NATIVITY SCHOOL OF WORCESTER, INC.

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors’ Report Thereon)

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Table of Contents

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

Board of Trustees
Nativity School of Worcester, Inc.:

We have audited the accompanying financial statements of Nativity School of Worcester, Inc. which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of changes in unrestricted net assets, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 audit 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 auditors' 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 Nativity School of Worcester, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 11, 2015

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

NATIVITY SCHOOL OF WORCESTER, INC.

Statements of Financial Position

June 30, 2015 and 2014

Assets		**2015**	**2014**
Cash and cash equivalents	$	1,949,775	3,454,470
Contributions receivable		495,825	571,967
Prepaid expenses		5,142	37,340
Long-term investments		1,385,182	—
Land, buildings and equipment, net		2,034,322	1,923,389
Beneficial interest in perpetual fund		238,041	245,332
Total assets	$	6,108,287	6,232,498
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	22,547	97,388
Long-term debt		749,568	1,778,694
Total liabilities		772,115	1,876,082
Net assets:			
Unrestricted			
Operations		1,844,627	1,161,753
Board designated – campaign		770,439	571,886
Board designated – endowment		102,381	102,381
Unrestricted		2,717,447	1,836,020
Temporarily restricted		607,863	1,183,643
Permanently restricted		2,010,862	1,336,753
Total net assets		5,336,172	4,356,416
Total liabilities and net assets	$	6,108,287	6,232,498

See accompanying notes to financial statements.

NATIVITY SCHOOL OF WORCESTER, INC.

Statements of Changes in Unrestricted Net Assets

Years ended June 30, 2015 and 2014

		2015	**2014**
Operating revenues:			
Contributions	$	1,287,875	1,279,232
Investment income		15,091	17,857
Parental activity fees		12,570	10,555
Other income		12,003	13,294
Net assets released from restrictions		228,506	315,739
Total operating revenues		1,556,045	1,636,677
Operating expenses:			
Program services:			
Education		966,310	859,615
Graduate placement		194,793	134,723
Supporting services:			
Administration		207,426	187,350
Development		174,907	278,446
Total operating expenses		1,543,436	1,460,134
Increase in unrestricted net assets from operations		12,609	176,543
Nonoperating activities:			
Net assets released for land, buildings and equipment		863,443	93,509
Investment income		5,375	383
Increase in unrestricted net assets from nonoperating activities		868,818	93,892
Increase in unrestricted net assets	$	881,427	270,435

See accompanying notes to financial statements.

NATIVITY SCHOOL OF WORCESTER, INC.

Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

		2015	2014
Increase in unrestricted net assets	$	881,427	270,435
Changes in temporarily restricted net assets:			
Contributions		505,329	574,083
Investment income		10,840	4,094
Net assets released from restrictions		(1,091,949)	(409,248)
(Decrease) increase in temporarily restricted net assets		(575,780)	168,929
Changes in permanently restricted net assets:			
Contributions		681,400	993,038
Change in beneficial interest in perpetual fund		(7,291)	19,598
Increase in permanently restricted net assets		674,109	1,012,636
Increase in net assets		979,756	1,452,000
Net assets at beginning of year		4,356,416	2,904,416
Net assets at end of year	$	5,336,172	4,356,416

See accompanying notes to financial statements.

NATIVITY SCHOOL OF WORCESTER, INC.

Statements of Cash Flows

Years ended June 30, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	979,756	1,452,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		99,941	89,800
Unrealized loss on long-term investments		5,660	—
Change in beneficial interest in perpetual fund		7,291	(19,598)
Contributions for land, buildings and equipment		(257,420)	(263,659)
Permanently restricted contributions		(681,400)	(993,038)
Changes in operating activities:			
Decrease (increase) in contributions receivable		(68,858)	66,802
Decrease (increase) in prepaid expenses		32,198	(4,343)
Increase (decrease) in accounts payable and accrued expenses		(38,116)	46,421
Net cash provided by operating activities		79,052	374,385
Cash flows from investing activities:			
Purchase of long-term investments		(1,390,842)	—
Purchase of land, buildings and equipment		(247,599)	(85,586)
Cash paid as a deposit for building renovations		—	(14,245)
Net cash used in investing activities		(1,638,441)	(99,831)
Cash flows from financing activities:			
Proceeds from permanently restricted contributions		781,400	793,038
Proceeds from contributions for land, buildings and equipment		302,420	398,659
Payments on long-term debt		(1,029,126)	(48,508)
Net cash provided by financing activities		54,694	1,143,189
Net (decrease) increase in cash and cash equivalents		(1,504,695)	1,417,743
Cash and cash equivalents, beginning of year		3,454,470	2,036,727
Cash and cash equivalents, end of year	$	1,949,775	3,454,470
Supplemental data:			
Noncash financing and investing activities:			
Change in plant and equipment purchases included in accounts payable	$	(36,725)	36,725
Interest paid		28,143	46,012

See accompanying notes to financial statements.

