EPIPHANY SCHOOL, INC.

**FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

THE EIPHANY SCHOOL, INC.

Contents
June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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.

AAFCPAs, Inc.

Boston, Massachusetts
September 14, 2021

THE EPIPHANY SCHOOL, INC.Statements of Financial Position
June 30, 2021 and 2020

Assets	2021	2020
Current Assets:		
Cash and cash equivalents	\$ 3,967,673	\$ 3,482,428
Current portion of restricted cash	1,902,212	2,765,538
Current portion of operating pledges receivable	9,419	26,234
Prepaid expenses and deposits	141,001	162,743
Total current assets	6,020,305	6,436,943
Investments	11,963,721	6,511,896
Restricted Cash, net of current portion	-	351,835
Operating Pledges Receivable, net of current portion and discount	-	9,429
Capital Campaign Pledges Receivable, net	109,941	364,792
Property and Equipment, net	18,594,372	18,989,210
Total assets	<u>\$ 36,688,339</u>	<u>\$ 32,664,105</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of note payable	\$ -	\$ 279,365
Accounts payable and accrued expenses	171,597	147,427
Total current liabilities	171,597	426,792
Note Payable, net of current portion	-	351,835
Total liabilities	<u>171,597</u>	<u>778,627</u>
Net Assets:		
Without donor restrictions:		
Operating	3,606,250	1,867,787
Board designated:		
Building and gap reserves	1,851,557	1,901,673
Endowment	11,917,826	6,234,008
Property and equipment	18,567,387	18,954,115
Total without donor restrictions	35,943,020	28,957,583
With donor restrictions	573,722	2,927,895
Total net assets	<u>36,516,742</u>	<u>31,885,478</u>
Total liabilities and net assets	<u>\$ 36,688,339</u>	<u>\$ 32,664,105</u>

The accompanying notes are an integral part of these statements.

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THE EPIPHANY SCHOOL, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:						
Contributions	\$ 5,260,786	\$ 895,138	\$ 6,155,924	\$ 4,088,166	\$ 328,086	\$ 4,416,252
Program fees	231,430	-	231,430	247,252	-	247,252
Donated goods and services	136,427	-	136,427	82,023	-	82,023
Rental income and interest	6,300	-	6,300	6,857	-	6,857
Investment earnings designated for operations	-	-	-	233,915	-	233,915
Net assets released from time restrictions	26,244	(26,244)	-	74,944	(74,944)	-
Net assets released from purpose restrictions	881,118	(881,118)	-	215,760	(215,760)	-
Total operating revenues	<u>6,542,305</u>	<u>(12,224)</u>	<u>6,530,081</u>	<u>4,948,917</u>	<u>37,382</u>	<u>4,986,299</u>
Operating Expenses:						
Instruction and student activities	4,714,440	-	4,714,440	4,277,684	-	4,277,684
Development	760,024	-	760,024	694,280	-	694,280
General and administrative	397,422	-	397,422	464,794	-	464,794
Total operating expenses	<u>5,871,886</u>	<u>-</u>	<u>5,871,886</u>	<u>5,436,758</u>	<u>-</u>	<u>5,436,758</u>
Changes in net assets from operations	<u>670,419</u>	<u>(12,224)</u>	<u>658,195</u>	<u>(487,841)</u>	<u>37,382</u>	<u>(450,459)</u>
Other Revenues (Expenses):						
Investment return, net	1,728,924	77,471	1,806,395	185,411	4,062	189,473
Capital campaign contributions	-	1,086,427	1,086,427	-	953,004	953,004
Forgiveness of note payable	631,200	-	631,200	-	-	-
Endowment contribution	442,047	7,000	449,047	-	-	-
Investment earnings designated for operations	-	-	-	(233,915)	-	(233,915)
Net assets released from capital campaign restrictions	3,512,847	(3,512,847)	-	228,177	(228,177)	-
Total other revenues (expenses)	<u>6,315,018</u>	<u>(2,341,949)</u>	<u>3,973,069</u>	<u>179,673</u>	<u>728,889</u>	<u>908,562</u>
Changes in net assets	<u>6,985,437</u>	<u>(2,354,173)</u>	<u>4,631,264</u>	<u>(308,168)</u>	<u>766,271</u>	<u>458,103</u>
Net Assets:						
Beginning of year	<u>28,957,583</u>	<u>2,927,895</u>	<u>31,885,478</u>	<u>29,265,751</u>	<u>2,161,624</u>	<u>31,427,375</u>
End of year	<u>\$ 35,943,020</u>	<u>\$ 573,722</u>	<u>\$ 36,516,742</u>	<u>\$ 28,957,583</u>	<u>\$ 2,927,895</u>	<u>\$ 31,885,478</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 4,631,264	\$ 458,103
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Forgiveness of note payable	(631,200)	-
Depreciation	661,540	631,782
Net realized and unrealized gains	(1,727,679)	(147,471)
Capital campaign contributions	(1,086,427)	(953,004)
Endowment contribution	(449,047)	-
Change in discount on operating pledges receivable	(189)	(692)
Change in reserve on capital campaign pledges receivable	(100,000)	-
Change in discount on capital campaign pledges receivable	(6,251)	(13,743)
Changes in operating assets and liabilities:		
Operating pledges receivable	26,433	48,999
Prepaid expenses and deposits	21,742	2,441
Accounts payable and accrued expenses	32,280	(12,004)
Net cash provided by operating activities	<u>1,372,466</u>	<u>14,411</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(274,812)	(432,392)
Purchase of investments	(11,072,753)	(102,966)
Proceeds from sales of investments	7,348,607	210,704
Net cash used in investing activities	<u>(3,998,958)</u>	<u>(324,654)</u>
Cash Flows from Financing Activities:		
Payments made on construction line of credit	-	(3,090,730)
Proceeds from note payable	-	631,200
Endowment contribution	449,047	-
Capital campaign contributions received in cash	1,447,529	1,972,128
Net cash provided by (used in) financing activities	<u>1,896,576</u>	<u>(487,402)</u>
Net Change in Cash and Cash Equivalents	(729,916)	(797,645)
Cash and Cash Equivalents:		
Beginning of year	<u>6,599,801</u>	<u>7,397,446</u>
End of year	<u>\$ 5,869,885</u>	<u>\$ 6,599,801</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 1,848</u>	<u>\$ 44,552</u>
Supplemental Disclosure of Non-Cash Transactions:		
Property and equipment acquisitions financed via accounts payable	<u>\$ 26,985</u>	<u>\$ 35,095</u>
Unrealized gains on investments	<u>\$ 1,733,867</u>	<u>\$ 144,336</u>

