

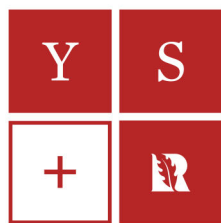
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**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**

FINANCIAL STATEMENTS

June 30, 2020 and 2019

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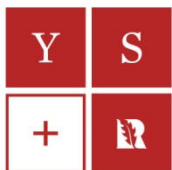
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**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**FINANCIAL STATEMENTS**  
June 30, 2020 and 2019

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## **INDEPENDENT AUDITORS' REPORT**

To the Audit Committee and Board of Directors  
of Nativity Prep Academy of San Diego, Inc.

We have audited the accompanying financial statements of Nativity Prep Academy of San Diego, Inc. (a California nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' 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 of 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 Prep Academy of San Diego, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter – Change in Accounting Principle***

For the year ended June 30, 2020, the Organization adopted Financial Accounting Standards Board's (FASB) accounting standards update (ASU) 2015-03 Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities, and subsequently issued related ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10), ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made and 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, as described in Note 1. The changes required by the update have been applied retrospectively to all periods presented. Our opinion is not modified with respect to that matter.

YSR CPA Group, P.C.

Encinitas, California  
March 30, 2021

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2020 and 2019

	<u>6/30/20</u>	<u>6/30/19</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,125,641	\$ 623,776
Accounts receivable	-	5,208
Unconditional promises to give, current portion	78,600	96,600
Prepaid expenses	<u>14,315</u>	<u>-</u>
TOTAL CURRENT ASSETS	1,218,556	725,584
<b>NON CURRENT ASSETS</b>		
Investments	1,538,583	1,471,639
Property and equipment, net of accumulated depreciation	2,617,614	72,966
Unconditional promises to give, long term portion, net	212,424	280,193
Beneficial interest in endowment funds	<u>1,012,447</u>	<u>1,020,390</u>
TOTAL NON CURRENT ASSETS	<u>5,381,068</u>	<u>2,845,188</u>
TOTAL ASSETS	<u>\$ 6,599,624</u>	<u>\$ 3,570,772</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 54,221	\$ 13,454
Graduate support payable	-	214,556
Refundable advance	135,970	-
Current portion, long term debt	60,000	-
Other liabilities	<u>10,396</u>	<u>4,484</u>
TOTAL CURRENT LIABILITIES	260,587	232,494
<b>NONCURRENT LIABILITIES</b>		
Long term debt, net unamortized debt issuance cost of \$5,602	<u>1,282,398</u>	<u>-</u>
TOTAL LIABILITIES	1,542,985	232,494
<b>COMMITMENTS &amp; CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Without donor restrictions		
Undesignated	1,515,917	235,837
Board-designated operating reserve	214,898	288,607
Board-designated investments	1,527,107	1,477,856
With donor restrictions	<u>1,798,717</u>	<u>1,335,978</u>
TOTAL NET ASSETS	<u>5,056,639</u>	<u>3,338,278</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,599,624</u>	<u>\$ 3,570,772</u>

See accompanying independent auditors' report and notes to financial statements.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**STATEMENTS OF ACTIVITIES**  
For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 2,939,256	\$ 538,744	\$ 3,478,000
Special events less direct expenses of \$42,109	51,751	-	51,751
In-kind donation - rent	-	115	115
Nutrition reimbursements	134,699	-	134,699
Fees and uniforms	11,806	-	11,806
Investment income	50,452	9,764	60,216
Interest income	1,898	-	1,898
Other income	5,067	-	5,067
Net assets released from restrictions and expiration of time			
In-kind rent	21,600	(21,600)	-
Pledges	64,284	(64,284)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>3,280,813</b>	<b>462,739</b>	<b>3,743,552</b>
<b>EXPENSES</b>			
Program services	1,350,060	-	1,350,060
Supporting services:			
General and administrative	376,122	-	376,122
Fundraising	299,009	-	299,009
<b>TOTAL EXPENSES</b>	<b>2,025,191</b>	<b>-</b>	<b>2,025,191</b>
<b>INCREASE IN NET ASSETS</b>	<b>1,255,622</b>	<b>462,739</b>	<b>1,718,361</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>2,002,300</b>	<b>1,335,978</b>	<b>3,338,278</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 3,257,922</b>	<b>\$ 1,798,717</b>	<b>\$ 5,056,639</b>

