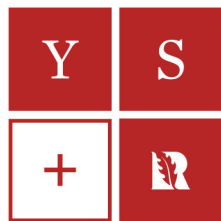

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

FINANCIAL STATEMENTS

June 30, 2022 and 2021



YSR CPA GROUP, P.C.

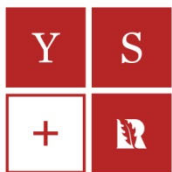
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NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
FINANCIAL STATEMENTS
June 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Nativity Prep Academy of San Diego, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Nativity Prep Academy of San Diego, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Nativity Prep Academy of San Diego, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Nativity Prep Academy of San Diego, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of a Matter – Change in Accounting Principle

For the year ended June 30, 2022, the Organization adopted Financial Accounting Standards Board's (FASB) accounting standards update (ASU) 2016-02, Leases as described in Note 1. The changes required by the update have been applied in the year of adoption.

The Organization also adopted 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, 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
April 26, 2023

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 549,633	\$ 737,708
Accounts receivable	12,845	1,788
Employee retention credit receivable (Note 13)	-	175,645
Unconditional promises to give, current portion (Note 4)	75,000	75,000
Prepaid expenses	8,556	14,831
TOTAL CURRENT ASSETS	<u>646,034</u>	<u>1,004,972</u>
NON CURRENT ASSETS		
Unconditional promises to give, long term portion, net (Note 4)	73,114	144,548
Investments (Note 6)	1,583,306	1,890,963
Property and equipment, net of accumulated depreciation (Note 7)	3,136,433	3,104,179
Beneficial interest in endowment funds (Note 16)	1,137,215	1,262,976
TOTAL ASSETS	<u>\$ 6,576,102</u>	<u>\$ 7,407,638</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 63,967	\$ 82,093
Graduate support payable (Note 8)	126,600	15,000
Other liabilities	7,044	10,396
Current portion, finance lease obligation (Note 9)	4,095	-
Loan payable, current portion (Note 11)	-	60,000
TOTAL CURRENT LIABILITIES	<u>201,706</u>	<u>167,489</u>
NONCURRENT LIABILITIES		
Finance lease obligation, net of current portion (Note 9)	13,779	-
Loan payable, noncurrent portion net unamortized debt issuance cost (Note 11)	-	883,374
TOTAL LIABILITIES	<u>215,485</u>	<u>1,050,863</u>
COMMITMENTS & CONTINGENCIES		
NET ASSETS		
Without donor restrictions (Note 15)		
Undesignated	3,473,857	2,771,859
Board-designated operating reserve	126,531	248,137
Board-designated investments	1,600,568	1,927,677
With donor restrictions (Note 15)	1,159,661	1,409,102
TOTAL NET ASSETS	<u>6,360,617</u>	<u>6,356,775</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,576,102</u>	<u>\$ 7,407,638</u>

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

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

For the Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 1,925,042	\$ 524,100	\$ 2,449,142
Contributed nonfinancial assets (Note 12)	110,702	193,385	304,087
Government grants and assistance (Note 13)	10,000	-	10,000
Special events less direct expenses of \$69,686	68,653	-	68,653
Nutrition reimbursements	51,060	-	51,060
Fees and uniforms	17,250	-	17,250
Investment loss	(264,606)	(52,363)	(316,969)
Interest income	7,155	-	7,155
Rental income (Note 14)	36,333	-	36,333
Other income	2,426	-	2,426
Net assets released from restrictions - expiration of time			
Pledges	71,434	(71,434)	-
Net assets released from restrictions - purpose			
Capital campaign	840,129	(840,129)	-
Special events	3,000	(3,000)	-
TOTAL SUPPORT AND REVENUE	<u>2,878,578</u>	<u>(249,441)</u>	<u>2,629,137</u>
EXPENSES			
Program services	1,804,242	-	1,804,242
Supporting services			
Management and general	366,628	-	366,628
Fundraising	454,425	-	454,425
TOTAL EXPENSES	<u>2,625,295</u>	<u>-</u>	<u>2,625,295</u>
INCREASE (DECREASE) IN NET ASSETS	253,283	(249,441)	3,842
NET ASSETS AT BEGINNING OF YEAR	<u>4,947,673</u>	<u>1,409,102</u>	<u>6,356,775</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,200,956</u>	<u>\$ 1,159,661</u>	<u>\$ 6,360,617</u>

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

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

For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 1,316,183	\$ 663,697	\$ 1,979,880
Contributed nonfinancial assets (Note 12)	322,397	-	322,397
Government grants and assistance (Note 13)	564,060	-	564,060
Special events less direct expenses of \$46,119	26,014	-	26,014
Nutrition reimbursements	10,023	-	10,023
Fees and uniforms	14,595	-	14,595
Investment income	563,715	83,361	647,076
Interest income	750	-	750
Rental income (Note 14)	24,000	-	24,000
Net assets released from restrictions - expiration of time			
In-kind rent	3,600	(3,600)	-
Pledges	67,876	(67,876)	-
Net assets released from restrictions - purpose			
Capital campaign	1,061,197	(1,061,197)	-
Food bank	4,000	(4,000)	-
TOTAL SUPPORT AND REVENUE	<u>3,978,410</u>	<u>(389,615)</u>	<u>3,588,795</u>
EXPENSES			
Program services	1,504,346	-	1,504,346
Supporting services			
Management and general	464,802	-	464,802
Fundraising	319,511	-	319,511
TOTAL EXPENSES	<u>2,288,659</u>	<u>-</u>	<u>2,288,659</u>
INCREASE (DECREASE) IN NET ASSETS	1,689,751	(389,615)	1,300,136
NET ASSETS AT BEGINNING OF YEAR	<u>3,257,922</u>	<u>1,798,717</u>	<u>5,056,639</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,947,673</u>	<u>\$ 1,409,102</u>	<u>\$ 6,356,775</u>