THE EPIPHANY SCHOOL, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2021

(With Summarized Comparative Totals for the Year Ended June 30, 2020)

	2021			2020	
	Instruction and Student Activities	Development	General and Adminis- trative	Total	Total
Expenses:					
Salaries and related expenses:					
Salaries and wages	\$ 2,210,831	\$ 354,821	\$ 190,497	\$ 2,756,149	\$ 2,513,765
Payroll taxes and benefits	559,310	62,149	58,543	680,001	627,359
Intern benefits	500	-	-	500	6,851
Total salaries and related expenses	2,770,641	416,970	249,039	3,436,650	3,147,975
Other:					
Professional fees	190,089	177,169	37,630	404,888	410,463
Program and supplies	215,090	10,570	8,997	234,657	68,903
Utilities	164,050	17,494	9,888	191,432	201,691
Repairs and maintenance	153,775	13,009	7,893	174,677	229,826
Donated goods and services	131,556	-	4,871	136,427	82,023
Miscellaneous	124,294	7,227	467	131,988	87,780
Financial aid	82,051	-	-	82,051	80,552
Meals	61,293	-	-	61,293	86,286
Insurance	33,600	343	26,557	60,500	58,187
School events	1,914	57,202	-	59,116	17,454
Professional development	46,549	1,421	350	48,320	51,580
Printing and copying	9,908	37,568	-	47,476	37,218
Office supplies	32,934	5,722	5,824	44,480	40,322
Bank and payroll fees	-	-	35,272	35,272	34,699
Meetings and travel	14,900	1,773	662	17,335	14,449
Dues and subscriptions	13,645	-	2,413	16,058	27,154
Field trips	14,742	-	-	14,742	2,338
Postage	370	6,941	943	8,254	10,157
Interest	1,848	-	-	1,848	44,552
Summer camp facility	1,569	-	-	1,569	68,026
Student transportation	1,313	-	-	1,313	3,341
Total expenses before depreciation	4,066,131	753,409	390,806	5,210,346	4,804,976
Depreciation	648,309	6,615	6,615	661,540	631,782
Total expenses	<u>\$ 4,714,440</u>	<u>\$ 760,024</u>	<u>\$ 397,422</u>	<u>\$ 5,871,886</u>	<u>\$ 5,436,758</u>