See accompanying independent auditors' report and notes to financial statements.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**STATEMENTS OF ACTIVITIES**  
For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 2,911,365	\$ 418,707	\$ 3,330,072
Special events less direct expenses of \$35,800	123,785	-	123,785
In-kind donation - rent	-	43,085	43,085
Nutrition reimbursements	54,790	-	54,790
Fees and uniforms	17,477	-	17,477
Investment income	62,430	2,978	65,408
Interest income	2,295	-	2,295
Net assets released from restrictions and expiration of time - pledges	<u>70,175</u>	<u>(70,175)</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>3,242,317</b>	<b>394,595</b>	<b>3,636,912</b>
<b>EXPENSES</b>			
Program services	1,358,817	-	1,358,817
Supporting services:			
General and administrative	238,438	-	238,438
Fundraising	<u>309,495</u>	<u>-</u>	<u>309,495</u>
<b>TOTAL EXPENSES</b>	<b><u>1,906,750</u></b>	<b><u>-</u></b>	<b><u>1,906,750</u></b>
<b>INCREASE IN NET ASSETS</b>	<b>1,335,567</b>	<b>394,595</b>	<b>1,730,162</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b><u>666,733</u></b>	<b><u>941,383</u></b>	<b><u>1,608,116</u></b>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 2,002,300</u></b>	<b><u>\$ 1,335,978</u></b>	<b><u>\$ 3,338,278</u></b>

See accompanying independent auditors' report and notes to financial statements.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2020

	Program Expenses		Supporting Services		Total
	Middle School	Graduate Support	General and Administrative	Fundraising	
Graduate support	\$ -	\$ 272,058	\$ -	\$ -	\$ 272,058
Salaries and wages	491,756	194,024	234,248	201,488	1,121,516
Benefits	32,609	13,870	9,440	5,851	61,770
Payroll taxes	42,789	16,187	19,932	16,790	95,698
Professional fees	19,795	-	44,386	33,604	97,785
Office expenses	17,086	1,002	1,259	9,450	28,797
Information technology	3,913	-	-	9,971	13,884
Occupancy	108,590	6,864	27,067	1,584	144,105
Travel	2,105	-	-	460	2,565
Conferences and meetings	3,797	-	383	52	4,232
Interest	-	-	13,111	-	13,111
Depreciation	21,676	3,213	1,608	744	27,241
Insurance	16,668	2,684	9,920	4,026	33,298
Nutrition program	38,232	-	-	-	38,232
Academic support	40,785	357	-	-	41,142
Miscellaneous	-	-	14,768	14,989	29,757
<b>Total Expenses</b>	<b>\$ 839,801</b>	<b>\$ 510,259</b>	<b>\$ 376,122</b>	<b>\$ 299,009</b>	<b>\$ 2,025,191</b>

See accompanying independent auditors' report and notes to financial statements.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2019

	Program Expenses		Supporting Services		Total
	Middle School	Graduate Support	General and Administrative	Fundraising	
Graduate support	\$ -	\$ 276,882	\$ -	\$ -	\$ 276,882
Salaries and wages	529,208	152,771	175,279	218,420	1,075,678
Benefits	44,494	15,262	3,288	8,684	71,728
Payroll taxes	46,126	12,952	15,490	18,562	93,130
Professional fees	14,648	-	19,537	25,031	59,216
Office expenses	13,835	1,071	515	9,600	25,021
Information technology	21,582	-	-	13,556	35,138
Occupancy	84,340	8,322	1,281	1,920	95,863
Travel	1,664	-	-	874	2,538
Conferences and meetings	3,968	-	206	951	5,125
Depreciation	18,189	2,551	756	252	21,748
Insurance	17,597	2,759	8,167	4,056	32,579
Nutrition program	54,681	-	-	-	54,681
Academic support	35,562	353	-	-	35,915
Miscellaneous	-	-	13,919	7,589	21,508
<b>Total Expenses</b>	<b>\$ 885,894</b>	<b>\$ 472,923</b>	<b>\$ 238,438</b>	<b>\$ 309,495</b>	<b>\$ 1,906,750</b>

See accompanying independent auditors' report and notes to financial statements. .

# NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

## STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and June 30, 2019

	<u>6/30/20</u>	<u>6/30/19</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,718,361	\$ 1,730,162
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	27,241	21,748
Amortization	104	-
In-kind donation - rent	10,769	(10,362)
Contributed securities	(189,061)	(155,767)
Proceeds from sale of contributed securities	164,498	156,289
Gain (loss) on sale of contributed securities	4,056	(516)
Contributions restricted to endowment	-	(313,707)
Non cash contribution to permanent endowment fund	-	(5,000)
Change in value of beneficial interest in endowment funds	7,943	(3,681)
Realized and unrealized gain	(46,437)	(13,169)
(Increase) decrease in operating assets		
Accounts receivable	5,208	(5,208)
Unconditional promises to give, net	75,000	52,290
Prepaid expenses	(14,315)	-
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(2,010)	10,321
Graduate support payable	(214,556)	42,066
Refundable advance	135,970	-
Other liabilities	5,912	(52)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,688,683</u>	<u>1,505,414</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(1,181,112)	(73,466)
Purchases of investments		(1,561,768)
Proceeds from sale of investments		90,123
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(1,181,112)</u>	<u>(1,545,111)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received restricted for endowment	-	313,707
Debt issuance costs	(5,706)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>(5,706)</u>	<u>313,707</u>
<b>NET INCREASE IN CASH</b>	501,865	274,010
<b>CASH AT BEGINNING OF YEAR</b>	<u>623,776</u>	<u>349,766</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 1,125,641</u>	<u>\$ 623,776</u>

