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- Kelli P. Meadows
- Douglas A. Urquhart
- David C. Acree
- Shannon W. Cook

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, 2020 and 2019, and the related statements of activities and changes in net assets, 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 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, 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 of America.

Meadows Urquhart Acree & Cook, LLP

Henrico, Virginia
November 16, 2020

Riverside School, Inc.

Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 1,980,469	\$ 1,452,060
Tuition fees receivable	13,623	9,475
Other receivables	25,000	25,331
Investments	569,367	528,492
Prepaid expenses	42,103	42,441
Total current assets	2,630,562	2,057,799
Property and equipment		
Land	9,660	9,660
Building and improvements	2,390,338	2,378,837
Furniture, fixtures and equipment	369,228	330,429
	2,769,226	2,718,926
Less accumulated depreciation	(1,266,888)	(1,191,336)
	1,502,338	1,527,590
Total assets	\$ 4,132,900	\$ 3,585,389
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 15,073	\$ 21,206
Deferred tuition revenue	110,309	129,077
Current portion of retirement liability	63,600	63,600
Other current liabilities	12,417	14,489
Total current liabilities	201,399	228,372
Long-term liabilities		
Retirement liability, less current portion	306,400	296,400
Note payable	369,400	-
Total long-term liabilities	675,800	296,400
Net assets		
Without donor restriction	2,571,432	2,379,480
With donor restriction	684,269	681,137
Total net assets	3,255,701	3,060,617
Total liabilities and net assets	\$ 4,132,900	\$ 3,585,389

Riverside School, Inc.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Tuition and fees	\$ 2,354,602	\$ -	\$ 2,354,602
Contributions	228,695	142,931	371,626
Investment income	-	27,438	27,438
Other income	28,446	-	28,446
Total revenue and support	2,611,743	170,369	2,782,112
Net assets released from restrictions			
Restrictions satisfied by payments	167,237	(167,237)	-
Total revenues and reclassifications	2,778,980	3,132	2,782,112
Expenses			
Program services expense	2,036,444	-	2,036,444
Management and general	329,323	-	329,323
Fundraising expenses	221,261	-	221,261
Total expenses	2,587,028	-	2,587,028
Change in net assets	191,952	3,132	195,084
Net assets - beginning of year	2,379,480	681,137	3,060,617
Net assets - end of year	\$ 2,571,432	\$ 684,269	\$ 3,255,701

Riverside School, Inc.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Tuition and fees	\$ 2,259,039	\$ -	\$ 2,259,039
Contributions	200,620	259,383	460,003
Investment income	-	37,645	37,645
Other income	26,668	-	26,668
Total revenue and support	2,486,327	297,028	2,783,355
Net assets released from restrictions			
Restrictions satisfied by payments	131,103	(131,103)	-
Total revenues and reclassifications	2,617,430	165,925	2,783,355
Expenses			
Program services expense	1,932,570	-	1,932,570
Management and general	336,449	-	336,449
Fundraising expenses	205,258	-	205,258
Total expenses	2,474,277	-	2,474,277
Change in net assets	143,153	165,925	309,078
Net assets - beginning of year	2,236,327	515,212	2,751,539
Net assets - end of year	<u>\$ 2,379,480</u>	<u>\$ 681,137</u>	<u>\$ 3,060,617</u>

Riverside School, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Fundraising	Total
Payroll and fringe benefits	\$ 1,625,850	\$ 232,255	\$ 183,719	\$ 2,041,824
Other occupancy expenses	108,962	14,705	2,647	126,314
Expansion	73,854	-	7,002	80,856
Other educational expenses	54,310	1,713	-	56,023
Maintenance and repairs	50,807	2,761	1,657	55,225
Utilities	36,005	2,829	3,972	42,806
Marketing and outreach	-	31,983	-	31,983
School programs	31,328	-	-	31,328
Professional fees	-	26,433	-	26,433
Insurance	17,833	4,198	1,193	23,224
Technology	16,588	3,615	1,063	21,266
Training and personal development	12,231	4,351	1,214	17,796
Development expenses	-	-	16,609	16,609
Other general and administration	8,676	4,480	2,185	15,341
	<u>\$ 2,036,444</u>	<u>\$ 329,323</u>	<u>\$ 221,261</u>	<u>\$ 2,587,028</u>

Riverside School, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Management and General	Fundraising	Total
Payroll and fringe benefits	\$ 1,545,569	\$ 222,546	\$ 174,331	\$ 1,942,446
Other occupancy expenses	102,777	13,998	2,539	119,314
Expansion	90,346	-	-	90,346
Other educational expenses	49,689	5,282	-	54,971
Professional fees	-	42,930	-	42,930
Utilities	31,634	2,353	3,311	37,298
Maintenance and repairs	31,340	2,438	1,045	34,823
School programs	30,954	-	-	30,954
Marketing and outreach	-	26,732	-	26,732
Insurance	15,995	5,025	749	21,769
Other general and administration	5,584	10,571	2,827	18,982
Training and personal development	13,790	2,574	2,023	18,387
Development expenses	-	-	17,910	17,910
Technology	13,932	2,960	523	17,415
	<u>\$ 1,931,610</u>	<u>\$ 337,409</u>	<u>\$ 205,258</u>	<u>\$ 2,474,277</u>

Riverside School, Inc.