THE EPIPHANY SCHOOL, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2020

	<u>Instruction and Student Activities</u>	<u>Development</u>	<u>General and Adminis- trative</u>	<u>Total</u>
Expenses:				
Salaries and related expenses:				
Salaries and wages	\$ 2,011,602	\$ 328,849	\$ 173,314	\$ 2,513,765
Payroll taxes and benefits	522,799	60,128	44,432	627,359
Intern benefits	6,851	-	-	6,851
	<u>2,541,252</u>	<u>388,977</u>	<u>217,746</u>	<u>3,147,975</u>
Total salaries and related expenses				
Other:				
Professional fees	148,046	179,068	83,349	410,463
Program and supplies	68,582	101	220	68,903
Utilities	171,018	19,662	11,011	201,691
Repairs and maintenance	200,576	18,707	10,543	229,826
Donated goods and services	14,250	11,250	56,523	82,023
Miscellaneous	75,768	8,856	3,156	87,780
Financial aid	80,552	-	-	80,552
Meals	86,286	-	-	86,286
Insurance	25,025	255	32,907	58,187
School events	8,479	8,975	-	17,454
Professional development	51,580	-	-	51,580
Printing and copying	9,669	27,549	-	37,218
Office supplies	34,012	2,021	4,289	40,322
Bank and payroll fees	38	-	34,661	34,699
Meetings and travel	14,099	280	70	14,449
Dues and subscriptions	11,941	12,656	2,557	27,154
Field trips	2,338	-	-	2,338
Postage	-	9,159	998	10,157
Interest	43,660	446	446	44,552
Summer camp facility	68,026	-	-	68,026
Student transportation	3,341	-	-	3,341
	<u>3,658,538</u>	<u>687,962</u>	<u>458,476</u>	<u>4,804,976</u>
Total expenses before depreciation				
Depreciation	<u>619,146</u>	<u>6,318</u>	<u>6,318</u>	<u>631,782</u>
Total expenses				
	<u>\$ 4,277,684</u>	<u>\$ 694,280</u>	<u>\$ 464,794</u>	<u>\$ 5,436,758</u>

THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements
June 30, 2021 and 2020

1. OPERATIONS AND NONPROFIT STATUS

The Epiphany School, Inc. (the School) is an independent school for children of economically disadvantaged families in Boston with scholarships for all. The School admits children of diverse faiths, races, cultures, and cognitive profiles, believing in the Episcopal tradition that the School finds God in and through each other. In close partnership with families and community partners, the School is an innovative learning community. The School offers structured support to enable children to discover and develop the fullness of their individual gifts and to help their families thrive. The School's Early Learning Center (the Center) serves infants, toddlers and preschoolers through a rich, child-centered curriculum and whole-family program model to ensure kindergarten readiness and family self-sufficiency. The School's Middle School offers small classes, individualized curricula, and extended school days providing rigorous academic, moral and social instruction to children in grades five through eight. The School's Graduate Support Program provides abiding personal, educational, and career guidance and assistance to its graduates ensuring they are prepared to contribute intelligently, morally, and actively to the society they will inherit. The School's Teacher Training Program trains aspiring urban teachers, including many of its graduates. The School's Impact Center shares best practices to improve educational outcomes on a broad scale. Together, the School never gives up on a child.

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) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the School. The School has grouped its net assets without donor restrictions into the following categories:

- **Operating net assets** consist of resources without donor restrictions available for the School's operations.
- **Board designated net assets:**
 - Building and gap reserves are funds set aside to maintain the physical infrastructure of the School, along with funds set aside to offset any seasonal and future operating deficits.
 - Endowment represent funds set aside by the Board of Trustees to function as a 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 9). The use of these funds requires approval of the Board of Trustees.
- **Property and equipment net assets** reflect amounts expended and resources available for property and equipment, net of related debt.

THE EPIPHANY SCHOOL, INC.Notes to Financial Statements
June 30, 2021 and 2020**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Net Assets (Continued)***Net Assets With Donor Restrictions*

Net assets with donor restrictions are restricted as follows at June 30:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Scholarships	\$ 104,288	\$ 88,694
Appreciation on endowment	60,330	8,694
RELATE program	49,160	34,827
Other	101,939	129,375
UA SAFE School	25,000	-
Graduate support	20,000	10,000
Sailing	12,035	4,715
Foster fund	4,051	4,480
Capital campaign (see Note 11)	-	2,426,420
Urban Achievers program	-	4,527
	<u>376,803</u>	<u>2,711,732</u>
Total purpose restricted	376,803	2,711,732
Subject to expenditure for time	9,419	35,663
Funds held in perpetuity	<u>187,500</u>	<u>180,500</u>
	<u>196,919</u>	<u>216,163</u>
Total net assets with donor restrictions	<u>\$ 573,722</u>	<u>\$ 2,927,895</u>

Net assets with perpetual donor restrictions represent amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income can be spent (see Note 9).

