

Riverside School, Inc.

Financial Statements

June 30, 2014 and 2013

Contents

Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets.....	3 - 4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 8



Meadows Urquhart Acree & Cook, LLP
Certified Public Accountants

- Kelli P. Meadows
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Independent Auditor's Report

To the Board of Directors
Riverside School, Inc.
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Riverside School, Inc. (the School), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets 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 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 School'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 School'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 Riverside School, Inc. as of June 30, 2014 and 2013, and its activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Meadows Urquhart Acree & Cook, LLP

February 10, 2105

Riverside School, Inc.

Statements of Financial Position
June 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,137,600	\$ 928,035
Tuition fees receivable	8,675	14,932
Other accounts receivable	15,822	10,349
Prepaid expenses	2,014	6,859
Total current assets	1,164,111	960,175
Investments	34,493	35,766
Property and Equipment		
Land	119,378	119,378
Building and improvements	2,845,523	2,837,800
Furniture, fixtures and equipment	256,277	250,742
	3,221,178	3,207,920
Less accumulated depreciation	(1,041,486)	(967,995)
	2,179,692	2,239,925
Total assets	\$ 3,378,296	\$ 3,235,866
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 11,437	\$ 4,311
Deferred tuition revenue	57,623	92,175
Accrued payroll	85,828	93,466
Total current liabilities	154,888	189,952
Net Assets		
Unrestricted (as restated)	2,727,482	2,802,920
Temporarily restricted (as restated)	148,567	143,368
Permanently restricted (as restated)	347,359	99,626
Total net assets	3,223,408	3,045,914
Total liabilities and net assets	\$ 3,378,296	\$ 3,235,866

See Notes to Financial Statements.

Riverside School, Inc.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2014

	Unrestricted Fund	Temporarily Restricted Fund	Permanently Restricted Fund	Total
Revenue and support				
Tuition and fees	\$ 1,431,694	\$ -	\$ -	\$ 1,431,694
Contributions	222,926	40,968	247,733	511,627
Investment income	12,897	-	-	12,897
Other income	3,000	-	-	3,000
Total revenue and support	1,670,517	40,968	247,733	1,959,218
Net assets released from restrictions				
Restrictions satisfied by payments	35,769	(35,769)	-	-
Total revenues and reclassifications	1,706,286	5,199	247,733	1,959,218
Expenses				
Program services expense	1,191,551	-	-	1,191,551
Management and general	507,043	-	-	507,043
Fundraising expenses	83,130	-	-	83,130
Total expenses	1,781,724	-	-	1,781,724
Change in net assets	(75,438)	5,199	247,733	177,494
Net Assets - beginning of year as restated	2,802,920	143,368	99,626	3,045,914
Net Assets - end of year	<u>\$ 2,727,482</u>	<u>\$ 148,567</u>	<u>\$ 347,359</u>	<u>\$ 3,223,408</u>

See Notes to Financial Statements.

Riverside School, Inc.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2013

	Unrestricted Fund	Temporarily Restricted Fund	Permanently Restricted Fund	Total
Revenue and support				
Tuition and fees	\$ 1,498,257	\$ -	\$ -	\$ 1,498,257
Contributions	170,619	105,653	10,000	286,272
Investment income	7,109	-	-	7,109
Other income	1,900	-	-	1,900
Total revenue and support	1,677,885	105,653	10,000	1,793,538
Net assets released from restrictions				
Restrictions satisfied by payments	59,355	(59,355)	-	-
Total revenues and reclassifications	1,737,240	46,298	10,000	1,793,538
Expenses				
Program services expense	1,308,963	-	-	1,308,963
Management and general	421,107	-	-	421,107
Fundraising expenses	70,481	-	-	70,481
Total expenses	1,800,551	-	-	1,800,551
Change in net assets	(63,311)	46,298	10,000	(7,013)
Net Assets - beginning of year as previously reported				
	2,838,130	165,697	49,100	3,052,927
Prior period adjustment				
	28,101	(68,627)	40,526	-
Net Assets - beginning of year as restated				
	2,866,231	97,070	89,626	3,052,927
Net Assets - end of year as restated				
	<u>\$ 2,802,920</u>	<u>\$ 143,368</u>	<u>\$ 99,626</u>	<u>\$ 3,045,914</u>

See Notes to Financial Statements.

Riverside School, Inc.

Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 177,494	\$ (7,013)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	73,491	80,697
Unrealized gain (loss) on investments	1,273	(3,321)
Decrease (increase) in:		
Tuition fees receivable	6,257	6,230
Other accounts receivable	(5,473)	(8,654)
Prepaid expenses	4,844	(4,152)
Other assets	-	100
Increase (decrease) in:		
Accounts payable and accrued expenses	7,126	(20,850)
Deferred tuition revenue	(34,552)	33,175
Accrued payroll	(7,638)	4,566
Net cash provided by operating activities	<u>222,822</u>	<u>80,778</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	<u>(13,257)</u>	<u>(6,678)</u>
Net cash used in investing activities	<u>(13,257)</u>	<u>(6,678)</u>
Increase in cash	<u>209,565</u>	<u>74,100</u>
Cash and cash equivalents, beginning of year	<u>928,035</u>	<u>853,935</u>
Cash and cash equivalents, end of year	<u>\$ 1,137,600</u>	<u>\$ 928,035</u>

See Notes to Financial Statements.