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

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 195,084	\$ 309,078
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	75,552	70,469
Realized loss on investments	436	6,699
Unrealized (gain) loss on investments	852	(25,329)
Decrease (increase) in:		
Tuition fees receivable	(4,148)	(8,320)
Other receivables	331	20,869
Prepaid expenses	338	(29,977)
Increase (decrease) in:		
Accounts payable and accrued expenses	(6,133)	768
Deferred tuition revenue	(18,768)	26,127
Retirement liability	10,000	(30,000)
Other current liabilities	(2,072)	14,489
Net cash provided by operating activities	<u>251,472</u>	<u>354,873</u>
Cash Flows from Investing Activities		
Purchases of furniture, fixtures and equipment	(50,300)	(23,522)
Net purchases of investments	(42,163)	(73,990)
Net cash used in investing activities	<u>(92,463)</u>	<u>(97,512)</u>
Cash Flows from Financing Activities		
Proceeds from issuance of new debt	369,400	-
Net cash provided by investing activities	<u>369,400</u>	<u>-</u>
Net increase in cash and cash equivalents	<u>528,409</u>	<u>257,361</u>
Cash and cash equivalents, beginning of year	<u>1,452,060</u>	<u>1,194,699</u>
Cash and cash equivalents, end of year	<u>\$ 1,980,469</u>	<u>\$ 1,452,060</u>

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 K-8. Tuition represents the School's primary source of revenue.

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

Basis of presentation: The School follows the provisions for Not-for-Profit Entities in accordance with accounting principles generally accepted in the United States of America (US GAAP). Under US GAAP, the School is required to report information regarding its financial position according to two classes of net assets based upon the existence or absence of restrictions on use that are in place by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the School, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

Basis of accounting: The financial statements of the School are prepared under the accrual method of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as 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 regular checking accounts, a savings 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 2020 and 2019. At June 30, 2020 and 2019, the balances at risk in these accounts totaled \$2 and \$42,091, 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)

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, 2020 and 2019 was \$75,552 and \$70,469, respectively.

Contributions: Contributions received are reported as increases in net assets, with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Revenue: Tuition and fees income generally relate to contracts with students' families in which performance obligations are to provide educational services to the students. Revenue is recognized in the applicable school year. Tuition received related to future school years is reflected as deferred tuition revenue in the statement of financial position.

Deferred rent: The School records rent related to its operating leases on a straight-line basis over the life of the lease. Rent expenses in excess of rent payments are recognized as a deferred rent liability and are included as other liabilities on the statement of financial position.

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

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, 2020 and 2019.

Reclassifications: Certain amounts in the 2019 financial statements have been reclassified for comparative purposes to conform with the 2020 presentation.

Adoption of new accounting standards: On July 1, 2019, the School adopted ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606") using the modified retrospective method of adoption. ASC 606 created a single framework for recognizing revenue from contracts with customers that fall within its scope. Under ASC 606 revenue is recognized upon satisfaction of performance obligations by transferring control over goods and services to a customer. The adoption of ASC 606 did not result in any change to the beginning net assets for the year ended June 30, 2020 and June 30, 2019.

On July 1, 2019, the School adopted ASU 2018-08 (ASC 958), *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made* using the prospective basis. This ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The adoption of ASC 958 did not result in any change to the beginning net assets for the year ended June 30, 2020 and June 30, 2019.

New accounting pronouncement: In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires entities to recognize all lease assets as assets on the statement of financial position with a corresponding liability resulting in a gross up of the statement of financial position. Entities will also be required to present additional disclosure regarding the nature and extent of leasing activities. ASU 2016-02 is effective for non-public entities for annual reporting periods beginning after December 15, 2021. The requirements of this statement are effective for the School for the year ending June 30, 2023. The School is currently evaluating the impact of this statement.

Riverside School, Inc.

Notes to Financial Statements

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—Deferred tuition revenue

Deferred tuition revenue at June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
School tuition	\$ 107,409	\$ 94,427
Summer camp tuition	2,900	34,650
	<u>\$ 110,309</u>	<u>\$ 129,077</u>

Deferred tuition revenue results from the School recognizing tuition revenue in the period in which the related education instruction is performed. Accordingly, tuition revenues received for the next school term and summer camp are deferred until the instruction commences.