(1) Background

Nativity School of Worcester, Inc. (the School) is a tuition-free, independent Jesuit middle school, serving grades 5-8, for boys living in vulnerable neighborhoods of Worcester, Massachusetts. The School provides an opportunity for young men to further their education in a manner that will support their academic, social and spiritual growth. The School opened in the fall of 2003 and is accredited by The New England Association of Schools and Colleges and provides an academically challenging and highly structured environment to prepare approximately 60 boys for success in high school and college. Admission is given to those students who show both a demonstrated financial need and a desire to learn.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the School as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations and available for the general operations of the School. Such net assets may be designated by the Board of Trustees for specific purposes, including to function as endowment funds.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations as to the timing of their availability or use for a particular purpose. Investment returns on donor-restricted endowment funds are classified as changes in temporarily restricted net assets and are generally available for appropriation to support operational needs subject to any restrictions on use imposed by donors.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations requiring they be maintained in perpetuity by the School. The School classifies the following portions of donor-restricted endowment funds as permanently restricted net assets: (a) the original value of assets contributed to permanent endowment funds, (b) subsequent contributions to such funds valued at the date of contribution, and (c) reinvested earnings on permanent endowment when specified by the donor (see note 10).

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as net assets released from restrictions on the statements of changes in unrestricted net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Promises to give that are scheduled to be received after the date of the statement of financial position are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met.

(Continued)

(b) Operations

The statement of changes in unrestricted net assets delineates operating and nonoperating activities. Nonoperating activities include contributions for capital purposes and reinvested endowment income. All other unrestricted activities are reported as operating.

(c) Cash and cash Equivalents

Cash and cash equivalents include cash and money market securities with original maturities of three months or less.

(d) Fair Value Measurements

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. The School uses a three-tiered hierarchy to categorize assets and liabilities carried at fair value based on the valuation methodologies employed. The hierarchy is defined as follows:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Valuations based on unobservable inputs are used in situations in which little or no market data is available.

(e) Land, Buildings and Equipment

Constructed and purchased property and equipment are carried at cost. Long-lived fixed assets, with the exception of land, are depreciated using the straight-line method over their estimated useful lives.

(f) Use of Estimates

The preparation of financial statements in conformity with U.S. 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(g) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of changes in unrestricted net assets. Accordingly, these costs have been allocated among the programs and supporting services benefited.

(Continued)

(h) Tax Status

The School is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and is generally exempt from federal and state income taxes under Section 501(a) of the Code and applicable state law. The School believes it has taken no significant uncertain tax positions.

(3) Donated Services and Fellows Program

The College of the Holy Cross (the College) provided in-kind administrative services to the School for the years ended June 30, 2015 and 2014 amounting to $17,000 and $13,000, respectively. These amounts are included in contributions revenue and administration expense on the statements of changes in unrestricted net assets.

In addition, the School employs eight of its twelve full-time teachers as Nativity Teaching Fellows (the Fellows). The Fellows are AmeriCorps volunteers who commit to two years of teaching in an urban school in exchange for health, dental, and life insurance, housing, food, a modest stipend and access to transportation. Included in this fellowship is an opportunity to earn a graduate degree at either Assumption College or Clark University in one of six programs free of tuition cost.

(4) Credit Risk

The School maintains cash in two commercial banks that are in excess of the Federal Deposit Insurance Corporation (FDIC) maximum of $250,000 per depositor per institution. At June 30, 2015, the School had $494,862 in checking and savings accounts for a combined uninsured balance of $75,488. 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.

(5) Contributions Receivable

Contributions receivable consist of the following as of June 30:

		2015	2014
Unconditional promises expected to be collected in:			
Less than one year	$	360,825	402,176
One to five years		135,000	169,791
	$	495,825	571,967

(6) Long-Term Investments

Strategy

The investment objective of the School is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to reduce the risk of potential adverse consequences resulting from unanticipated donation shortfalls or major capital expenses. In seeking adequate returns to achieve these goals, the Investment Committee of the Board of Trustees will take into account and moderate the various measures of risk including but not limited to liquidity and volatility. Risk will be measured on the total portfolio and not on individual components and should be in line with the objectives of the Educational Endowment and its expected rate of return.

Long-term investments are made up of two distinct funds. The Board Designated Fund and the Educational Endowment.

The Board Designated Fund is an unrestricted fund which the Board of Trustees will have broad discretion over expenditures. Primary uses of this fund will include, but not limited to, asset repair or replacement, shortfalls in donations relative to the operating budget, and temporary financial support of the School's graduates who are in high school or college. The Board of Trustees must approve the expenditures. Given the likely unpredictable amount of withdrawals from this fund, considerations of return, volatility risk and liquidity will be balanced carefully.

The Educational Endowment Fund is to provide a consistent level of budgetary support to the School's educational mission. Given the goals of the fund, earning sufficient long term returns to offset the impact of withdrawals and inflation are of primary importance, while reducing volatility and liquidity risks are of secondary consideration. There was no spending calculated for the year ended June 30, 2015.

The School invested in a mutual fund in 2015. Fair values for shares in registered mutual funds are based on share prices reported by the fund as of the last business day of the fiscal year and are classified in Level 1 of the fair value hierarchy.

