

NATIVITY SCHOOL OF WORCESTER, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

AND

INDEPENDENT AUDITOR'S REPORT

NATIVITY SCHOOL OF WORCESTER, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

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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., which comprise the statement of financial position as of June 30, 2021, the related statements of activities, functional expenses 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, 2021, 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

We have previously audited Nativity School of Worcester, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 20, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bollus Lynch, LLP

Worcester, Massachusetts
November 17, 2021

NATIVITY SCHOOL OF WORCESTER, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

(With Summarized Comparative Information for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 3,413,826	\$ 1,938,006
Government grant receivable	207,272	-
Contributions receivable, net	60,295	1,972,961
Prepaid expenses	19,726	21,935
Long-term investments	7,223,151	4,962,354
Property and equipment, net	1,966,436	2,046,497
Beneficial interests in perpetual fund	292,453	224,117
	<u>\$ 13,183,159</u>	<u>\$ 11,165,870</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 92,100	\$ 28,924
Note payable, other	212,000	181,300
	<u>304,100</u>	<u>210,224</u>
Net assets		
Without donor restrictions		
Operations	1,108,478	2,536,551
Board designated - campaign	3,438,154	3,246,293
Board designated - endowment	1,938,013	102,381
	<u>6,484,645</u>	<u>5,885,225</u>
With donor restrictions	<u>6,394,414</u>	<u>5,070,421</u>
	<u>12,879,059</u>	<u>10,955,646</u>
	<u>\$ 13,183,159</u>	<u>\$ 11,165,870</u>

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

NATIVITY SCHOOL OF WORCESTER, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

(With Summarized Comparative Information for 2020)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2021	2020
Operating activities:				
Revenue and other support:				
Contributions	\$ 1,644,100	\$ 70,212	\$ 1,714,312	\$ 3,387,507
Government grant income	388,572	-	388,572	-
Endowment return appropriated for operations	173,261	-	173,261	97,420
Parental activity fees	-	-	-	4,725
Other income	16,156	-	16,156	9,541
Net assets released from restrictions:				
Satisfaction of purpose restrictions	21,696	(21,696)	-	-
Total revenue and other support	2,243,785	48,516	2,292,301	3,499,193
Expenses:				
Program services:				
Education	1,114,449	-	1,114,449	1,041,211
Graduate placement	268,500	-	268,500	281,218
Supporting services:				
Administration	397,215	-	397,215	397,114
Development	233,171	-	233,171	220,043
Total expenses	2,013,335	-	2,013,335	1,939,586
Change in net assets from operating activities	230,450	48,516	278,966	1,559,607
Non-operating activities:				
Contributions restricted for capital purposes	-	24,800	24,800	-
Contributions restricted for long-term investment	-	137,192	137,192	326,528
Loss on uncollectible contributions receivable	-	-	-	(7,962)
Net investment return	350,370	1,237,010	1,587,380	33,960
Endowment return appropriated for operations	-	(173,261)	(173,261)	(97,420)
Change in beneficial interest in perpetual fund	-	68,336	68,336	(11,689)
Net assets released from restrictions:				
Satisfaction of purpose restrictions	18,600	(18,600)	-	-
Change in net assets from non-operating activities	368,970	1,275,477	1,644,447	243,417
Change in net assets	599,420	1,323,993	1,923,413	1,803,024
Net assets, beginning of year	5,885,225	5,070,421	10,955,646	9,152,622
Net assets, end of year	\$ 6,484,645	\$ 6,394,414	\$ 12,879,059	\$ 10,955,646

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

NATIVITY SCHOOL OF WORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

(With Summarized Comparative Information for 2020)