Note 4—Liquidity and Availability of Resources

The following reflects the School's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

	<u>2020</u>	<u>2019</u>
Financial assets available within one year:		
Cash and cash equivalents	\$ 1,980,469	\$ 1,452,060
Tuition fees receivable	13,623	9,475
Other receivables	25,000	25,331
Investments	569,367	528,492
Total financial assets	2,588,459	2,015,358
Less those unavailable for general expenditures within one year, due to donor restrictions (Note 7):	<u>684,269</u>	<u>681,137</u>
Financial assets available to management for general expenditures within one year	<u>\$ 1,904,190</u>	<u>\$ 1,334,221</u>

Notes to Financial Statements

Note 5—Investments

In determining fair value, the School employs various valuation techniques. In accordance with US GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the School. Unobservable inputs reflect the School’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets and liabilities in inactive markets.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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.

Cash deposits: Valued at cost which approximates fair value.

Mutual funds and exchange traded funds: Valued at the daily closing price as reported by the fund. Funds held by the School are open-end funds that are registered with the SEC. The funds are required to publish their daily net asset value (NAV). The funds held by the School are deemed to be actively traded.

The methods described above may produce a fair 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 fair value of certain financial instruments could result in a different fair value measurement at the reporting date. All of the School’s assets are considered level 1 in the fair market value hierarchy.

The following table presents all the school’s level 1 assets within the fair value hierarchy as of June 30:

	2020	2019
Exchange traded funds	\$ 526,613	\$ 287,789
Cash deposits	42,754	21,965
Mutual funds	-	218,738
	<u>\$ 569,367</u>	<u>\$ 528,492</u>

Notes to Financial Statements

Note 6—Note Payable

On April 20, 2020, the Company received loan proceeds in the amount of \$369,400 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provided for loans to qualifying businesses for an amount up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loan and accrued interest are forgivable after twenty-four weeks as a loan as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four week period.

The unforgiven portion of the loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Company intends to use the proceeds for purposes consistent with the PPP. While the Company currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, it cannot assure that actions are not taken that could cause the Company to be ineligible for forgiveness of the loan, in whole or in part.

As a result, the loan has been classified as a non-current note payable on the accompanying statement of financial position with a balance of \$369,400 as of June 30, 2020, due during the year ended June 30, 2022.

Note 7—Net assets with donor restrictions

As of June 30, 2020 and 2019, net assets with donor restrictions are restricted for the following purposes:

	2020	2019
Financial aid	\$ 483,695	\$ 461,157
In-service training and conferences	136,615	111,946
Educational initiative	27,664	70,364
Parent association	20,172	22,034
Technology	4,699	5,124
Art and music	3,520	3,518
Library	3,369	4,464
Early ID	3,100	350
Math and science	1,435	2,180
	<u>\$ 684,269</u>	<u>\$ 681,137</u>

Note 8—Endowment Funds

The School maintains an endowment, from which the earnings have been designated to spend on scholarships, books and professional training for teachers. The endowment funds are invested in accordance with the School's investment policy. As of June 30, 2020, and 2019, The School's endowment funds totaled \$528,856 and \$493,201, respectively. The endowment funds are included in investments and net assets with donor restrictions on the accompanying statements of financial position.

Riverside School, Inc.

Notes to Financial Statements

Note 9—Retirement Plan

The School sponsors a defined contribution retirement plan in accordance with Section 401(k) of the Internal Revenue Code covering all employees. The School matches 100% of the amount of the participant's elective deferrals that do not exceed 1%, plus 50% of the deferrals that exceed 1% but do not exceed 6%. The School's contribution expense related to the plan was \$43,341 and \$41,299 for the years ending June 30, 2020 and 2019, respectively.

Note 10—Leases

The School leases a building under an operating lease which expires July 31, 2023 and includes annual escalations over the lease term. Rent expense was \$49,474 and \$42,311 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments as of June 30, 2020 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2021	50,544
2022	51,555
2023	52,569
2024	4,388

Note 11—Related Party Transactions

The School and its founder, Patricia W. DeOrio, signed an agreement in April 2016 whereby the School will pay her \$5,000 a month plus health benefits for the remainder of her life. The School estimated this liability using IRS Publication 590-B Life Expectancy Table I and discounting the cash flow using the prime rate plus one percent (4.25% and 6% at June 30, 2020 and 2019, respectively). The result was a retirement liability of \$370,000 and \$360,000 at June 30, 2020 and 2019, respectively, which is included in the statements of financial position. The School recognized expenses of \$73,522 and \$33,186 for the years ended June 30, 2020 and 2019, respectively, which is included in the statements of activities.

Note 12—Subsequent Events

The ongoing Coronavirus pandemic has not only affected the local economy, but the global economy as well. Federal, state, and local governments could announce new or extend existing restrictions that could adversely impact the School's ability to conduct normal business operations. The ultimate impact to the operations of the School is not determinable at the time. As of November 2020, the School is conducting classes in-person and operating at full capacity.

Subsequent events were evaluated through the date the financial statements were available to be issued, which was November 16, 2020.