KPMG

# NATIVITY SCHOOL OF WORCESTER, INC.

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors’ Report Thereon)

**NATIVITY SCHOOL OF WORCESTER, INC.**

Financial Statements

June 30, 2017 and 2016

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**KPMG LLP**
One Financial Plaza
755 Main Street
Hartford, CT 06103

# 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, 2017 and 2016, 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, 2017 and 2016, 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 10, 2017

**NATIVITY SCHOOL OF WORCESTER, INC.**

Statements of Financial Position

June 30, 2017 and 2016

| **Assets** | | **2017** | **2016** |
|---|---|---|---|
| Cash and cash equivalents | $ | 999,438 | 1,022,273 |
| Contributions receivable | | 439,758 | 795,928 |
| Prepaid expenses | | 13,776 | 19,315 |
| Long-term investments | | 3,943,073 | 2,924,351 |
| Land, buildings and equipment, net | | 1,948,091 | 2,001,657 |
| Beneficial interest in perpetual fund | | 234,953 | 219,824 |
| Total assets | $ | 7,579,089 | 6,983,348 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ | 23,738 | 33,461 |
| Long-term debt | | 598,390 | 675,058 |
| Total liabilities | | 622,128 | 708,519 |
| Net assets: | | | |
| Unrestricted: | | | |
| Operations | | 1,237,028 | 1,405,981 |
| Board designated – campaign | | 1,729,464 | 1,340,070 |
| Board designated – endowment | | 102,381 | 102,381 |
| Unrestricted | | 3,068,873 | 2,848,432 |
| Temporarily restricted | | 1,073,994 | 1,006,551 |
| Permanently restricted | | 2,814,094 | 2,419,846 |
| Total net assets | | 6,956,961 | 6,274,829 |
| Total liabilities and net assets | $ | 7,579,089 | 6,983,348 |

See accompanying notes to financial statements.

**NATIVITY SCHOOL OF WORCESTER, INC.**

Statements of Changes in Unrestricted Net Assets

Years ended June 30, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Operating revenues: | | | |
| Contributions | $ | 1,301,551 | 1,276,585 |
| Investment income | | 208,262 | 90,659 |
| Parental activity fees | | 7,413 | 9,889 |
| Other income | | 18,738 | 28,733 |
| Net assets released from restrictions | | 224,804 | 241,075 |
| Total operating revenues | | 1,760,768 | 1,646,941 |
| Operating expenses: | | | |
| Program services: | | | |
| Education | | 963,191 | 915,307 |
| Graduate placement | | 207,645 | 180,650 |
| Supporting services: | | | |
| Administration | | 254,654 | 284,273 |
| Development | | 183,532 | 217,885 |
| Total operating expenses | | 1,609,022 | 1,598,115 |
| Increase in unrestricted net assets from operations | | 151,746 | 48,826 |
| Nonoperating activities: | | | |
| Net assets released for land, buildings and equipment | | 68,695 | 82,159 |
| Increase in unrestricted net assets from nonoperating activities | | 68,695 | 82,159 |
| Increase in unrestricted net assets | $ | 220,441 | 130,985 |

See accompanying notes to financial statements.

**NATIVITY SCHOOL OF WORCESTER, INC.**

Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Increase in unrestricted net assets | $ | 220,441 | 130,985 |
| Changes in temporarily restricted net assets: | | | |
| Contributions | | 145,255 | 649,925 |
| Investment income | | 215,687 | 71,997 |
| Net assets released from restrictions | | (293,499) | (323,234) |
| Increase in temporarily restricted net assets | | 67,443 | 398,688 |
| Changes in permanently restricted net assets: | | | |
| Contributions | | 379,119 | 427,201 |
| Change in beneficial interest in perpetual fund | | 15,129 | (18,217) |
| Increase in permanently restricted net assets | | 394,248 | 408,984 |
| Increase in net assets | | 682,132 | 938,657 |
| Net assets at beginning of year | | 6,274,829 | 5,336,172 |
| Net assets at end of year | $ | 6,956,961 | 6,274,829 |

See accompanying notes to financial statements.

**NATIVITY SCHOOL OF WORCESTER, INC.**

Statements of Cash Flows

Years ended June 30, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 682,132 | 938,657 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | |
| Depreciation | | 127,667 | 115,354 |
| Net realized and unrealized gains on long-term investments | | (321,696) | (86,078) |
| (Increase) decrease in beneficial interest in perpetual fund | | (15,129) | 18,217 |
| Contributions for land, buildings and equipment | | (49,026) | (280,500) |
| Permanently restricted contributions | | (379,119) | (427,201) |
| Changes in operating activities: | | | |
| Decrease (increase) in contributions receivable | | 356,170 | (175,103) |
| Decrease (increase) in prepaid expenses | | 5,539 | (14,173) |
| (Decrease) increase in accounts payable and accrued expenses | | (9,723) | 10,914 |
| Net cash provided by operating activities | | 396,815 | 100,087 |
| Cash flows from investing activities: | | | |
| Purchases of long-term investments | | (861,674) | (1,453,091) |
| Sales of long-term investments | | 164,648 | — |
| Purchases of land, buildings and equipment | | (74,101) | (82,689) |
| Net cash used in investing activities | | (771,127) | (1,535,780) |
| Cash flows from financing activities: | | | |
| Proceeds from permanently restricted contributions | | 379,119 | 477,201 |
| Proceeds from contributions for land, buildings and equipment | | 49,026 | 105,500 |
| Payments on long-term debt | | (76,668) | (74,510) |
| Net cash provided by financing activities | | 351,477 | 508,191 |
| Net decrease in cash and cash equivalents | | (22,835) | (927,502) |
| Cash and cash equivalents, beginning of year | | 1,022,273 | 1,949,775 |
| Cash and cash equivalents, end of year | $ | 999,438 | 1,022,273 |
| Supplemental data: | | | |
| Interest paid | $ | 17,852 | 20,009 |

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 11).

