

Benedictine High School

Financial Statements

June 30, 2020 and 2019



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BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
Benedictine High School of Richmond, Inc.
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Benedictine High School of Richmond, Inc. (the "School"), an affiliate of Benedictine Society of Virginia and the Benedictine Educational Foundation, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows 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; 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. 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 Benedictine High School of Richmond, Inc. as of June 30, 2020 and 2019, 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.

A handwritten signature in black ink, appearing to read "Keiter", with a long, sweeping horizontal stroke extending to the right.

December 29, 2020
Glen Allen, Virginia

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Statements of Financial Position
June 30, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 1,207,681	\$ 1,642,483
Tuition receivable - net	149,353	142,084
Pledges receivable - net, current	85,347	78,435
Inventory	45,074	43,097
Prepaid expenses	64,062	92,315
Other receivables - net	15,928	7,426
Due from related parties - net	<u>8,544</u>	<u>-</u>
Total current assets	1,575,989	2,005,840
Pledges receivable - net, long-term	123,170	101,132
Property and equipment - net	<u>22,074,760</u>	<u>9,115,029</u>
Total assets	<u>\$ 23,773,919</u>	<u>\$ 11,222,001</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Note payable, current	\$ 17,260	\$ 14,743
Paycheck Protection Program loan (Note 4)	541,900	-
Accounts payable	1,260,234	628,231
Accrued expenses	1,301,591	714,899
Unearned tuition income	696,511	913,941
Due to related parties - net	<u>-</u>	<u>458,877</u>
Total current liabilities	3,817,496	2,730,691
Note payable, long-term	<u>183,872</u>	<u>252,460</u>
Total liabilities	<u>4,001,368</u>	<u>2,983,151</u>
Net assets:		
Without donor restrictions	5,880,330	6,161,082
With donor restrictions	<u>13,892,221</u>	<u>2,077,768</u>
Total net assets	<u>19,772,551</u>	<u>8,238,850</u>
Total liabilities and net assets	<u>\$ 23,773,919</u>	<u>\$ 11,222,001</u>

See accompanying notes to financial statements.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Revenue and support:			
Tuition and fees, less \$1,540,605 of scholarships and other awards	\$ 3,809,445	\$ -	\$ 3,809,445
Student services	170,316	-	170,316
Special events	35,220	-	35,220
Corporate internship program	40,000	90,000	130,000
Other revenue	149,021	-	149,021
Interest income	<u>834</u>	<u>-</u>	<u>834</u>
Total revenue and support	<u>4,204,836</u>	<u>90,000</u>	<u>4,294,836</u>
Net assets released from restrictions	<u>124,950</u>	<u>(124,950)</u>	<u>-</u>
Expenses:			
Program services	3,823,303	-	3,823,303
General and administrative	1,278,268	-	1,278,268
Fundraising	<u>293,172</u>	<u>-</u>	<u>293,172</u>
Total expenses	<u>5,394,743</u>	<u>-</u>	<u>5,394,743</u>
Change in net assets before contributions received from affiliate	(1,064,957)	(34,950)	(1,099,907)
Contributions received from affiliate	<u>784,205</u>	<u>11,849,403</u>	<u>12,633,608</u>
Change in net assets	(280,752)	11,814,453	11,533,701
Net assets, beginning of year	<u>6,161,082</u>	<u>2,077,768</u>	<u>8,238,850</u>
Net assets, end of year	<u>\$ 5,880,330</u>	<u>\$ 13,892,221</u>	<u>\$ 19,772,551</u>