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	\$ 9,187	\$ -
Contributed securities	\$ 189,061	\$ 155,767

### SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITY

During the year ended June 30, 2020, the Organization financed the purchase of real property in the amount of \$1,348,000.

During the year ended June 30, 2020, the Organization capitalized construction costs of \$42,777.

See accompanying independent auditors' report and notes to financial statements.

# NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

## NOTES TO THE FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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### NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

Nativity Prep Academy of San Diego, Inc. (the "Organization") is an independent, all scholarship, non-profit school in San Diego, impacting over 250 young lives each year. Students represent the first generation in their families to earn a college education, and all are from low-income families. The Nativity Prep program provides an 11-year process of specialized early intervention and academic and personal development covering various socio-emotional needs. The long-term goal for all students is that each earns his or her college degree from a four-year U.S. college or university.

#### Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.
- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

#### Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing services and interest earned. Nonoperating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

#### Use of 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 revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Years Ended June 30, 2020 and 2019

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair Value Measurement

In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organization applies fair value measurement to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurement for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

The standard describes three-tier hierarchy of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Due to the short-term nature of cash, receivables, other assets, accounts payable and accrued expenses, fair value approximates carrying value.

New Accounting Pronouncements Recently Adopted

In April 2015, the Financial Accounting Standards Board (FASB) issued accounting standard update (ASU) No. 2015-03 Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs under which debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note. The amortization of the debt issuance cost shall be reported as interest expense. The guidance is effective for annual periods beginning after December 15, 2015. As the Organization entered into a debt financing agreement during the year ended June 30, 2020 (see Note 10), the Organization adopted this standard for annual periods effective July 1, 2019.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities, and subsequently issued related ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10). These standards amend certain aspects of accounting and disclosure requirements for financial instruments, including the requirement that equity investments with readily determinable fair values are to be measured at fair value with any changes in fair value recognized in the statement of changes in net assets. The Organization adopted this standard on July 1, 2019 using the prospective method for equity securities without readily determinable fair values. There was no impact to the statements of financial position upon adoption.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Years Ended June 30, 2020 and 2019

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

New Accounting Pronouncements Recently Adopted (continued)

In June 2018, the FASB released ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made. The update provides clarifying accounting guidance for contributions received and contributions made about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments in this update include (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance (within the scope of Topic 606, Revenue from Contracts with Customers) and (2) determining whether a contribution is conditional.

For contributions, an entity should follow the guidance in Subtopic 958-605, whereas for exchange transactions, an entity should follow other guidance (for example, Topic 606, Revenue from Contracts with Customers). Thus, the accounting may be different depending on the guidance applied.

The Organization adopted this standard on July 1, 2019 on a modified prospective basis in 2020. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of July 1, 2019. There was no effect of adopting the new accounting principles on contributions in 2020.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and the reasons for transfers between Level 1 and Level 2 of the fair value hierarchy but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for all entities for interim and annual reporting periods beginning after December 31, 2019. Early adoption is permitted. The Organization adopted this standard on July 1, 2019 on a retrospective basis in 2019. As ASU No. 2018-13 only revises disclosure requirements, it did not have a material impact on the Organization's financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU introduced a comprehensive, principle-based framework for recognizing revenue, and, when effective, will supersede the requirements in FASB ASC 605, Revenue Recognition, and virtually all industry-specific revenue recognition guidance in the FASB ASC. The ASU is intended to improve GAAP by providing a framework to address revenue recognition issues, creating more consistency and comparability of revenue recognition practices across entities and industries, and improving the usefulness of information provided to financial statement users through more robust disclosure requirements. The ASU is effective for fiscal years beginning after December 15, 2018.

Subsequent to the issuance of ASU 2014-09, the FASB issued a number of ASUs clarifying certain matters in ASU 2014-09:

ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date to defer the effective date of ASU No. 2014-09 for one year to allow entities additional time to implement systems, gather data and resolve implementation questions.

ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing provides more detailed guidance, including additional implementation guidance and examples in the following key areas: 1) identifying performance obligations and 2) licenses of intellectual property. The ASU becomes effective concurrently with ASU 2014-09.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Years Ended June 30, 2020 and 2019

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Recent Accounting Pronouncements Not Yet Adopted (continued)

ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients clarifies the following key areas: (1) assessing collectability, (2) presenting sales taxes and other similar taxes collected from customers, (3) noncash consideration, (4) contract modifications at transition, (5) completed contracts at transition, and (6) disclosing the accounting change in the period of adoption. The effective date and transition requirements for ASU 2016-12 are the same as the effective date and transition requirements of Topic 606.

On June 3, 2020, the FASB issued ASU 2020-05, which deferred the effective dates of the Board's standards on revenue (ASU 2014-09 Topic 606) to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus disease 2019 (COVID-19) pandemic. ASU 2020-05 permits private entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020, to adopt ASC 606 for annual reporting periods beginning after December 15, 2019. The Organization will account for revenue (exchange transactions) in accordance with ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) upon adoption.

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This ASU is meant to improve generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. An NFP will be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.

The amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. An NFP will be required to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets and additional information for each category of contributed nonfinancial assets. The amendments in this ASU are effective for annual periods beginning after June 15, 2021 and interim periods within annual periods beginning after June 15, 2020 and should be applied on a retrospective basis. Early adoption is permitted.

Cash and Cash Equivalents

Cash and cash equivalents consist of short term, highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts Receivable

The accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at period end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts.

Bad debts are recognized on the allowance method based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. No allowance was considered necessary at June 30, 2020 and 2019, respectively.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Unconditional Promises to Give

Unconditional promises to give consist of written pledges and grants to the Organization in the future are recorded as pledges or grants receivable and revenue in the year promised at the present value of expected cash flows. Unconditional promises to give extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. In addition, pledges are recorded net of an allowance. The allowance for uncollectible pledges is determined by management. No allowance for uncollectible pledges was considered necessary at June 30, 2020 and 2019, respectively, because management believes all amounts are collectible.

Changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date.

Investments

Investments are carried at fair value in the statement of financial position. Investment return (including realized and unrealized gains and losses on investments, interest and dividends, and investment expense) is included in the change in net assets without donor restrictions unless restricted by donor or law. Investment return on restricted assets is reported as an increase in net assets with donor restrictions if the asset restriction expires in the reporting period in which the income is recognized. All other restricted investment return is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

Endowments

The Organization records endowments in accordance with the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. The standard requires additional disclosures about an organization's endowment funds (both donor-restricted and board designated endowment funds), whether or not the organization is subject to UPMIFA. The standard also requires classifying the portion of a donor-restricted endowment that is not classified as restricted in perpetuity as subject to time restriction until appropriated for expenditure.

Property and Equipment

The Organization capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to five years. Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale of any resultant gain or loss is credited or charged to earnings.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Years Ended June 30, 2020 and 2019

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Contributions and Support

Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as net assets without donor restrictions support in that period.

Contributed Materials and Services

Contributed materials are recorded at their estimated fair market value at the time of donation. Such items are capitalized or charged to operations as appropriate. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. Contributed rent is recorded at fair market value where an objective basis is available to measure their value.

The Organization utilizes the services of volunteers throughout the year that perform a variety of tasks that assist the Organization with various programs. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services do not meet the criteria for recognition as a contribution and are not reflected in the financial statements.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Costs are directly applied to the related program or supporting service function when identifiable and possible. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, insurance and depreciation, which are allocated on the basis of estimates of time and effort, as well as occupancy, which is allocated on a square-footage basis.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. The Organization did not have any unrelated business income for the years ended June 30, 2020 and 2019, respectively.

The Organization follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. The Organization believes that it has taken no significant uncertain tax positions for the years ended June 30, 2020 and 2019, respectively. Management believes the Organization is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to June 30, 2016.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 Years Ended June 30, 2020 and 2019

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

**NOTE 2. AVAILABILITY AND LIQUIDITY**

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

Financial assets at year-end:	<u>6/30/20</u>	<u>6/30/19</u>
Cash	\$ 1,125,641	\$ 623,776
Accounts receivable	-	5,208
Unconditional promises to give, current	75,000	75,000
Investments	<u>2,551,030</u>	<u>2,492,029</u>
Total financial assets	3,751,671	3,196,013
Less amounts not available to be used within one year:		
Board-designated cash reserves	214,898	288,607
Board-designated reserves held in investments	1,146,435	1,111,366
Investments designated for scholarships	371,641	360,273
Board-designated quasi-endowment funds	109,031	106,217
Portion of donor-restricted endowment to be retained in perpetuity	<u>856,207</u>	<u>856,207</u>
	<u>2,698,212</u>	<u>2,722,670</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,053,459</u>	<u>\$ 473,343</u>

The Organization has \$1,053,459 and \$473,343 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures as of June 30, 2020 and 2019, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The pledges receivables are subject to implied time restrictions but are expected to be collected within one year.