	Program Services		Supporting Services		Total	
	Education	Graduate Placement	Administration	Development	2021	2020
Salaries	\$ 469,927	\$ 124,745	\$ 254,670	\$ 120,805	\$ 970,147	\$ 1,012,662
Fringe benefits	120,464	23,854	64,207	31,315	239,840	214,128
Depreciation	129,339	9,960	23,481	743	163,523	153,302
Utilities	61,511	11,816	2,855	353	76,535	71,512
Supplies	54,349	3,603	3,272	17,511	78,735	59,337
Scholarships	-	84,015	-	-	84,015	83,685
Summer camp and field trips	-	-	-	-	-	15,869
Meals and entertainment	30,703	1,078	671	5,686	38,138	83,166
Travel and transportation	-	-	10	-	10	8,214
Professional services	-	-	19,512	-	19,512	16,274
Consulting services	-	-	-	24,800	24,800	-
Insurance	39,187	479	3,991	36	43,693	39,564
Advertising	-	-	4,810	-	4,810	4,014
Technology	31,832	-	-	14,666	46,498	24,031
Repairs and maintenance	94,721	7,294	1,730	544	104,289	99,220
Fundraising events	-	-	-	15,983	15,983	7,530
Other	82,416	1,656	18,006	729	102,807	47,078
	<u>\$ 1,114,449</u>	<u>\$ 268,500</u>	<u>\$ 397,215</u>	<u>\$ 233,171</u>	<u>\$ 2,013,335</u>	<u>\$ 1,939,586</u>

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

NATIVITY SCHOOL OF WORCESTER, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

(With Summarized Comparative Information for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,923,413	\$ 1,803,024
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	163,523	153,302
Net investment (gains) losses	(1,458,046)	100,329
Change in beneficial interest in perpetual fund	(68,336)	11,689
Contributions restricted for capital purposes	(24,800)	-
Contributions restricted for long-term investment	(137,192)	(326,528)
Forgiveness of note payable, other	(181,300)	-
Increase (decrease) in operating assets:		
Government grant receivable	(207,272)	-
Contributions receivable	1,812,666	(1,782,492)
Prepaid expenses	2,209	(14,534)
(Increase) decrease in operating liabilities:		
Accounts payable and accrued liabilities	63,176	(12,287)
Net cash provided by (used in) operating activities	<u>1,888,041</u>	<u>(67,497)</u>
Cash flows from investing activities:		
Purchase of long-term investments	(2,505,567)	(828,116)
Sales of long-term investments	1,702,816	437,412
Purchases of property and equipment	(83,462)	(377,971)
Net cash used in investing activities	<u>(886,213)</u>	<u>(768,675)</u>
Cash flows from financing activities:		
Proceeds from note payable, other	212,000	181,300
Contributions received for capital purposes	124,800	40,000
Contributions received for long-term investment	137,192	326,528
Net cash provided by financing activities	<u>473,992</u>	<u>547,828</u>
Net increase (decrease) in cash and cash equivalents	1,475,820	(288,344)
Cash and cash equivalents, beginning of year	<u>1,938,006</u>	<u>2,226,350</u>
Cash and cash equivalents, end of year	<u>\$ 3,413,826</u>	<u>\$ 1,938,006</u>

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

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

1 - DESCRIPTION OF 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.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the School are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of accounting

The financial statements of the School have been 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.

Summarized comparative information

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, 2020, from which the summarized information was derived.

Accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the School's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The School's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets 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. In addition, the governing board of the School may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets (continued)

Net assets with donor restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the School must continue to use the resources in accordance with the donor's instructions.

The School's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the School, unless the donor provides more specific directions about the period of its use.

Classification of transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Cash and cash equivalents

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. 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 in less than one year are reported at 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 uncollectible 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. The allowance for uncollectible contributions receivable as of June 30, 2021 or 2020 was \$2,962 and \$7,962, respectively.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reported at fair value. The net investment return is reported in the statement of activities as increases or decreases in net assets without donor restrictions unless its use is restricted by explicit donor stipulations or by law.

Endowment funds

The School's endowment consists of ten individual funds (collectively the "Educational Endowment Fund") and the Flaherty 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. The Flaherty Fund provides grad support. Given the goals of the funds, 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 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, the School classifies as donor 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 as non-expendable net assets is classified as expendable 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 School 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 School; and the investment policies of the School.

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.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment funds (continued)

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. There were no such deficiencies as of June 30, 2021.