See accompanying notes to financial statements.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Revenue and support:			
Tuition and fees, less \$1,420,671 of scholarships and other awards	\$ 3,836,916	\$ -	\$ 3,836,916
Student services	198,561	-	198,561
Special events	33,303	-	33,303
Corporate internship program	164,625	-	164,625
Other revenue	163,185	-	163,185
Interest income	<u>3,116</u>	<u>-</u>	<u>3,116</u>
Total revenue and support	<u>4,399,706</u>	<u>-</u>	<u>4,399,706</u>
Net assets released from restrictions	<u>425,504</u>	<u>(425,504)</u>	<u>-</u>
Expenses:			
Program services	3,737,940	-	3,737,940
General and administrative	1,250,746	-	1,250,746
Fundraising	<u>651,476</u>	<u>-</u>	<u>651,476</u>
Total expenses	<u>5,640,162</u>	<u>-</u>	<u>5,640,162</u>
Change in net assets before contributions received from affiliate	(814,952)	(425,504)	(1,240,456)
Contributions received from affiliate	<u>1,456,562</u>	<u>1,889,088</u>	<u>3,345,650</u>
Change in net assets	641,610	1,463,584	2,105,194
Net assets, beginning of year	<u>5,519,472</u>	<u>614,184</u>	<u>6,133,656</u>
Net assets, end of year	<u>\$ 6,161,082</u>	<u>\$ 2,077,768</u>	<u>\$ 8,238,850</u>

See accompanying notes to financial statements.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	General and Administrative	Fundraising	Total
Salaries and payroll taxes	\$ 2,005,043	\$ 730,750	\$ 79,444	\$ 2,815,237
Advertising	-	5,659	-	5,659
Bad debts	-	14,050	-	14,050
Bank fees	-	14,708	-	14,708
Employee benefits	219,756	80,474	9,286	309,516
Depreciation	359,328	50,736	-	410,064
Donations	1,472	-	-	1,472
Dues and subscriptions	24,599	12,884	2,698	40,181
Insurance	84,031	-	1,276	85,307
Interest	-	5,060	-	5,060
Kitchen and meal expense	107,055	3,978	18,968	130,001
Miscellaneous	14,618	22,711	5,949	43,278
Office expenses	2,161	-	-	2,161
Outside labor and services	155,555	117,518	12,738	285,811
Postage	-	7,293	2,232	9,525
Printing and direct mail	13,145	2,889	58,670	74,704
Professional services	-	15,166	76,174	91,340
Rent	205,286	27,993	-	233,279
Repairs and maintenance	125,310	74,721	45	200,076
Supplies, uniforms and books	180,824	35,890	6,410	223,124
Special events	23,673	994	18,000	42,667
Taxes	-	4,098	-	4,098
Telephone	-	10,996	-	10,996
Training and education	6,278	355	-	6,633
Travel and fuel	36,304	4,045	1,282	41,631
Utilities	258,865	35,300	-	294,165
	<u>\$ 3,823,303</u>	<u>\$ 1,278,268</u>	<u>\$ 293,172</u>	<u>\$ 5,394,743</u>

See accompanying notes to financial statements.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Statement of Functional Expenses
Year Ended June 30, 2019

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and payroll taxes	\$ 1,965,774	\$ 672,775	\$ 85,483	\$ 2,724,032
Advertising	-	5,115	-	5,115
Bad debts	-	56,425	-	56,425
Bank fees	-	7,027	-	7,027
Employee benefits	200,646	68,670	8,725	278,041
Depreciation	358,214	49,786	-	408,000
Donations	1,050	-	-	1,050
Dues and subscriptions	33,170	10,033	2,530	45,733
Insurance	83,084	-	492	83,576
Interest	-	14,399	-	14,399
Kitchen and meal expense	143,758	3,564	31,305	178,627
Miscellaneous	18,087	17,266	6,349	41,702
Office expenses	3,544	-	-	3,544
Outside labor and services	169,705	105,642	9,545	284,892
Postage	-	6,706	6,959	13,665
Printing and direct mail	10,238	249	63,956	74,443
Professional services	-	26,449	378,398	404,847
Rent	147,191	48,885	32,918	228,994
Repairs and maintenance	128,092	105,078	853	234,023
Supplies, uniforms and books	170,528	27,567	4,418	202,513
Special events	34,316	697	19,420	54,433
Taxes	-	3,933	-	3,933
Telephone	-	9,942	-	9,942
Training and education	7,004	6,403	-	13,407
Travel and fuel	34,720	4,135	125	38,980
Utilities	228,819	-	-	228,819
	<u>\$ 3,737,940</u>	<u>\$ 1,250,746</u>	<u>\$ 651,476</u>	<u>\$ 5,640,162</u>