The Organization has a goal to maintain financial assets, which consist of cash and cash equivalents on hand to meet 60 days of normal operating expenses, which are on average approximately \$333,000 and \$312,000 for the years ended June 30, 2020 and 2019, respectively. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

The Organization is also supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. Occasionally, the board designates a portion of any operating surplus to its liquidity cash reserve, which was \$214,898 and \$288,607 as of June 30, 2020 and 2019, respectively.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 2. AVAILABILITY AND LIQUIDITY (continued)**

There is an investment fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the Organization could draw upon \$1,146,435 of its reserve held in investments.

**NOTE 3. CONCENTRATION OF CREDIT RISK**

Cash

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash. The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor. At June 30, 2020 and 2019, the Organization exceeded federally insured limits by \$1,002,597 and \$379,018, respectively.

Risks and Uncertainties

The Organization is invested in a variety of investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

**NOTE 4. UNCONDITIONAL PROMISES TO GIVE**

At June 30, 2020 and 2019, there were no new pledges. Pledges that are receivable beyond one year are discounted at a rate of 2.93% and 3.31%, respectively.

Unconditional promises to give consist of the following:

	<u>6/30/20</u>	<u>6/30/19</u>
Pledges due in one year or less	\$ 75,000	\$ 75,000
Pledges due after one year through five years	<u>225,000</u>	<u>300,000</u>
	300,000	375,000
Less: imputed discount	<u>(12,576)</u>	<u>(23,292)</u>
Net pledged contributions	<u>\$ 287,424</u>	<u>\$ 351,708</u>
In-kind rent donation due in one year	\$ 3,600	\$ 21,600
In-kind rent donation due after one year through five years	<u>-</u>	<u>3,600</u>
	3,600	25,200
Less: imputed discount	<u>-</u>	<u>(115)</u>
Net In-kind donation	<u>\$ 3,600</u>	<u>\$ 25,085</u>
Net pledged and in-kind contributions	<u>\$ 291,024</u>	<u>\$ 376,793</u>

In-kind rent expense of \$21,600 and \$32,838 for the years ended June 30, 2020 and 2019, respectively, have been included in occupancy expenses in the statement of functional expenses.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5. FAIR VALUE MEASUREMENTS**

The Organization's investments consist of exchange-traded funds (ETF) and various non-endowment funds and endowment funds in balanced pool portfolios held by the Rancho Santa Fe Foundation (RSFF).

Investments in EFT's are all considered a Level 1 asset. Interest and dividends are recorded when earned.

Funds held at RSFF are considered a Level 3 asset which represents the fair value of the underlying assets as reported by RSFF. The estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The assets held at RSFF have been valued, as a practical expedient, at the fair value of the Organization's share of the investment pool as of June 30, 2020 and 2019, respectively.

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at June 30:

June 30, 2020				
Asset	Unadjusted Quoted Prices (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Exchange-traded funds	\$ 20,507	\$ -	\$ -	\$ 20,507
Balanced pool portfolio – Rancho Santa Fe Foundation	-	-	1,518,076	1,518,076
Beneficial interest in endowment funds –				
San Diego Foundation	-	-	571,967	571,967
Catholic Community Foundation	-	-	219,442	219,442
Rancho Santa Fe Foundation	-	-	221,038	221,038
	<u>\$ 20,507</u>	<u>\$ -</u>	<u>\$ 2,530,523</u>	<u>\$ 2,551,030</u>

June 30, 2019				
Asset	Unadjusted Quoted Prices (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Balanced pool portfolio – Rancho Santa Fe Foundation	\$ -	\$ -	\$ 1,471,639	\$ 1,471,639
Beneficial interest in endowment funds –				
San Diego Foundation	-	-	592,488	592,488
Catholic Community Foundation	-	-	213,673	213,673
Rancho Santa Fe Foundation	-	-	214,229	214,229
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,492,029</u>	<u>\$ 2,492,029</u>

See accompanying independent auditors' report.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5. FAIR VALUE MEASUREMENTS (continued)**

The following table represents the Organization's Level 3 financial instruments, the valuation techniques used to measure the fair value of the financial instrument, and the significant unobservable inputs and the range of values for those inputs for the years ended June 30:

June 30, 2020				
Asset	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Value
Balanced pool portfolio –				
Rancho Santa Fe Foundation	\$ 1,518,076	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A
Beneficial interest in endowment funds –				
San Diego Foundation	571,967	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A
Catholic Community Foundation	219,442	Valuation of underlying assets as provided by Catholic Community Foundation	Base Price	N/A
Rancho Santa Fe Foundation	221,038	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A
June 30, 2019				
Asset	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Value
Balanced pool portfolio –				
Rancho Santa Fe Foundation	\$ 1,471,639	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A
Beneficial interest in endowment funds –				
San Diego Foundation	592,488	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A
Catholic Community Foundation	213,673	Valuation of underlying assets as provided by Catholic Community Foundation	Base Price	N/A
Rancho Santa Fe Foundation	214,229	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A