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 (see Note 3). Restricted cash includes cash received with restrictions imposed by donors (but not yet spent) for the capital campaign (see Note 11). Also included in restricted cash as of June 30, 2020, are proceeds from the Paycheck Protection Program loan (see Note 7).

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the accompanying statements of financial position that sum to the total of the same such amounts in the accompanying statements of cash flows as of and for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,967,673	\$ 3,482,428
Current portion of restricted cash	1,902,212	2,765,538
Restricted cash, net of current portion	<u>-</u>	<u>351,835</u>
Total cash and cash equivalents	<u>\$ 5,869,885</u>	<u>\$ 6,599,801</u>

THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable and Allowance for Doubtful Pledges

Pledges receivable consist of contributions committed to the School (see Note 11). 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. The allowance for uncollectible pledges was \$100,000 at June 30, 2020. There was no allowance for uncollectible pledges at June 30, 2021.

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 accompanying 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.

The School accounts for the carrying value of its property and equipment in accordance with the requirements of the U.S. GAAP standard on the *Impairment or Disposal of Long-Lived Assets*. As of June 30, 2021 and 2020, the School has not recognized any reduction in the carrying value of its property and equipment when considering this standard.

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 EPIPHANY SCHOOL, INC.

Notes to Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

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. Prior to June 30, 2021, the School held other investments in non-publicly traded securities that are valued using the basis of the School's equity in the net asset value (NAV) of the investment vehicle as a practical expedient. As of June 30, 2020, the School had no plans to sell investments at amounts different from NAV.

A summary of inputs used in valuing the School's investments as of June 30, 2021 and 2020, 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 qualifying assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

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.

Financial Aid

Financial aid is awarded to students who graduate from the School and go on to attend private high schools and colleges, 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 and colleges.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

In accordance with FASB's ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, the School must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the School should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. As of June 30, 2021, the School did not have funding commitments for future periods which contained imposed conditions that represent a barrier that must be overcome as well as a right of return of assets or release from obligations.

Grants and contributions from government agencies, foundations, individuals, and corporations are recorded as revenue and net assets without donor restrictions upon receipt or when unconditionally committed by the donor. Donor restricted grants and contributions that are donations with time or purpose restrictions are recognized as revenues and net assets with donor restrictions when received or when unconditionally committed by the donor. Grants and contributions with donor restrictions are transferred to revenue and net assets without donor restrictions as services are performed and costs are incurred, or pro-rata over the period covered by the grant or contributions as time restrictions lapse. Donor restricted grants received and satisfied in the same period are included in net assets without donor restrictions. Program fees and all other revenues are recorded when earned.

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.

Rental income is recorded over the term of the lease.

Donated Goods and Services

Individuals and other organizations contribute goods and services to the School in support of various aspects of its programs. These goods and 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 \$136,427 and \$82,023 for the years ended June 30, 2021 and 2020, respectively.

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.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and related expenses, which are allocated on the basis of estimates of time and effort; occupancy costs, which are allocated based on employee headcounts within the respective department; depreciation, which is allocated on a square footage basis; and supplies and dues and subscription costs, which are allocated based on usage.

THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020. However, the School's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through September 14, 2021, which is the date the financial statements were available to be issued. Except as disclosed in Note 10, there were no events that met the criteria for recognition or disclosure in the financial statements.

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenues and operating expenses in the accompanying statements of activities and changes in net assets. Other revenues (expenses) include capital campaign (see Note 11), forgiveness of note payable (see Note 7), endowment activity (see Note 9), and investment activity (see Note 3).