See accompanying notes to financial statements.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 11,533,701	\$ 2,105,194
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	410,064	408,000
Contributions restricted for capital campaign	(11,849,403)	(1,889,088)
Changes in operating assets and liabilities:		
Tuition receivable - net	(7,269)	(36,236)
Pledges receivable - net	(28,950)	9,623
Other receivables	(8,502)	(7,426)
Inventory	(1,977)	(10,276)
Prepaid expenses	28,253	(41,318)
Accounts payable	632,003	479,516
Accrued expenses	586,692	239,129
Unearned tuition income	(217,430)	(75,977)
Due to/from related parties	<u>(467,421)</u>	<u>110,630</u>
Net cash provided by operating activities	<u>609,761</u>	<u>1,291,771</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(13,369,795)</u>	<u>(3,071,889)</u>
Cash flows from financing activities:		
Contributions restricted for capital campaign	11,849,403	1,889,088
Proceeds from Paycheck Protection Program loan	541,900	-
Payments on note payable	<u>(66,071)</u>	<u>(34,458)</u>
Net cash provided by financing activities	<u>12,325,232</u>	<u>1,854,630</u>
Net change in cash and cash equivalents	(434,802)	67,086
Cash and cash equivalents, beginning of year	<u>1,642,483</u>	<u>1,575,397</u>
Cash and cash equivalents, end of year	<u>\$ 1,207,681</u>	<u>\$ 1,642,483</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 5,060</u>	<u>\$ 14,399</u>

See accompanying notes to financial statements.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies:

Description of Organization: Benedictine High School of Richmond, Inc., d.b.a. Benedictine College Preparatory (the "School"), is an affiliate of the Benedictine Society of Virginia (the "Society") and the Benedictine Educational Foundation (the "Foundation"). The School was organized by the Society and the Board of Trustees is appointed by the Society (see subsequent events policy note).

In March 2020, a novel coronavirus (COVID-19) was declared a worldwide health pandemic and has had a significant impact on the national and global economy. The ultimate impact of COVID-19 on the School's future financial state, if any, is unknown at this time.

Financial Statement Presentation: The financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. The accompanying financial statements represent the accounts of the School on a stand-alone basis and do not include the accounts of the Society or the Foundation. These financial statements are not intended to present the combined financial position, changes in net assets, or cash flows of the Society and Foundation.

Newly Adopted Accounting Standard: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09 – Revenue Recognition from Contracts with Customers ("Topic 606"). The update modifies the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The update eliminates all transaction and industry-specific accounting principles and replaces them with a unified, five step approach. The School adopted the standard during 2020, under the full retrospective transition method. The adoption of Topic 606 did not have a material impact on the School's financial statements as there were no adjustments recorded to previously recorded amounts.

In June 2018, FASB issued ASU 2018-08: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made ("Topic 958"), which is intended to provide specific criteria to determine whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. The ASU provides a framework for determining whether a contribution is conditional or unconditional. Prior to the ASU, FASB's new revenue recognition standard eliminated exchange guidance and added additional disclosure requirements that are not relevant to these types of transactions.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Newly Adopted Accounting Standard, Continued: Specific to contributions or grants received by the School, the amendments in ASU 2018-08 are effective for fiscal years beginning after December 15, 2018 with early adoption permitted. Specific to contributions or grants awarded by the School, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019 with early adoption permitted. The School adopted this guidance for the year ended June 30, 2020 with retrospective presentation in the financial statements. Adoption did not have a significant impact on the School's financial statements and no adjustments were needed as a result of the adoption of this ASU.