See accompanying independent auditors' report.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Years Ended June 30, 2020 and 2019

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**NOTE 6. INVESTMENTS**

In November 2017, the Organization established the Nativity Prep Non-Endowment Fund and in June 2018, established the Brendan J. Sullivan Scholarship Non-Endowment Fund. Both funds are held by the Rancho Santa Fe Foundation (RSFF) in a balanced pool portfolio. RSFF makes all investment decisions related to the funds. The Organization may request distributions from these funds at any time, subject to RSFF acceptance.

As of June 30, 2020, the pooled funds held by RSFF reflects approximate allocations as follows:

	<u>6/30/20</u>	<u>6/30/19</u>
U.S. equities	33%	32%
International equities	18%	21%
Emerging markets	6%	2%
Bonds	42%	43%
Cash	1%	2%
	<u>100%</u>	<u>100%</u>

The reconciliation for financial instruments measured at fair value on a recurring basis as significant unobservable inputs (Level 3) are as follows for the years ended June 30:

	<u>6/30/20</u>	<u>6/30/19</u>
Beginning balance	\$ 1,471,639	\$ 400,538
Contributions	-	1,100,000
Distributions	-	(65,000)
Investment income, net of fees	<u>46,437</u>	<u>36,101</u>
Ending balance	<u>\$ 1,518,076</u>	<u>\$ 1,471,639</u>

**NOTE 7. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30, 2020:

	<u>6/30/20</u>	<u>6/30/19</u>
Buildings and improvements	\$ 919,567	\$ -
Computers and equipment	73,466	75,938
Furniture and fixtures	42,747	42,747
Automobile	67,890	67,890
	<u>1,103,670</u>	<u>186,575</u>
Less accumulated depreciation	<u>(138,377)</u>	<u>(113,609)</u>
Construction in process	52,777	-
Land	<u>1,599,544</u>	<u>-</u>
	<u>\$ 2,617,614</u>	<u>\$ 72,966</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$27,241 and \$21,748, respectively.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 8. REFUNDABLE ADVANCE**

On April 15, 2020, the Organization was granted a loan (the “Loan”) from Western Alliance Bank in the aggregate amount of \$233,100, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. In accordance with ASC Subtopic 958-605 in situations in which the PPP’s eligibility and loan forgiveness criteria are expected to be met, the proceeds from the PPP loan have been initially recognized as a refundable advance until the conditions for forgiveness are substantially met. Conditional contributions aren’t recognized until the conditions are substantially met or explicitly waived.

On November 16, 2020, the PPP loan was fully forgiven and the Organization recognized \$97,130 in contribution revenue attributable to expenses prorated over the 24-week coverage period and will recognize the balance of \$135,970 as contribution revenue in the subsequent fiscal year.

**NOTE 9. LINE OF CREDIT**

On April 7, 2020, the Organization entered into a financing agreement with Western Alliance Bank (the “Bank”) with a credit line up to \$269,600. The financing agreement is a revolving line of credit with a maturity date of April 7, 2023. The credit agreement requires the Organization to maintain certain financial covenants and conditions. The line is secured by substantially all real property owned by the Organization. The line of credit bears a variable rate of interest, charged on a monthly basis. There was no balance on the line of credit as of June 30, 2020.

**NOTE 10. LOAN PAYABLE**

On April 7, 2020, the Organization executed a loan with Western Alliance Bank in the amount of \$1,348,000 for the purchase of its principal campus. In April 2015, FASB issued ASU No. 2015-03 Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs under which debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note. The amortization of the debt issuance cost shall be reported as interest expense. During the course of obtaining a new loan, the Organization incurred debt issuance costs associated with the Western Alliance Bank loan in the amount of \$5,706, which is amortized over the life of the loan.

Debt consists of the following at June 30:

	<u>6/30/20</u>
Note payable to Western Alliance Bank, principal payable in 9 installments of \$60,000 beginning April 7, 2021, interest payable monthly beginning May 7, 2020 and a final payment of principal and interest of \$810,957, secured by real property. The note matures on April 7, 2030.	\$ 1,348,000
Unamortized debt issuance cost	<u>(5,602)</u>
Loans Payable, net of unamortized debt issuance cost	1,342,398
Less current portion	<u>(60,000)</u>
	<u>\$ 1,282,398</u>

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 10. LOAN PAYABLE (continued)**

At June 30, 2020, principal payments are due as follows:

Year Ending June 30,		
2021	\$	60,000
2022		60,000
2023		60,000
2024		60,000
2025		60,000
Thereafter		<u>1,048,000</u>
	\$	<u>1,348,000</u>

**NOTE 11. NET ASSETS**

Net assets with donor restrictions consist of the following at June 30:

	<u>6/30/20</u>	<u>6/30/19</u>
Undesignated	\$ 1,515,917	\$ 235,837
Board-designated	<u>1,742,005</u>	<u>1,766,463</u>
Total net assets without donor restrictions	<u>\$ 3,257,922</u>	<u>\$ 2,002,300</u>

The Organization's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts. Board-designated net assets consist of cash and investments restricted by the Board of Directors that are available for appropriation to meet the Organization's cash needs.