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	2021			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Publicly traded domestic equity mutual fund	\$ 5,179,981	\$ -	\$ -	\$ 5,179,981
Publicly traded international equity mutual fund	3,289,019	-	-	3,289,019
Bond securities:				
Publicly traded bond mutual funds	<u>3,494,721</u>	<u>-</u>	<u>-</u>	<u>3,494,721</u>
Total	<u>\$ 11,963,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,963,721</u>
Investment Type	2020			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Non-publicly traded equity fund*	\$ -	\$ -	\$ -	\$ 4,116,768
Bond securities:				
Non-publicly traded bond fund*	-	-	-	2,306,434
Mutual and exchange traded funds:				
Balanced funds	79,434	-	-	79,434
Cash and cash equivalents	<u>9,260</u>	<u>-</u>	<u>-</u>	<u>9,260</u>
Total	<u>\$ 88,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,511,896</u>

THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements
June 30, 2021 and 2020

3. INVESTMENTS (Continued)

* In accordance with U.S. GAAP, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statement of financial position.

Cash equivalent investments and mutual and exchange traded funds are valued based on quoted market prices in active markets. Investments in non-publicly traded equity and bond funds are held at the reported NAV, unless information becomes available indicating the reported NAV may require adjustment. The methods used to assess the NAV of these external managers vary by asset class. The School monitors the valuation methodologies and practices of these managers.

The School believes that the reported amount of its investments is a reasonable estimate of fair value as of June 30, 2020. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

Invested resources of the School's endowment as well as other investments are presented as non-current assets as they are intended to be held for long-term purposes. The balances of each were as follows at June 30:

	<u>2021</u>	<u>2020</u>
Endowment investments in securities	\$ 11,859,433	\$ 6,423,202
Other investments in securities	<u>104,288</u>	<u>88,694</u>
Total	<u>\$ 11,963,721</u>	<u>\$ 6,511,896</u>

The following schedule summarizes the components of investment return, net on investments for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Net realized gains	\$ 950,322	\$ 3,135
Unrealized gains	777,357	144,336
Interest and dividend income	98,416	65,213
Investment fees	<u>(19,700)</u>	<u>(23,211)</u>
Investment return, net	<u>\$ 1,806,395</u>	<u>\$ 189,473</u>

Investments are not insured and are subject to ongoing market fluctuations.

4. PROPERTY AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 21,672,280	\$ 21,420,165
Land	1,752,614	1,752,614
Furniture, fixtures and equipment	563,546	554,077
Computers and software	<u>150,683</u>	<u>145,565</u>
	24,139,123	23,872,421
Less - accumulated depreciation	<u>5,544,751</u>	<u>4,883,211</u>
Property and equipment, net	<u>\$ 18,594,372</u>	<u>\$ 18,989,210</u>

THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements
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5. EMPLOYEE BENEFIT PLANS

The School established a deferred compensation plan covering all qualified employees. The employee may defer an amount annually allowed by law. The School will match half of the employee's deferral up to 10% of their annual salary. For the years ended June 30, 2021 and 2020, the School's contribution to the plan totaled approximately \$80,000 and \$68,000, respectively, which is included in payroll taxes and benefits in the accompanying statements of functional expenses.

6. LINES 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 thirty-day London Interbank Offered Rate (LIBOR) plus 2.5% (2.59% and 2.68% at June 30, 2021 and 2020, respectively). There were no draws on the line of credit during fiscal years 2021 and 2020. The line of credit is unsecured under a non-encumbrance agreement. This line of credit requires the School to meet certain covenants. The School was in compliance with these covenants as of June 30, 2021 and 2020.

The School had a \$5,000,000 line of credit agreement with a bank to fund its capital projects (see Note 11). Any amounts drawn on the line of credit were payable on demand. Interest accrued on all amounts advanced at a rate equal to the thirty-day LIBOR plus 2% (2.09% and 2.18% at June 30, 2021 and 2020, respectively). The School paid off the line of credit during fiscal year 2020. The line of credit was secured by a mortgage on the 228-230 Centre Street property. This line of credit required the School to meet certain covenants.

7. NOTE PAYABLE

The School applied for and was awarded a forgivable loan of \$631,200 from the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The funds were available to pay certain payroll costs, including benefits, as well as rent and utilities during the covered period, as defined in the CARES Act. In November 2020, the School received full forgiveness for this loan from the Small Business Administration (SBA). The release of payment obligations is reflected as forgiveness of note payable in the accompanying fiscal year 2021 statement of activities and changes in net assets.