Use of Estimates: The presentation of financial statements in conformity with generally accepted accounting principles 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 support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Net Assets: The financial statements are presented in accordance with FASB guidance, which establishes standards for financial statements issued by nonprofit organizations. It requires that net assets and related revenue and expenses be classified as follows:

Net Assets Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions include the revenues and expenses of the primary operations of the School. Donor-restricted contributions and grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions. If the Board specifies a purpose where none has been stated by the original donor, such assets are classified as Board-designated within net assets without donor restrictions. There were no Board-designated net assets for 2020 or 2019.

Net Assets With Donor Restrictions: Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Some net assets with donor restrictions include donor-imposed stipulations for specific operating purposes or for the acquisition of property or equipment. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. Other donor imposed restrictions are perpetual in nature, whereby the donor stipulates that they be maintained permanently by the School to use all or part of the income earned on any related investments for general or specific purposes, in accordance with the conditions of each specific donation.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Cash and Cash Equivalents: The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Revenue Recognition: Tuition and fees are recognized over time during the school year for each student from whom the School receives a signed enrollment agreement. Fees associated with student enrollment are billed with tuition charges each year. The School believes the performance obligation for providing these services is satisfied over time because the students are continually receiving and consuming the benefits as they are provided by the School over the school year. All tuition and fees are billed for at the beginning of the fiscal year but are deferred and recognized as revenue ratably over the school year.

The transaction price and financial obligations for tuition and fees are stated in the enrollment agreement and are subject to change each school year as determined by the Board of Trustees. Tuition assistance is provided to certain students based on financial need and is netted against gross tuition and fees to the extent that it exceeds incremental costs incurred.

A contract asset is the School's right to consideration in exchange for goods or services the School has transferred to a customer. There are no contract assets at June 30, 2020 and 2019. Contract liabilities represent consideration received from a customer before the School has transferred a good or service to the customer. Contract liabilities include unearned tuition income and represent amounts paid for tuition under enrollment agreements to be recognized over time in accordance with the School's policy as discussed above.

Recognition of Contributions: Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Conditional contributions are not recorded until the condition is met by the School. At June 30, 2020 and 2019, the School had no conditional contributions. All donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions.

Tuition Receivable: The School provides an allowance for potentially uncollectible accounts based on the School's historical bad debt experience and based on management's judgment. When accounts are considered uncollectible, they are written off against the allowance. The allowance for doubtful accounts was \$247,857 as of June 30, 2020 and \$196,620 as of June 30, 2019.

Pledges Receivable: The School uses the allowance method to determine uncollectible pledges. The allowance is based on prior years' experience and management's analysis of specific promises made. The allowance for uncollectible pledges was \$23,258 as of June 30, 2020 and \$60,208 as of June 30, 2019.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Inventory: Inventory is stated at the lower of cost determined on the first-in, first-out (“FIFO”) method, or market and consists primarily of uniforms and other student attire.

Property and Equipment: Property and equipment are stated at cost. Contributions of property and equipment are reported as net assets without donor restrictions unless the donor has restricted the contributed asset to a specific purpose. Assets contributed with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as donor restricted support. Absent donor stipulations regarding how long those contributed assets must be maintained, the School reports expirations of the donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets, which range from three to thirty years. Included in property and equipment is construction in progress related to the costs of constructing a gymnasium for the School. No provision for depreciation is made on construction in progress until such time as the relevant assets are complete and put into use. Upon retirement or sale of an asset, the cost and accumulated depreciation are removed and any gain or loss is reflected in operations.

Unearned Tuition Income: Unearned tuition income consists of tuition received in the current year for classes that have not yet occurred. These amounts are refundable in the event of cancellation and are considered to be earned in the period the services are performed.

Paycheck Protection Program Loan: The School’s policy is to account for the Paycheck Protection Program (“PPP”) loan as debt (See Note 4). The Company will continue to record the loan as debt until either (1) the loan is partially or entirely forgiven and the School has been legally released, at which point the amount forgiven would be recorded into income or (2) the School pays off the loan.