Net assets with donor restrictions consist of the following at June 30:

	<u>6/30/20</u>	<u>6/30/19</u>
Purpose restricted:		
Scholarships	\$ 100,000	\$ 100,000
Food bank	3,100	-
Capital campaign	535,644	-
Time restricted:		
Pledges	287,424	351,708
In kind rent	3,600	25,085
Endowment funds subject to appropriation	12,742	2,978
Permanent endowments:		
Corpus value	<u>856,207</u>	<u>856,207</u>
Total net assets with donor restrictions	<u>\$ 1,798,717</u>	<u>\$ 1,335,978</u>

Net assets released from net assets with donor restrictions are as follows:

	<u>6/30/20</u>	<u>6/30/19</u>
Satisfaction of time restrictions	\$ 85,884	\$ 70,175

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 12. ENDOWMENT**

The Organization's restricted endowment fund investments are held as a beneficial interest with three community foundations that manage donor advised funds to support nonprofit organizations in the San Diego region as follows: San Diego Foundation, Catholic Community Foundation and Rancho Santa Fe Foundation (collectively the Foundation). Each Foundation manages the funds in accordance with UPMIFA. The objective is to maintain the purchasing power (real value) of the endowment funds.

The Organization classifies donor-restricted gift amounts required to be maintained in perpetuity held by each Foundation as:

- The original value of gifts donated to the fund
- The original value of the Organization's funds transferred to the fund
- The original value of subsequent gifts donated to the fund

From time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require the Organization to retain as a fund of perpetual duration. The Organization considers its endowment to be underwater if the fair value is less than the sum of (1) the original value of the initial and subsequent gift amounts donated to the endowment and (2) any accumulations to the endowment required to be held in perpetuity per donor restriction. The Organization has no underwater endowment funds at June 30, 2020 and 2019.

The endowment funds held by each Foundation are managed in accordance with Uniform Prudent Management of Institutional Funds Act (UPMIFA). Each Foundation has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
- Comply with applicable laws

The endowment funds are invested in each Foundation's portfolio of equity and debt securities, which are structured for long-term total return. The spending policy is to disburse 5% annually, based upon endowment principal market value. If the market value of the endowment principal of any fund is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

As of June 30, 2020, the beneficial interest in endowed pooled funds reflects approximate allocations as follows:

	<u>SDF</u>	<u>CCF</u>	<u>RSFF</u>
U.S. equities	28%	31%	33%
International equities	25%	27%	18%
Emerging markets	-	3%	6%
Bonds/Fixed Income	17%	24%	42%
Alternative	22%	-	-
Other	8%	15%	-
Cash	*	-	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

\* percentage is considered negligible

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 12. ENDOWMENT (continued)**

As of June 30, 2019, the beneficial interest in endowed pooled funds reflects approximate allocations as follows:

	<u>SDF</u>	<u>CCF</u>	<u>RSFF</u>
U.S. equities	28%	31%	32%
International/Global equities	26%	27%	21%
Emerging markets	-	3%	2%
Bonds/Fixed Income	17%	24%	43%
Alternative	20%	-	-
Other	9%	15%	-
Cash	*	-	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

\* percentage is considered negligible

Endowment composition consists of the following as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 143,499	\$ -	\$ 143,499
Donor restricted endowment funds	<u>-</u>	<u>868,948</u>	<u>868,948</u>
Total endowment funds	<u>\$ 143,499</u>	<u>\$ 868,948</u>	<u>\$ 1,012,447</u>

The following summarizes endowment related activities for the year ended June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 161,206	\$ 859,184	\$ 1,020,390
Investment return, net of expenses	8,088	9,764	17,852
Appropriation of assets for expenditure	<u>(25,795)</u>	<u>-</u>	<u>(25,795)</u>
Endowment net assets, end of year	<u>\$ 143,499</u>	<u>\$ 868,948</u>	<u>\$ 1,012,447</u>

Endowment composition consists of the following as of June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 161,206	\$ -	\$ 161,206
Donor restricted endowment funds	<u>-</u>	<u>859,184</u>	<u>859,184</u>
Total endowment funds	<u>\$ 161,206</u>	<u>\$ 859,184</u>	<u>\$ 1,020,390</u>

