

NATIVITY SCHOOL OF WORCESTER, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

AND

INDEPENDENT AUDITOR'S REPORT

NATIVITY SCHOOL OF WORCESTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Nativity School of Worcester, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Nativity School of Worcester, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2018, the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 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 Nativity School of Worcester, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of the School, as of and for the year ended June 30, 2017, were audited by other auditors, whose report, dated November 10, 2017, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
February 7, 2019

NATIVITY SCHOOL OF WORCESTER, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018

(With Summarized Comparative Information for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 1,251,000	\$ 999,438
Contributions receivable, net	424,885	439,758
Prepaid expenses	4,156	13,776
Long-term investments	4,334,600	3,943,073
Property, plant and equipment, net	1,867,906	1,948,091
Beneficial interests in perpetual fund	<u>239,633</u>	<u>234,953</u>
	<u>\$ 8,122,180</u>	<u>\$ 7,579,089</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 38,251	\$ 23,738
Long-term debt	<u>-</u>	<u>598,390</u>
Total liabilities	<u>38,251</u>	<u>622,128</u>
Net assets:		
Unrestricted:		
Operations	1,353,566	1,237,028
Board designated - campaign	2,577,193	1,729,464
Board designated - endowment	<u>102,381</u>	<u>102,381</u>
Total unrestricted	4,033,140	3,068,873
Temporarily restricted	1,229,815	1,073,994
Permanently restricted	<u>2,820,974</u>	<u>2,814,094</u>
Total net assets	<u>8,083,929</u>	<u>6,956,961</u>
	<u>\$ 8,122,180</u>	<u>\$ 7,579,089</u>

See accompanying independent auditor's report and notes to financial statements.

NATIVITY SCHOOL OF WORCESTER, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

(With Summarized Comparative Information for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Operating activities:					
Revenue and other support:					
Contributions and gifts	\$ 1,558,450	\$ 124,417	\$ 2,200	\$ 1,685,067	\$ 1,776,899
Investment income	126,218	269,554	-	395,772	423,949
Parental activity fees	8,203	-	-	8,203	7,413
Other income	46,470	-	-	46,470	18,738
Change in beneficial interest in perpetual fund	-	-	4,680	4,680	15,129
Net assets released from restrictions:					
Satisfaction of purpose restrictions	223,103	(223,103)	-	-	-
Total revenue and other support	1,962,444	170,868	6,880	2,140,192	2,242,128
Expenses:					
Program services:					
Education	1,029,408	-	-	1,029,408	963,191
Graduate placement	220,862	-	-	220,862	207,645
Supporting services:					
Administrations	248,707	-	-	248,707	254,654
Development	181,913	-	-	181,913	183,532
Total expenses	1,680,890	-	-	1,680,890	1,609,022
Change in net assets from operating activities	281,554	170,868	6,880	459,302	633,106
Non-operating activities:					
Contributions and gifts restricted for capital purposes	-	667,666	-	667,666	49,026
Net assets released from restrictions:					
Satisfaction of purpose restrictions	682,713	(682,713)	-	-	-
Change in net assets from non-operating activities	682,713	(15,047)	-	667,666	49,026
Change in net assets	964,267	155,821	6,880	1,126,968	682,132
Net assets, beginning of year	3,068,873	1,073,994	2,814,094	6,956,961	6,274,829
Net assets, end of year	\$ 4,033,140	\$ 1,229,815	\$ 2,820,974	\$ 8,083,929	\$ 6,956,961

See accompanying independent auditor's report and notes to financial statements.

NATIVITY SCHOOL OF WORCESTER, INC.

STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2018
(With Summarized Comparative Information for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,126,968	\$ 682,132
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	132,470	127,667
Net realized and unrealized gains on long-term investments	(300,235)	(321,696)
Increase in beneficial interest in perpetual fund	(4,680)	(15,129)
Contributions received for capital purposes	(667,666)	(49,026)
Contributions received for long-term investment	(2,200)	(379,119)
Increase (decrease) in operating assets:		
Contributions receivable, net	139,873	356,170
Prepaid expenses	9,620	5,539
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	14,513	(9,723)
Net cash provided by operating activities	<u>448,663</u>	<u>396,815</u>
Cash flows from investing activities:		
Purchase of long-term investments	(247,559)	(861,674)
Sales of long-term investments	156,267	164,648
Purchases of property plant and equipment	(52,285)	(74,101)
Net cash used in investing activities	<u>(143,577)</u>	<u>(771,127)</u>
Cash flows from financing activities:		
Contributions received for capital purposes	542,666	49,026
Contributions received for long-term investment	2,200	379,119
Payments on long-term debt	(598,390)	(76,668)
Net cash provided by (used in) financing activities	<u>(53,524)</u>	<u>351,477</u>
Net increase (decrease) in cash and cash equivalents	251,562	(22,835)
Cash and cash equivalents, beginning of year	<u>999,438</u>	<u>1,022,273</u>
Cash and cash equivalents, end of year	<u>\$ 1,251,000</u>	<u>\$ 999,438</u>

See accompanying independent auditor's report and notes to financial statements.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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.

Basis of accounting

The financial statements of the School are prepared on the accrual basis of accounting. Accordingly, assets are recorded when the School obtains the rights of ownership or is entitled to claims for receipt, and liabilities are recorded when the obligation is incurred.

Financial statement presentation

The School presents information regarding its financial position and activities according to three classifications of net assets as follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions, and over which the Board of Trustees retains discretionary control. Unrestricted net assets may be designated by the Board of Trustees for specific purposes. The Board of Trustees has designated net assets for investment in property and equipment and endowment purposes.

Temporarily Restricted - Net assets that are subject to donor-imposed restrictions that can be satisfied by expenditure for a specific purpose or by the passage of time. These net assets become unrestricted when the donor restrictions are satisfied.

Permanently Restricted - Net assets that are subject to donor-imposed restrictions that require the principal to be invested in perpetuity. The income from these assets is included as unrestricted, temporarily restricted or permanently restricted revenues according to the gift instruments.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Operations

The statement of activities delineates operating and nonoperating activities. Nonoperating activities include contributions for capital purposes, if any. All other unrestricted activities are reported as operating.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses. Actual results could differ from those estimates.

Subsequent events

The School has evaluated the financial statement impact of subsequent events occurring through February 7, 2019, the date the financial statements were available to be issued.

Cash and cash equivalents

The School's cash and cash equivalents, which are on deposit with financial institutions, at times may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. The School believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash equivalents consist of money market funds.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected within one year are reported at their net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectable contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed. There is no allowance for uncollectable contributions receivable as of June 30, 2018 or 2017.

Investments

Investments are reported at fair value. Purchases and sales of investments are reported on the trade date.

Gains or losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income is recorded in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations or by law.

Endowment funds

The School's endowment consists of ten individual funds (collectively the "Educational Endowment Fund") established for a variety of purposes through donor restricted endowment funds, as well as the Board Designated Funds which has been designated by the Board of Trustees to function as endowment.

The Educational Endowment Fund provides 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.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

The Board Designated Fund is an unrestricted fund which the School's 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 amounts of funds withdrawn from this fund, considerations of return, volatility risk and liquidity related to the fund are balanced carefully.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by state law.

In accordance with the Uniform Prudent Management of Institutional Funds Act, the School may consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the organization; and the investment policies of the organization.

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 endowment and its expected rate of return.

The School has a policy of appropriating for distribution, as needed, amounts for the purpose of scholarships and financial aid, special programs, capital improvements, and academic and athletic support programs. In establishing this policy, the School considered the long-term expected return on its endowment. This is consistent with the School's objective to maintain the purchasing power of its endowment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor imposed restrictions require the School to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2018.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property, plant, and equipment are carried at cost. Donated assets are recorded at fair value as of the date of the gift. Depreciation is computed using the straight-line method.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor-imposed restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value on the date of the gift. Gifts of long-lived assets are reported as unrestricted support, unless specifically restricted by the donor. Time restrictions on gifts of long-lived assets, if any, expire when the assets are placed in service. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of Activities. Accordingly, these costs have been allocated among the programs and supporting services benefited.