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.

***(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, if any. 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.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The School utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible.

***(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 in the amount of $21,000 for each of the years ended June 30, 2017 and 2016. 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) Contributions Receivable

Contributions receivable consist of the following as of June 30:

| | | 2017 | 2016 |
|---|---|---|---|
| Unconditional promises expected to be collected in: | | | |
| Less than one year | $ | 210,136 | 422,153 |
| One to five years | | 229,622 | 373,775 |
| | $ | 439,758 | 795,928 |

## (5) Long-Term Investments

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 School’s 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 are 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.

The School's long-term investments are in mutual funds for the years ended June 30, 2017 and 2016. 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.

## (6) 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) | 2017 | 2016 |
|---|---|---|---|
| Land | — | $ 234,000 | 234,000 |
| Buildings and improvement | 10–40 | 2,395,261 | 2,348,913 |
| Equipment | 5–10 | 88,196 | 88,196 |
| Automobiles | 3 | 105,958 | 76,324 |
| Furniture and fixtures | 5 | 57,906 | 52,587 |
| Construction in progress | — | — | 7,200 |
| | | 2,881,321 | 2,807,220 |
| Less accumulated depreciation | | (933,230) | (805,563) |
| | | $ 1,948,091 | 2,001,657 |

Depreciation expense for the years ended June 30, 2017 and 2016 was $127,667 and $115,354, respectively.

## (7) 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 statements 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.

## (8) Long-Term Debt

Long-term debt at June 30, 2017 and 2016 consists of a mortgage note payable bearing interest at 2.75%, with principal and interest payable in monthly installments of $7,877 and the balance due on May 8, 2018. 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.

Principal amounts due on long-term debt for the fiscal years after June 30, 2017 are:

| | | |
|---|---|---|
| 2018 | $ | 598,390 |
| Total | $ | 598,390 |

Interest expense charged to operations was $17,676 and $19,838 in 2017 and 2016, respectively.

## (9) 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, 2017:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | — | 304,727 | 2,579,141 | 2,883,868 |
| Board–designated endowment fund | | 102,381 | — | — | 102,381 |
| Endowment net assets | $ | 102,381 | 304,727 | 2,579,141 | 2,986,249 |

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, June 30, 2016 | $ | 102,381 | 89,040 | 2,200,022 | 2,391,443 |
| Contributions | | — | — | 379,119 | 379,119 |
| Spending appropriation | | — | (60,378) | — | (60,378) |
| Investment income | | — | 276,065 | — | 276,065 |
| Endowment net assets, June 30, 2017 | $ | 102,381 | 304,727 | 2,579,141 | 2,986,249 |

Endowment net assets, including pledges, consist of the following at June 30, 2016:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | — | 89,040 | 2,200,022 | 2,289,062 |
| Board–designated endowment fund | | 102,381 | — | — | 102,381 |
| Endowment net assets | $ | 102,381 | 89,040 | 2,200,022 | 2,391,443 |

Changes in endowment net assets for the year ended June 30, 2016 were as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, June 30, 2015 | $ | 102,381 | 17,043 | 1,772,821 | 1,892,245 |
| Contributions | | — | — | 427,201 | 427,201 |
| Spending appropriation | | — | (37,000) | — | (37,000) |
| Investment income | | — | 108,997 | — | 108,997 |
| Endowment net assets, June 30, 2016 | $ | 102,381 | 89,040 | 2,200,022 | 2,391,443 |



(Continued)

## (10) Temporarily Restricted Net Assets

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

| | | 2017 | 2016 |
|---|---|---|---|
| Time restrictions: | | | |
| Contributions | $ | 504,847 | 414,312 |
| Purpose restrictions: | | | |
| Debt reduction | | 3,526 | 20,000 |
| Building renovations | | 466,477 | 469,672 |
| Student aid | | 99,144 | 102,567 |
| Total | $ | 1,073,994 | 1,006,551 |

## (11) Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2017 and 2016 consist of $2,579,141 and $2,200,022, respectively, in donor-restricted endowment funds the earnings of which are for student aid and a beneficial interest in perpetual fund of $234,953 and $219,824, respectively. Distributions from the perpetual fund are for the School's general operations.

## (12) 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:

| | | 2017 | 2016 |
|---|---|---|---|
| Time restrictions: | | | |
| Contributions | $ | 125,152 | 163,167 |
| Purpose restrictions: | | | |
| Graduate support | | — | 10,000 |
| Building renovations and debt | | 68,695 | 82,159 |
| Summer camp | | 99,652 | 67,908 |
| Total | $ | 293,499 | 323,234 |

## (13) Natural Classification of Expenses

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

| | | 2017 | 2016 |
|---|---|---|---|
| Salaries | $ | 746,714 | 765,111 |
| Occupancy | | 150,618 | 136,705 |
| Fringe benefits | | 169,670 | 180,322 |
| Depreciation | | 127,667 | 115,354 |
| Meals and entertainment | | 55,037 | 54,039 |
| Travel and transportation | | 35,094 | 33,770 |
| Interest | | 17,676 | 19,838 |
| Scholarships | | 47,179 | 59,832 |
| Insurance | | 41,393 | 41,085 |
| Summer camp and field trips | | 32,385 | 25,626 |
| Professional services | | 33,840 | 39,644 |
| Other | | 151,749 | 126,789 |
| | $ | 1,609,022 | 1,598,115 |

## (14) Subsequent Events

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2017 and through November 10, 2017 the date on which the financial statements were available to be issued.