(7) Land, Buildings and Equipment

The following is a summary of the School's land, buildings and equipment as of June 30:

	Estimated useful lives (years)		2015	2014
Land	—	$	234,000	234,000
Buildings and improvement	20–40		2,307,951	2,050,005
Equipment	5–10		88,196	80,411
Automobiles	3		78,249	78,249
Furniture and fixtures	5		46,743	46,743
Construction in progress	—		—	54,857
			2,755,139	2,544,265
Less accumulated depreciation			(720,817)	(620,876)
		$	2,034,322	1,923,389

Depreciation expense for the years ended June 30, 2015 and 2014 was $99,941 and $89,800, respectively.

(8) Beneficial Interest in Perpetual Fund

The School is the beneficiary of a fund created by a donor, the assets of which are not in the possession of the School. Under this arrangement, the School has recorded an asset and recognized permanently restricted net assets at the fair value of its beneficial interest in the fund. Distributions received from the fund are recorded as unrestricted investment income in the statement of changes in unrestricted net assets. The terms of the fund provide the School with an annual distribution equal to 4.5% of the fund's fair value applied to a three year moving average with a one year lag. Subsequent changes in fair value of the beneficial interest in the fund are recorded in permanently restricted net assets.

Because the beneficial interest fair value is based predominantly on unobservable inputs it is categorized as Level 3 for purposes of valuation disclosure.

(9) Long-Term Debt

Long-term debt consists of the following at June 30:

		2015	2014
Trustees of Bridge Loan Trust:			
0% interest note, payable in full on October 27, 2014	$	—	155,000
Commerce Bank and Trust:			
Mortgage note payable bearing interest at 2.75%, principal and interest payable in monthly installments of $7,877 with the balance due on November 8, 2017. The note is secured by a mortgage on the land and buildings located at 67 Lincoln Street together with a security interest in all other assets of the School.		749,568	1,623,694
	$	749,568	1,778,694

Principal amounts due on long-term debt for the fiscal years after June 30, 2015 are:

2016	$	74,845
2017		76,930
2018		597,793
Total	$	749,568

Interest expense charged to operations was $26,139 and $45,901 in 2015 and 2014, respectively.

(10) Endowment

The School's endowment consists of approximately ten individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. Net assets associated with endowment funds, including funds designated by the Board of

Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Under the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA), the governing board has discretion to determine appropriate expenditures of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending.

The School classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets, until appropriated for spending by the Board of Trustees.

Endowment net assets, including pledges, consist of the following at June 30, 2015:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	17,043	1,772,821	1,789,864
Board–designated endowment fund		102,381	—	—	102,381
Endowment net assets	$	102,381	17,043	1,772,821	1,892,245

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2014	$	102,381	6,203	1,091,421	1,200,005
Contributions		—	—	681,400	681,400
Investment income		—	10,840	—	10,840
Endowment net assets, June 30, 2015	$	102,381	17,043	1,772,821	1,892,245

Endowment net assets, including pledges, consist of the following at June 30, 2014:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	—	6,203	1,091,421	1,097,624
Board–designated endowment fund		102,381	—	—	102,381
Endowment net assets	$	102,381	6,203	1,091,421	1,200,005

(Continued)

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2013	$	101,998	2,109	98,383	202,490
Contributions		—	—	993,038	993,038
Investment income		383	4,094	—	4,477
Endowment net assets, June 30, 2014	$	102,381	6,203	1,091,421	1,200,005

The School did not appropriate any spending for the years ended June 30, 2015 and 2014, respectively.

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

		2015	2014
Time restrictions:			
Contributions	$	218,667	204,583
Purpose restrictions:			
Debt reduction		24,854	643,693
Building renovations		266,477	253,659
Student aid		97,865	81,708
Total	$	607,863	1,183,643

(12) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2015 and 2014 consists of $1,772,821 and $1,091,421, respectively, in donor-restricted endowment funds the earnings of which are for student aid and a beneficial interest in perpetual fund of $238,041 and $245,332, respectively. Distributions from the perpetual fund are for the School’s general operations.

(13) Net Assets Released from Restrictions

Net assets released from temporary donor restrictions by expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2015	2014
Time restrictions:		
Contributions	$ 165,916	223,153
Purpose restrictions:		
Graduate support	5,000	38,606
Building renovations and debt	863,443	93,509
Summer camp	57,590	53,980
Total	$ 1,091,949	409,248

(14) Natural Classification of Expenses

Operating expenses presented by natural classification are as follows for the fiscal years ended June 30:

	2015	2014
Salaries	$ 721,863	656,459
Occupancy	162,681	157,019
Fringe benefits	154,392	127,262
Depreciation	99,941	89,800
Meals and entertainment	49,635	117,419
Travel and transportation	23,795	20,225
Interest	26,139	45,901
Scholarships	55,123	46,220
Insurance	20,479	28,487
Summer camp and field trips	22,529	23,103
Professional services	34,817	18,000
Other	172,042	130,239
	$ 1,543,436	1,460,134

(15) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2015 and through November 11, 2015 the date on which the financial statements were available to be issued.