Advertising

The School expenses advertising costs as it is incurred. Advertising expense totaled approximately \$8,847 and \$4,234 in 2018 and 2017, respectively, and is included in general and administrative expenses.

Impairment of long-lived assets and long-lived assets to be disposed of

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Where indicated, the carrying value of such assets is reduced through a charge to expense. The adjusted carrying value represents management's estimate of the amount expected to be recovered from these assets in the future.

2 - 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 during the year ended June 30, 2017. This amount is included in contributions revenue and administration expense on the statements of activities.

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.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - CONTRIBUTIONS RECEIVABLE

Payments of contributions receivable as of June 30, 2018 are expected to be received as follows:

2019	\$ 260,633
2020	90,000
2021	<u>89,622</u>
	440,255
Less: Unamortized discount	<u>15,370</u>
	<u>\$ 424,885</u>

4 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2018</u>	<u>2017</u>
Donor restricted endowment funds:		
Temporarily restricted	\$ 501,278	\$ 304,727
Permanently restricted	2,581,341	2,579,141
Board designated endowment funds	102,381	102,381
Unrestricted	<u>1,149,600</u>	<u>956,824</u>
	<u>\$ 4,334,600</u>	<u>\$ 3,943,073</u>

Investments are composed of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Mutual funds, equities	\$ 2,645,059	\$ 3,237,181	\$ 2,303,483	\$ 2,557,901
Mutual funds, bonds	<u>1,106,462</u>	<u>1,097,419</u>	<u>1,284,102</u>	<u>1,385,172</u>
	<u>\$ 3,751,521</u>	<u>\$ 4,334,600</u>	<u>\$ 3,587,585</u>	<u>\$ 3,943,073</u>

Investment return is summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 95,537	\$ 102,253
Net realized and unrealized gains	<u>300,235</u>	<u>321,696</u>
	<u>\$ 395,772</u>	<u>\$ 423,949</u>

The School invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes to the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the School's financial statements.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - ENDOWMENT FUNDS

Endowment assets includes invested donor restricted funds. Changes in endowment assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ 102,381	\$ 304,727	\$ 2,579,141	\$ 2,986,249
Investment return:				
Interest and dividend income	-	59,031	-	59,031
Net investment gains and losses	-	210,523	-	210,523
Total investment return	-	269,554	-	269,554
Additions	-	-	2,200	2,200
Appropriation for expenditure, net	-	(73,003)	-	(73,003)
Endowment assets, end of year	<u>\$ 102,381</u>	<u>\$ 501,278</u>	<u>\$ 2,581,341</u>	<u>\$ 3,185,000</u>

6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, together with estimated useful lives, consists of the following:

	<u>Estimated Useful Lives</u>	<u>2018</u>	<u>2017</u>
Land	-	\$ 234,000	\$ 234,000
Buildings and improvements	10 - 40 years	2,430,581	2,395,261
Equipment	5 - 10 years	98,198	88,196
Automobiles	3 years	105,958	105,958
Furniture and fixtures	5 years	64,869	57,906
		2,933,606	2,881,321
Less: Accumulated depreciation		(1,065,700)	(933,230)
		<u>\$ 1,867,906</u>	<u>\$ 1,948,091</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$132,470 and \$127,667, respectively.

7 - BENEFICIAL INTERESTS 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 activities. 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 asset.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

8 - NOTES PAYABLE

Long-term debt at June 30, 2017 consisted of a mortgage note payable bearing interest at 2.75%, with principal and interest payable in monthly installments of \$7,877. The note was secured by a mortgage on the land and buildings located on 67 Lincoln Street, together with a security interest in all other assets of the School. The balance was paid in full on February 21, 2018.

9 - FAIR VALUE MEASUREMENTS

The School follows the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (ASC 820) which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Mutual funds (equity and bond based): Valued at the closing price reported on the active market in which the individual securities are traded. These funds held by the School are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the School are deemed to be actively traded.

Beneficial interests: Valued at the present value of the estimated future receipts.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - FAIR VALUE MEASUREMENTS (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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.