Credit Risk and Concentrations: Financial instruments which potentially subject the School to concentration of credit risk consist principally of cash and cash equivalents and tuition receivable. The School maintains its cash in two financial institutions with balances that periodically exceed federally insured limits. Credit risk related to tuition receivable is limited due to the large number of students comprising the School’s receivable base and School policies, which include analysis of each student balance on a regular basis and the School’s allowance for doubtful accounts.

Income Taxes: The School is a non-profit organization affiliated with the Roman Catholic Church in the United States and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The School is not considered a private foundation.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Income Taxes, Continued: Management has evaluated the effect of guidance surrounding uncertain income tax positions and concluded that the School has no significant financial statement exposure to uncertain income tax positions at June 30, 2020 and 2019. As a religious-affiliated organization, the School is not required to file a tax or information return with the taxing authorities. The School is not currently under audit by any tax jurisdiction.

Functional Allocation of Expenses: The cost of providing various program and support activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the School are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among various functional areas. Costs related to personnel are allocated among functions based upon the percent of time each employee spends performing each function as defined by their position. Occupancy related costs are allocated based on square footage occupied by the various departments. All other costs are evaluated on a per invoice basis to determine what functions have been served.

Advertising Costs: The School expenses advertising costs as they are incurred. Advertising expense amounted to \$5,659 for 2020 and \$5,115 for 2019.

Accounting Standard Update: In February 2016, FASB issued new guidance over leases which requires that all leasing activity with initial terms in excess of twelve months be recognized on the statement of financial position with a right of use asset and a lease liability. The new standard is effective for private companies and not-for-profits for annual reporting periods beginning after December 15, 2021. The School is currently evaluating the reporting and economic implications of the new standard.

Subsequent Events: Management has evaluated subsequent events through December 29, 2020, the date the financial statements were available to be issued, and has determined that, other than noted below there are no subsequent events to be reported in the accompanying financial statements.

Effective July 1, 2020 there was a unification of the School and St. Gertrude High School ("SGHS") with The Benedictine Schools of Richmond, Inc. (the "Schools") being formed. The Schools will operate as separate single sex divisions and will be supported by a combined foundation. All business assets were transferred to the Schools on July 1, 2020 and the endowment of SGHS was contributed and combined with the endowment of the Foundation. Additionally, 60% of proceeds from the sale of eight real estate properties will be contributed to the Schools. The Schools will be constructing a new academic building partially funded by a new capital campaign

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

2. Pledges Receivable and Fair Value Measurements:

The present value of estimated future cash flows of pledges receivable, discounted at the risk-free rate of 0.75%, are expected to be received as follows at June 30:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 94,830	\$ 104,580
One to five years	<u>137,750</u>	<u>136,000</u>
	232,580	240,580
Less:		
Allowance for uncollectible pledges	23,258	60,208
Discount on pledges receivable	<u>805</u>	<u>805</u>
	<u>\$ 208,517</u>	<u>\$ 179,567</u>

The pledges receivable serve as collateral for a note payable obtained by the Society.

FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 – Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. There were no changes in level 3 classification during 2020 and 2019.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

2. Pledges Receivable and Fair Value Measurements, Continued:

Following is a description of the valuation methodologies used for assets measured at fair value:

Pledges receivable: Valued at the original gift amount, less payments and a discount to account for payments expected in future periods beyond one year. Pledges receivable have been determined to be level 3 assets.