Riverside School, Inc.

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies

Nature of activities: Riverside School, Inc. (the School) is a nonprofit organization that is incorporated under the laws of the Commonwealth of Virginia. The School, located in Richmond, Virginia, operates a private coeducational day school providing multi-sensory, structured and rational education for dyslexic children and children with specific language-based learning differences in grades 1-8. Tuition represents the School's primary source of revenue.

A summary of the School's significant accounting policies follows:

Financial statement presentation: The School follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the School is required to report information regarding the nature and amount of its net assets as unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to these stipulations. Net assets may be restricted for various purposes, such as use in future periods or for specified purposes.

Permanently restricted net assets result from contributions that must be maintained by the School in perpetuity.

Basis of accounting: The School uses the accrual method of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

Use of estimates: The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents consist of a regular checking account and a money market fund that can be converted to cash within three months.

The School maintains bank accounts in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 for fiscal years 2014 and 2013. At June 30, 2014 and 2013, the balances at risk in these accounts totaled \$851,184 and \$682,817, respectively.

Cash restricted by donors as to its use amounted to \$495,926 and \$242,994 as of June 30, 2014 and 2013, respectively.

Tuition fees receivable: Tuition fees receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, and receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recorded when collected.

Riverside School, Inc.

Notes to Financial Statements

Note 1—Nature of Activities and Significant Accounting Policies (Continued)

Deferred tuition revenue: Deferred tuition revenue results from the School recognizing tuition revenue in the period in which the related educational instruction is performed. Accordingly, tuition revenue received for the next school term is deferred until the instruction commences.

Property and equipment: Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from five to fifty years. Depreciation expense for the years ended June 30, 2014 and 2013 was \$73,491 and \$80,697, respectively.

Contributions: Contributions received are reported as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Valuation of investments, at fair value: The School's investments are stated at fair value. In accordance with accounting principles generally accepted in the United States of America (GAAP), fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

The fair value hierarchy established by GAAP categorizes investments into three levels based on the various inputs. As of June 30, 2014 and 2013, the School held one mutual fund which is classified as a Level 1 investment defined as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the School has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Income taxes: Riverside School, Inc. is a not-for-profit organization exempt from income taxes under Internal Revenue Code Section 501(c)(3).

In accordance with GAAP, the School has concluded that it does not have any material uncertain tax positions to be accounted for in the financial statements at June 30, 2014 and 2013.

The School is subject to examination by federal and state tax authorities for the fiscal years ended June 30, 2012 forward. The School is not currently under tax examination for any of these periods.

Reclassifications: Certain amounts in the 2013 financial statements have been reclassified for comparative purposes to conform to the 2014 presentation.

Note 2—Donated Services

The value of nonprofessional donated volunteer services is not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time for School functions.

Note 3—Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets.

Riverside School, Inc.

Notes to Financial Statements

Note 4—Temporarily and Permanently Restricted Funds

Temporarily restricted funds represent funds restricted for use in establishing or continuing class programs or for scholarships. Permanently restricted funds represent funds donated to the School's endowment, from which the earnings have been designated to be spent on books and professional training for the teachers.

Note 5—Retirement Plan

The School provides a 403(b) retirement plan for all eligible employees. Under the plan, employees contribute certain amounts through salary deferral in an amount not to exceed annual limitations imposed by the Internal Revenue Service. The School did not contribute to the plan during fiscal years 2014 or 2013.

Note 6—Related Party Transactions

The School rents a house to the principal of the School. Rental income related to this lease was \$1,550 for the year ended June 30, 2013. During 2013, the Board of Directors decided to include the cost of the house in the Principal's compensation going forward, in lieu of having the Principal pay rent. Net cost included in the Principal's compensation was \$14,746 and \$11,940 for the years ended June 30, 2014 and 2013, respectively. In addition, during 2013, the School loaned the Principal \$8,654. The outstanding balance to the School at June 30, 2014 and 2013 was \$8,654.

Note 7—Prior Period Adjustment

During 2014, it was determined that as of July 1, 2012, the permanently restricted net assets were understated by \$40,526, the temporarily restricted net assets were overstated by \$68,627, and the unrestricted net assets were understated by \$28,101. Accordingly, an adjustment was made to the beginning balances on the June 30, 2013 statement of activities and changes in net assets.

Note 8—Subsequent Events

Subsequent events were evaluated through the date the financial statements were available to be issued, which was February 10, 2015.