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Years Ended June 30, 2020 and 2019

**NOTE 12. ENDOWMENT (continued)**

The following summarizes endowment related activities for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning balance	\$ 60,502	\$ 537,500	\$ 598,002
Contributions	-	318,707	318,707
Transfer to create board-designated endowment funds	100,000	-	100,000
Investment return, net of expenses	25,827	2,977	28,804
Appropriation of assets for expenditure	<u>(25,123)</u>	<u>-</u>	<u>(25,123)</u>
Total endowment funds	<u>\$ 161,206</u>	<u>\$ 859,184</u>	<u>\$ 1,020,390</u>

The following reflects the Organization's endowment net asset composition by fund type as of June 30, 2020:

Original donor-restricted gift amounts required to be maintained in perpetuity:

Nativity Prep Endowment Fund for operations support (SDF)	\$ 537,500
Nativity Prep Academy Endowment Fund for scholarships (CCF)	105,000
Nativity Prep Academy Endowment Fund for scholarships (RSFF)	<u>213,707</u>
Total original donor-restricted gift amounts required to be maintained in perpetuity	856,207
Portion of perpetual endowment funds subject to a time restriction under UPMIFA with donor-restriction	<u>12,742</u>
Total endowment funds classified as net assets with donor restrictions	<u>\$ 868,949</u>

**NOTE 13. GRADUATE SUPPORT FUND**

The Organization provides graduate support to students to assist with tuition and fees for the high schools they will be attending after graduating from eighth grade. The graduate support liability represents amount that have been awarded, but not yet paid, for the upcoming school year. There was no balance for the graduate support fund payable account as of June 30, 2020. The balance of the graduate support fund payable account as of June 30, 2019 was \$214,556.

**NOTE 14. LEASES AND COMMITMENTS, INKIND RENT DONATION**

The Organization signed a two-year lease agreement with the Holy Spirit Church in August 2010 that includes twenty-four renewal option periods. Each option period is for two years and is subject to a 1% yearly increase. The lease will be automatically extended unless written notice is provided. For the year ended June 30, 2020, the monthly rent was \$2,600 and rent payments for the years ended June 30, 2020 and 2019 totaled \$27,144 and \$27,123, respectively. In April 2020, the Organization completed the purchase of a new campus and terminated the lease option, agreeing to pay rent through ending August 31, 2020, which is the end of the current option.

Minimum future lease payments at June 30, 2020 are as follows:

Year Ending June 30,	
2021	\$ 5,200

See accompanying independent auditors' report.

**NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 14. LEASES AND COMMITMENTS, INKIND RENT DONATION (continued)**

The rent is below fair market value; therefore, the estimated fair value of donated rent is recorded as in-kind donated rent expense of \$21,600 and \$28,569, respectively, for the years ended June 30, 2020 and 2019. The value of the donated rent for future years is recorded as a pledge receivable for the two-year option that is in effect at year end. The value of the remaining option months is recorded as a discounted unconditional promise to give of \$3,600 and \$25,085 as of June 30, 2020 and 2019, respectively.

**NOTE 15. RETIREMENT PLAN**

In September 2017, the Organization established a 401(k) retirement plan, which is qualified under the Internal Revenue Code and covers substantially all employees. Employees may elect to defer up to 100% of their salaries, subject to certain limitations. The Plan also allows elective deferral contributions to be made as Roth Contributions. Employees are eligible on September 1 and April 1, have attained the age of 21 and completed 1,000 hours of service during the Plan year. Each year, at the Organization's sole discretion, the Organization will determine the formula for any matching or profit-sharing contributions. The Organization paid contributions in the amount of \$9,440 and \$3,288 during the fiscal years ended June 30, 2020 and 2019, respectively.

**NOTE 16. RECLASSIFICATIONS**

Certain items in the 2019 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

**NOTE 17. SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through March 30, 2021, the date which the financial statements were available to be issued.

***Operations may be adversely affected by health epidemics including the recent coronavirus outbreak.***

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including California, where the Organization is located, have declared a state of emergency.

Potential impacts to the Organization include disruptions or restrictions on our employees' ability to work and the ability to operate the school. COVID-19 could adversely affect the economy and financial markets, resulting in an economic downturn that could affect donors and contributors, and impact its operating results. Any of the foregoing could harm the Organization and cannot anticipate all of the ways in which health epidemics such as COVID-19 could adversely impact the Organization's operations.

The Organization may incur expenses or delays relating to such events outside of the Organization's control, which could have a material adverse impact on its operating results and financial condition. Although the Organization is continuing to monitor and assess the effects of the COVID-19 pandemic on operations, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.