Property and equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

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

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Measure of operations

In its statement of activities, the School includes in its definition of *operations* all revenues and expenses that are an integral part of its programs and supporting activities. Contributions restricted for endowment and capital purposes and investment earnings are recognized as non-operating activities.

Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Expense recognition and allocation

The cost of providing the School's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Depreciation and utilities are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense recognition and allocation (continued)

- Supplies, insurance, technology and other miscellaneous expenses that cannot be directly identified are allocated on the same basis as occupancy for each program and supporting activity.

Management periodically evaluates the basis on which costs are allocated.

Administration expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the School.

Development costs are expensed as incurred, even though they may result in contributions received in future years. The School generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between development and administration expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred. Advertising expense was \$4,810 and \$4,014 in 2021 and 2020, respectively.

Tax-exempt status

The School is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the School are tax deductible to donors under Section 170 of the IRC. The School is not classified as a private foundation.

3 - RISKS AND UNCERTAINTIES

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant volatility in value resulting from uncertainty caused by the pandemic. The School is closely monitoring its liquidity and is actively working to minimize the impact of this situation. The extent of the impact of COVID-19 on the School's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the School's students, donors, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the School's financial position, net income and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Additionally, it is possible that estimates made in the financial statements may be materially and adversely impacted in the near term as a result of these conditions, including the allowance for uncollectible contributions receivable and valuation of beneficial interests.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 and 2020 are:

	<u>2021</u>	<u>2020</u>
Financial assets		
Cash and cash equivalents	\$ 3,413,826	\$ 1,938,006
Government grant receivable	207,272	-
Contributions receivable, net	60,295	1,972,961
Long-term investments	<u>7,223,151</u>	<u>4,962,354</u>
Total financial assets	10,904,544	8,873,321
Less: Financial assets held to meet donor-imposed restrictions		
Purpose-restricted net assets	320,190	159,520
Contributions receivable unavailable for spending for more than one year, some of which are also subject to purpose restrictions	13,737	52,115
Board designated endowment funds	1,938,013	102,381
Donor-restricted endowment funds	<u>5,750,396</u>	<u>4,549,455</u>
Amount available for general expenditures within one year	<u>\$ 2,882,208</u>	<u>\$ 4,009,850</u>

Board designated campaign funds are an accumulation of donor contributions without restriction from annual fundraising campaigns and are available for use upon approval by the board. It is anticipated that these funds would be made available for use should a need arise. Therefore, these funds are reflected as available for spending in the table above. The above table reflects donor-restricted and board designated endowment funds as unavailable because it is the School's intention to invest those resources for the long-term support of the School. However, in the case of need, the Board of Trustees could appropriate resources from these funds available for general use. (\$5,750,396, of which \$3,983,528 is the original gift). Note 2 provides more information about those funds and about the spending policies for all endowment funds.

The School regularly monitors liquidity required to meet its operating needs and other contractual commitment, while also striving to maximize the investment of its available funds. Further, the School anticipates collecting sufficient contributions and revenue to cover general expenditures. Refer to the statement of cash flows, which identifies the sources and uses of the School's cash generated by operations for fiscal years 2021.

5 - FELLOWS PROGRAM

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, Clark University or Anna Maria College in one of six programs free of tuition cost.

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - CONTRIBUTIONS RECEIVABLE

Payments of contributions receivable as of June 30, 2021 are expected to be received as follows:

2022	\$ 49,520
2023	<u>14,812</u>
	64,332
Less: Unamortized discount	1,075
Allowance for contributions receivable	<u>2,962</u>
	<u>\$ 60,295</u>

7 - INVESTMENTS

Investments are included in the following classes of net assets:

	<u>2021</u>	<u>2020</u>
Donor restricted endowment funds		
With donor restrictions	\$ 5,114,154	\$ 3,796,499
Board designated endowment funds	1,938,013	102,381
Without donor restrictions	<u>170,984</u>	<u>1,063,474</u>
	<u>\$ 7,223,151</u>	<u>\$ 4,962,354</u>

Investments are composed of the following:

	<u>2021</u>		<u>2020</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Mutual funds, equities	\$ 3,280,845	\$ 5,185,944	\$ 2,963,378	\$ 3,613,845
Mutual funds, bonds	<u>2,047,392</u>	<u>2,037,207</u>	<u>1,419,290</u>	<u>1,348,509</u>
	<u>\$ 5,328,237</u>	<u>\$ 7,223,151</u>	<u>\$ 4,382,668</u>	<u>\$ 4,962,354</u>

The net investment return for 2021 and 2020 is composed of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 130,647	\$ 135,539
Net investment gains (losses)	1,458,046	(100,329)
Investment fees	<u>(1,313)</u>	<u>(1,250)</u>
	1,587,380	33,960
Less: Amount appropriated for operations	<u>173,261</u>	<u>97,420</u>
	<u>\$ 1,414,119</u>	<u>\$ (63,460)</u>

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

8 - PROPERTY AND EQUIPMENT

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

	Estimated Useful Lives	2021	2020
Land	-	\$ 234,000	\$ 234,000
Buildings and improvements	10 - 40 years	2,827,057	2,761,009
Equipment	5 - 10 years	199,124	181,710
Automobiles	3 years	110,941	110,941
Furniture and fixtures	5 years	<u>91,911</u>	<u>91,911</u>
		3,463,033	3,379,571
Less: Accumulated depreciation		<u>1,496,597</u>	<u>1,333,074</u>
		<u>\$ 1,966,436</u>	<u>\$ 2,046,497</u>

Depreciation expense was \$163,523 and \$153,302 in 2021 and 2020, respectively.

9 - BENEFICIAL INTERESTS IN PERPETUAL FUND

The School is the beneficiary of a perpetual trust 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 net assets with donor restrictions at the fair value of its beneficial interest in the fund. Distributions received from the fund are recorded as investment income without donor restrictions 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 as a change in net assets with donor restrictions.

10 - ENDOWMENT ASSETS

Endowment assets include cash and invested donor restricted and board designated funds. Changes in endowment assets for the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets, beginning of year	\$ 102,381	\$ 4,549,455	\$ 4,651,836
Net investment return	-	1,237,010	1,237,010
Additions	1,835,632	137,192	1,972,824
Appropriation for expenditure	<u>-</u>	<u>(173,261)</u>	<u>(173,261)</u>
Endowment assets, end of year	<u>\$ 1,938,013</u>	<u>\$ 5,750,396</u>	<u>\$ 7,688,409</u>

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

11 - NOTE PAYABLE, OTHER

In response to the COVID-19 pandemic, the Paycheck Protection Program (PPP) was established under the CARES Act and administered by the SBA. Organizations who met the eligibility requirements set forth by the PPP could qualify for PPP loans. If the loan proceeds are fully utilized to pay qualified expenses, the full principal amount of the PPP loan, along with any accrued interest, may qualify for loan forgiveness, subject to potential reduction based on the level of full-time employees maintained by the organization. The loan bears interest at 1.0%, with principal and interest payments deferred for the first six months of the loan. After that, the loan and interest would be paid back over a period of 18 months, if the loan is not forgiven under the terms of the PPP. The School has accounted for loan proceeds under the PPP in accordance with ASC 405, whereby the loan is considered outstanding until the School is legally released from its obligation.

In April 2020, the School received a loan of \$181,300 under the PPP. The School subsequently filed the loan forgiveness application for full amount of the loan balance and accrued interest, which was approved by the SBA, the granting authority, in December 2020. Debt forgiveness income was recognized for \$181,300 and included as government grant income on the statement of activities.

The School received a second loan of \$212,000 under the PPP in March 2021. The School believes that its use of the proceeds is also consistent with the purposes of the PPP and it will meet the conditions for forgiveness of the balance. The loan is recorded on the statement of financial position as note payable, other on June 30, 2021.