8. 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, 2021 and 2020**9. 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 endowment 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 the endowment's 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>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2019	\$ 6,306,489	\$ 84,632	\$ 6,391,121
Contributions	-	100,500	100,500
Investment returns:			
Investment return, net	161,434	4,062	165,496
Appropriation for operations	(233,915)	-	(233,915)
Net investment returns	(72,481)	4,062	(68,419)
Endowment net assets, June 30, 2020	6,234,008	189,194	6,423,202
Contributions	442,047	7,000	449,047
Resources restricted by Board	3,512,847	-	3,512,847
Investment return	1,728,924	51,636	1,780,560
Endowment net assets, June 30, 2021	<u>\$ 11,917,826</u>	<u>\$ 247,830</u>	<u>\$ 12,165,656</u>

THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements
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10. LEASE AGREEMENTS

Operating Leases

The School leases office equipment under operating lease agreements that expire at various times through March 2026. Future minimum lease payments under these agreements are expected as follows:

<u>Fiscal Year</u>	
2022	\$ 22,327
2023	16,687
2024	12,164
2025	12,119
2026	<u>1,620</u>
Total	<u>\$ 64,917</u>

During the years ended June 30, 2021 and 2020, the School incurred equipment lease expenses of approximately \$22,000 which are included in printing and copying in the accompanying statements of functional expenses.

Lessor Agreements

The School has a lease agreement to rent parking spaces that is renewed annually in July. Rental income was approximately \$6,300 for the years ended June 30, 2021 and 2020, and is included in rental income and interest in the accompanying statements of activities and changes in net assets.

Subsequent to year-end, effective July 2021, the School entered into a new lease agreement under the same terms. Future minimum lease payments under the lease agreement are expected to be \$6,300 for fiscal year 2022.

11. 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. For fiscal years 2021 and 2020, the School has recognized \$1,086,427 and \$953,004, respectively, of contributions in connection with the capital campaign. During the years ended June 30, 2021 and 2020, there were releases of \$3,512,847 and \$228,177, respectively, related to the campaign. The capital campaign has officially concluded in fiscal year 2021.

As of June 30, 2021 and 2020, the School has unconditional pledges for the capital campaign which are due as follows:

	<u>2021</u>	<u>2020</u>
Due within one year	\$ 50,390	\$ 240,982
Due in two to five years	<u>61,230</u>	<u>231,740</u>
	111,620	472,722
Less - allowance for uncollectible pledges	-	100,000
Less - discount	<u>1,679</u>	<u>7,930</u>
Total	<u>\$ 109,941</u>	<u>\$ 364,792</u>

THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements
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11. PLEDGES RECEIVABLE (Continued)

Capital Campaign (Continued)

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 2.0% interest rate at June 30, 2021 and 2020. Three donors' balances represent approximately 71% and 46% of the total outstanding capital campaign pledge balance at June 30, 2021 and 2020, respectively.

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

Operating

As of June 30, 2021 and 2020, the School has unconditional pledges to be used for the operating budget which are due as follows:

	<u>2021</u>	<u>2020</u>
Due within one year	\$ 9,419	\$ 26,234
Due in two to five years	-	<u>9,618</u>
	<u>9,419</u>	35,852
Less - discount	-	<u>189</u>
	<u>9,419</u>	35,663
Less - current portion	<u>9,419</u>	<u>26,234</u>
Total	<u>\$ -</u>	<u>\$ 9,429</u>

12. CONTINGENCIES

During fiscal year 2018, the School received a \$500,000 capital grant from the Commonwealth of Massachusetts, Department of Early Education and Care (EEC), to operate a licensed child care program in the Center (see Note 1). As a condition of the grant, the School must operate the Center in accordance with the agreement for a period of at least twenty-five years under a land use restriction. Violations of the provisions of this agreement will result in the grant funds being due back to EEC. Management expects to comply with the conditions and, therefore, the grant was reported as revenue in the year received.

The COVID-19 pandemic in the United States has caused business disruption and a reduction in economic activity. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. While the School expects this matter to impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

THE EPIPHANY SCHOOL, INC.

Notes to Financial Statements
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13. LIQUIDITY

The School's financial assets available within one year from the statements of financial position date for general operating expenses are as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,967,673	\$ 3,767,121
Current portion of operating pledges receivable	<u>9,419</u>	<u>26,234</u>
Total financial assets	3,977,092	3,793,355
Contractual or donor-imposed restrictions	<u>(212,185)</u>	<u>(187,924)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,764,907</u>	<u>\$ 3,605,431</u>

Because a donor's restriction requires resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, certain financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the School invests cash in excess of daily requirements in short-term investments. There is a fund established by the Board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the School also could draw upon available lines of credit (see Note 6) or its endowment fund (see Note 9).