The School's assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2018 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds, equities	\$ 3,237,181	\$ -	\$ -	\$ 3,237,181
Mutual funds, bonds	<u>1,097,419</u>	<u>-</u>	<u>-</u>	<u>1,097,419</u>
Total investments	4,334,600	-	-	4,334,600
Beneficial interests in perpetual fund	<u>-</u>	<u>-</u>	<u>239,633</u>	<u>239,633</u>
Total	<u>\$ 4,334,600</u>	<u>\$ -</u>	<u>\$ 239,633</u>	<u>\$ 4,574,233</u>

The School's assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2017 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds, equities	\$ 2,557,901	\$ -	\$ -	\$ 2,557,901
Mutual funds, bonds	<u>1,385,172</u>	<u>-</u>	<u>-</u>	<u>1,385,172</u>
Total investments	3,943,073	-	-	3,943,073
Beneficial interests	<u>-</u>	<u>-</u>	<u>234,953</u>	<u>234,953</u>
Total	<u>\$ 3,943,073</u>	<u>\$ -</u>	<u>\$ 234,953</u>	<u>\$ 4,178,026</u>

The School did not measure any liabilities at fair value on a recurring or non-recurring basis on the statement of financial position as of June 30, 2018 and 2017.

The following is a reconciliation of level 3 assets:

Balance at June 30, 2017	\$ 234,953
Change in value of beneficial interest	<u>4,680</u>
Balance at June 30, 2018	<u>\$ 239,633</u>

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

10 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Unappropriated appreciation on endowment assets available:		
Student aid	\$ 501,278	\$ 304,727
Purpose restrictions:		
Debt reduction	-	3,526
Building renovations	655,076	666,597
Student aid	<u>73,461</u>	<u>99,144</u>
	<u>\$ 1,229,815</u>	<u>\$ 1,073,994</u>

During 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

	<u>2018</u>	<u>2017</u>
Unappropriated appreciation on endowment assets available:		
Student aid	\$ 73,003	\$ 125,152
Purpose restrictions:		
Building renovations and debt	682,713	68,695
Student aid	<u>150,100</u>	<u>99,652</u>
	<u>\$ 905,816</u>	<u>\$ 293,499</u>

Permanently restricted net assets at June 30, 2018 and 2017 consist of \$2,581,341 and \$2,579,141, respectively, in donor-restricted endowment funds the earnings of which are for student aid and a beneficial interest in perpetual fund of \$239,633 and \$234,953, respectively. Distributions from the perpetual fund are for the School's general operations.

11 - STATEMENT OF CASH FLOWS

Supplemental disclosures of cash flows information is as follows:

	<u>2018</u>	<u>2017</u>
Cash paid during the year for interest	<u>\$ 9,944</u>	<u>\$ 17,852</u>

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

12 - FUNCTIONAL EXPENSES/NATURAL CLASSIFICATION OF EXPENSES

Operating expenses presented by natural classification are as follows:

	<u>2018</u>	<u>2017</u>
Salaries	\$ 815,289	\$ 746,714
Fringe benefits	193,116	169,670
Depreciation	132,470	127,667
Utilities	96,054	84,599
Supplies	58,115	101,080
Scholarships	66,179	47,179
Summer camp and field trips	23,564	21,597
Meals and entertainment	61,935	66,377
Travel and transportation	8,391	5,668
Professional services	21,461	33,840
Interest	9,944	17,852
Insurance	41,318	41,393
Advertising	8,847	4,234
Other	<u>144,207</u>	<u>141,152</u>
	<u>\$ 1,680,890</u>	<u>\$ 1,609,022</u>

13 - TAX EXEMPT STATUS

The School qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax is required.

Management annually reviews for uncertain tax positions along with any related interest and penalties and believes that the School has no uncertain tax positions that would have a material adverse effect, individually or in the aggregate upon the School's statements of financial position, or the related statements of activities, or cash flows.

The School files income tax returns in the U.S. federal jurisdiction. The School is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015.

14 - RECLASSIFICATIONS

Certain amounts in the 2017 comparative information have been reclassified to conform to the 2018 presentation. Such reclassifications had no effect on the change in net assets as previously reported.