During 2020 and 2019, the School received pledges of \$120,000 and \$120,000, respectively. During 2020 and 2019, the School collected pledges of \$128,000 and \$162,498, respectively.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

3. Property and Equipment:

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

	<u>2020</u>	<u>2019</u>
Buildings and improvements	\$ 7,417,795	\$ 7,351,657
Computer equipment	501,553	482,752
Construction in progress	16,371,672	3,090,781
Furniture and fixtures	548,612	544,647
Vehicles	<u>180,228</u>	<u>180,228</u>
	25,019,860	11,650,065
Less accumulated depreciation	<u>2,945,100</u>	<u>2,535,036</u>
	<u>\$ 22,074,760</u>	<u>\$ 9,115,029</u>

The School incurred depreciation expense of \$410,064 for 2020 and \$408,000 for 2019. Certain property and equipment serve as collateral for a note payable obtained by the Society.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

4. Notes Payable:

Real estate note: During 2013, the School entered into a non-recourse loan with a commercial bank in an original amount of \$500,000 for the 2012 acquisition of residential real estate, previously financed through intercompany activity. The note is collateralized by a deed of trust on certain real property of the School. The note was payable in monthly installments of \$2,797 and bore interest at 4.5% per annum. In July 2019, the School entered into a loan agreement with a new commercial bank for \$267,203 to refinance the existing mortgage. The note is payable in 156 monthly installments of approximately \$2,200 and bears interest at 3.95% per annum.

The School made additional payments to pay down the mortgage in 2020 and 2019. Interest incurred on the mortgage was \$5,060 during 2020 and \$14,399 during 2019. The mortgage had a balance of \$201,132 at June 30, 2020 and \$267,203 at June 30, 2019. Scheduled maturities of notes payable are as follows:

Year Ending June 30,	Amount
2021	\$ 17,260
2022	19,555
2023	20,342
2024	21,160
2025	22,011
Thereafter	<u>100,804</u>
	<u>\$ 201,132</u>

Paycheck Protection Program loan: On April 8, 2020, the School received loan proceeds in the amount of \$541,900 under the PPP. The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The loan and accrued interest are forgivable if the loan proceeds are used for eligible purposes, including payroll, benefits, rent and utilities, and the School maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the 24-week period. After six months, the unforgiven portion of the PPP loan is payable in monthly installments including interest charged at a rate of 1%, through maturity in April 2022. The outstanding balance was \$541,900 at June 30, 2020. The School expects that the loan will be forgiven in full.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

5. Net Assets With Donor Restrictions:

Net assets with donor restrictions were restricted following purpose or periods at June 30:

<u>Purpose</u>	<u>2020</u>	<u>2019</u>
Capital campaign	\$ 13,728,768	\$ 1,955,539
Educational programs	149	149
Financial aid and scholarships	71,804	120,580
Time restricted	90,000	-
Faculty endowment	<u>1,500</u>	<u>1,500</u>
	<u>\$ 13,892,221</u>	<u>\$ 2,077,768</u>

Net assets with donor restrictions are released when expenses are incurred to satisfy the restricted purposes or by the occurrence of other events as specified by donors. Purpose restrictions accomplished were as follows for the years ended June 30:

<u>Purpose</u>	<u>2020</u>	<u>2019</u>
Capital campaign	\$ 76,174	\$ 378,004
Financial aid and scholarships	<u>48,776</u>	<u>47,500</u>
	<u>\$ 124,950</u>	<u>\$ 425,504</u>

6. Defined Contribution Retirement Plan:

The School sponsors a defined contribution pension plan for academic and non-academic personnel. Participation in the plan is available to all full-time employees of the School, employees who teach at least 4 classes per week or hourly employees who work at least 1,000 hours in a plan year. Contributions are made to the plan by the School in amounts equal to 3% of regular annual salary for eligible employees who have completed two years of service. The School can also make discretionary, matching contributions to the plan as determined by the Board of Trustees. Employees are fully and immediately vested in the benefits arising from contributions made to the plan and such amounts are non-forfeitable. The School's contributions to the plan amounted to \$55,060 for 2020 and \$54,190 for 2019.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

7. Leases:

The School has signed an agreement with the Society to lease certain land and buildings to use in operations through September 1, 2066. The lease was rent-free until September 1, 2016, at which point the School began making monthly payments of \$10,075 through August 31, 2019. On September 1, 2019, and on each three year anniversary thereof, the rental amount shall increase (but never decrease) by the percentage increase, if any, in the "All Items" Consumer Price Index for Urban Wage Earners and Clerical Workers for the Richmond, Virginia Metropolitan Statistical Area.