12 - NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2021 and 2020, net assets with donor restrictions are available for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Purpose restrictions, available for spending:		
Building renovations	\$ 265,474	\$ 159,520
Food pantry	48,516	-
Feasibility study	<u>6,200</u>	<u>-</u>
Total purpose restricted net assets	320,190	159,520
Time restrictions:		
Contributions receivable, which are unavailable for spending until due, some of which are also subject to purpose restrictions	31,375	137,329
Beneficial interest in perpetual funds	292,453	224,117
Endowment funds, which must be appropriated by the Board of Trustees before use:		
Student aid (original gifts of \$3,983,528 in 2021 and \$3,846,336 in 2020)	<u>5,750,396</u>	<u>4,549,455</u>
Total net assets with donor restrictions	<u>\$ 6,394,414</u>	<u>\$ 5,070,421</u>

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

12 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

During 2021 and 2020, 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>2021</u>	<u>2020</u>
Purpose restrictions:		
Operating:		
Student aid	\$ -	\$ 81,551
Food pantry	21,696	-
Non-operating:		
Building renovations and debt	-	297,928
Feasibility study	18,600	-
	<u>\$ 40,296</u>	<u>\$ 379,479</u>

13 - GOVERNMENT GRANT INCOME

The School recorded refundable tax credits of \$207,272 as government revenue on the accompanying statement of activities for the years ended June 30, 2021 under the Employee Retention Tax Credit (ERTC) provisions of the CARES act, Consolidated Appropriations Act, and American Rescue Plan Act. The ERTC is a refundable tax credit against certain employment taxes paid after March 12, 2020 through December 31, 2021.

14 - FAIR VALUE MEASUREMENTS

The School reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are 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.

When available, the School measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the School is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

14 - FAIR VALUE MEASUREMENTS (Continued)

The primary uses of fair value measures in the School's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of endowment and long-term investments.
- recurring measurement of beneficial interests in trusts.

Determination of fair value

Following is a description of the valuation methodologies used for items measured at fair value. There have been no changes in the methodologies used during the year ended June 30, 2021 and 2020.

Mutual funds (equities and corporate 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 interest in perpetual fund: Valued at the present value of the estimated future receipts.

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 financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2021 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds, equities	\$ 5,185,944	\$ -	\$ -	\$ 5,185,944
Mutual funds, bonds	<u>2,037,207</u>	<u>-</u>	<u>-</u>	<u>2,037,207</u>
Total investments	7,223,151	-	-	7,223,151
Beneficial interests in perpetual fund	<u>-</u>	<u>-</u>	<u>292,453</u>	<u>292,453</u>
Total	<u>\$ 7,223,151</u>	<u>\$ -</u>	<u>\$ 292,453</u>	<u>\$ 7,515,604</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, 2020 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds, equities	\$ 3,613,845	\$ -	\$ -	\$ 3,613,845
Mutual funds, bonds	<u>1,348,509</u>	<u>-</u>	<u>-</u>	<u>1,348,509</u>
Total investments	4,962,354	-	-	4,962,354
Beneficial interests in perpetual fund	<u>-</u>	<u>-</u>	<u>224,117</u>	<u>224,117</u>
Total	<u>\$ 4,962,354</u>	<u>\$ -</u>	<u>\$ 224,117</u>	<u>\$ 5,186,471</u>

NATIVITY SCHOOL OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

(Continued)

14 - FAIR VALUE MEASUREMENTS (Continued)

Determination of fair value (continued)

There were no significant transfers between the levels during the year. The School's policy is to recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the availability of fair value inputs are not recognized.

The School does not measure any liabilities at fair value on a recurring or non-recurring basis on the statement of financial position.

A reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) follows:

Beginning balance	\$ 224,117
Change in value of beneficial interest in perpetual fund	<u>68,336</u>
Ending balance	<u>\$ 292,453</u>

15 - CONCENTRATIONS OF RISK

The School's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the School's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

16 - RELATED-PARTY TRANSACTIONS

At June 30, 2021 there were no contributions receivable from members of the School's Board of Trustees. At June 30, 2020, contributions receivable included \$25,000 from members of the School's Board of Trustees. Total contributions received from board members were \$512,476 and \$745,138 in 2021 and 2020, respectively.

17 - RECLASSIFICATIONS

Certain reclassifications have been made to the 2020 comparative information, with no effect on change in net assets, to conform to the 2021 presentation.

18 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 17, 2021, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.