The School leases office equipment and computers under various lease agreements. The lease terms expire over the next one to two years. All leases are accounted for as operating leases.

The total rent expense under the operating leases was \$209,449 for 2020 and \$196,076 for 2019. At June 30, 2020, future minimum lease payments required under the operating leases were as follows:

Year Ending June 30,	Amount
2021	\$ 154,986
2022	127,670
2023	127,670
2024	127,670
2025	127,670
Thereafter	<u>5,106,800</u>
	<u>\$ 5,772,466</u>

Effective August 1, 2012, the School began leasing property located at 322 Riverside Court, Richmond, Virginia to an employee of the School ("Tenant"). The leased property includes residential real estate and furniture and fixtures that have a cost of \$784,958 and accumulated depreciation of \$218,512 at June 30, 2020. The leased property had a cost of \$784,958 and accumulated depreciation of \$192,671 as of June 30, 2019. The property is included in property and equipment – net on the statements of financial position. The cancelable lease had an original lease term of seven years and provided for monthly receipts of \$2,800. Effective April 1, 2020, the lease was renewed for a term of six years beginning August 1, 2020 with the same monthly receipts of \$2,800.

Because the Tenant was not in default and the lease was not terminated before June 30, 2019, upon termination of the lease, the Tenant is subject to receiving a payment from the School for 75% of any excess appraised value of the property over \$725,000. In the event the School determined it necessary to sell the property and upon vacation by the Tenant, then the Tenant was subject to receiving a stipend from the School in the amount of six months of lease payments plus a moving allowance of up to \$12,000.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

8. Related Party Transactions:

The School has pledges due from related parties of \$5,500 and \$38,500 as of June 30, 2020 and 2019, respectively.

In addition, the School received \$12,633,603 and \$3,345,650 from the Foundation to fund construction of new facilities and support operations during 2020 and 2019, respectively. At June 30, 2020, the School was due \$8,544 from the Foundation and Society on a net basis. At June 30, 2019, the School owed \$458,887 to the Foundation and Society on a net basis.

9. Liquidity and Availability of Financial Assets:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,207,681	\$ 1,642,483
Tuition receivable - net	149,353	142,084
Pledges receivable - net, current	85,347	78,435
Inventory	<u>45,074</u>	<u>43,097</u>
Total financial assets available within one year	1,487,455	1,906,099
Less those unavailable for general expenditure within one year:		
Net assets with donor restrictions unrelated to the capital campaign	<u>163,453</u>	<u>122,229</u>
Available for general expenditure	<u>\$ 1,324,002</u>	<u>\$ 1,783,870</u>

As part of the Foundation's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. The School generates undesignated revenue to be used for general expenditure through tuition, student services, and special events which amounted to approximately \$4,015,000 for 2020 and \$4,070,000 for 2019.

BENEDICTINE HIGH SCHOOL OF RICHMOND, INC.

Notes to the Financial Statements, Continued

10. Commitments:

During 2018, the School entered into a contract with a vendor to provide construction services with an anticipated completion date during 2021. The total costs under the contract are projected to be \$15,341,389, of which \$12,943,187 has been incurred as of June 30, 2020, leaving \$2,398,202 of remaining future costs. Costs are anticipated to be funded through the contributions and pledges receivable from the capital campaign and the Foundation.

During fiscal year 2020, the Society secured a note payable for borrowings up to \$11.7 million and a non-revolving line of credit up to \$190,805 to serve as gap financing for the construction commitment which will largely be funded through pledge receivables of the Foundation. The loan in the amount of \$8.3 million as of June 30, 2020 is recorded on the Foundations financial statements but the School is named as a guarantor in these agreements.