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

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2022

	Program Expenses		Supporting Services		Total
	Middle School	Graduate Support	Management and General	Fundraising	
Graduate tuition assistance \$	-	\$ 287,593	\$ -	\$ -	\$ 287,593
Salaries and wages	633,543	216,627	206,108	232,184	1,288,462
Benefits	42,562	17,118	4,491	2,970	67,141
Payroll taxes	54,073	17,335	16,602	18,926	106,936
Professional fees	24,669	-	58,907	95,505	179,081
Office expenses	34,878	66	3,028	40,304	78,276
Information technology	3,024	-	3,616	17,649	24,289
Occupancy	143,062	-	-	1,435	144,497
Travel	1,883	-	1,166	449	3,498
Conferences and meetings	35,992	-	380	1,628	38,000
Mortgage interest	-	-	41,257	-	41,257
Other interest	-	-	773	-	773
Depreciation	68,454	21,544	15,092	9,188	114,278
Insurance	24,442	3,119	14,631	5,845	48,037
Nutrition program	58,795	-	-	-	58,795
Academic support	114,768	695	-	-	115,463
Development	-	-	-	28,342	28,342
Miscellaneous	-	-	577	-	577
Total Expenses \$	<u>1,240,145</u>	<u>\$ 564,097</u>	<u>\$ 366,628</u>	<u>\$ 454,425</u>	<u>\$ 2,625,295</u>

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

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021

	Program Expenses		Supporting Services		Total
	Middle School	Graduate Support	Management and General	Fundraising	
Graduate tuition assistance \$	-	\$ 287,570	\$ -	\$ -	\$ 287,570
Salaries and wages	490,444	210,195	263,733	139,304	1,103,676
Benefits	34,702	21,921	13,962	1,909	72,494
Payroll taxes	43,006	17,825	22,558	12,130	95,519
Professional fees	15,104	-	71,982	95,772	182,858
Office expenses	34,160	50	2,450	7,265	43,925
Information technology	20,983	-	596	22,507	44,086
Occupancy	140,158	1,144	5,867	264	147,433
Travel	1,150	-	-	113	1,263
Conferences and meetings	1,799	-	5,413	-	7,212
Mortgage interest	-	-	54,334	-	54,334
Other interest	-	-	2,657	-	2,657
Depreciation	56,913	16,636	10,764	6,888	91,201
Insurance	26,314	3,777	9,193	6,194	45,478
Nutrition program	19,725	-	-	-	19,725
Academic support	60,227	543	-	-	60,770
Development	-	-	-	27,165	27,165
Miscellaneous	-	-	1,293	-	1,293
Total Expenses \$	<u>944,685</u>	<u>\$ 559,661</u>	<u>\$ 464,802</u>	<u>\$ 319,511</u>	<u>\$ 2,288,659</u>

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

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2022 and June 30, 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,842	\$ 1,300,136
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	114,278	91,201
Amortization of debt issuance costs	4,626	976
Change in discount on pledge receivable	(3,567)	(7,124)
Change in in-kind, unconditional promise to give	-	3,600
Contributed securities	(299,720)	(321,532)
Proceeds from sale of contributed securities	303,085	341,014
(Gain) loss on sale of contributed securities	(3,365)	1,025
Forgiveness of PPP loan	-	(385,758)
Change in value of beneficial interest in endowment funds	125,761	(250,529)
Realized and unrealized (gains) losses	207,657	(372,887)
(Increase) decrease in operating assets		
Accounts receivable	(11,057)	(1,788)
Employee retention credit receivable	175,645	(175,645)
Unconditional promises to give, net	75,000	75,000
Prepaid expenses	6,275	(516)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(18,126)	27,872
Graduate support payable	111,600	15,000
Other liabilities	(3,352)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>788,582</u>	<u>340,045</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(125,053)	(577,766)
Proceeds from sale of investments	100,000	-
NET CASH USED BY INVESTING ACTIVITIES	<u>(25,053)</u>	<u>(577,766)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loan	-	249,788
Payments on mortgage debt	(948,000)	(400,000)
Payments on finance lease obligation	(3,604)	-
NET CASH USED BY FINANCING ACTIVITIES	<u>(951,604)</u>	<u>(150,212)</u>
NET DECREASE IN CASH	(188,075)	(387,933)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>737,708</u>	<u>1,125,641</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR \$	<u>\$ 549,633</u>	<u>\$ 737,708</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	\$ 36,631	\$ 54,603
Contributed securities	\$ 299,720	\$ 321,532

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITY

During the year ended June 30, 2022, the Organization obtained a copier (capital asset) in exchange for a financing lease obligation in the amount of \$21,479

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

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2022 and 2021

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").

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, whereby 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

For the Years Ended June 30, 2022 and 2021

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

Fair Value Measurement

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 the market date 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 February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (ASC 842), regarding accounting for leases. The standard aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Organization has leases under which it is obligated as a lessee and adopted ASU-2016-02 on July 1, 2021.

The Organization determines if an arrangement contains a lease at inception. Operating leases as a lessee are included in right-of-use assets and lease obligations in the accompanying statement of financial position. Right-of-use assets represent the Organization's right to use an underlying asset for the lease term. Lease obligations represent the Organization's liability to make lease payments arising from the lease. Operating lease obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate discount rate. Operating right-of-use assets are recognized at the commencement date as the lease obligation adjusted for initial direct costs, lease incentives received, and lease payments made to the lessor at or before the commencement date. The Organization has elected to use the incremental borrowing rate as determined from other borrowing arrangements to all leases.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2022 and 2021

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

New Accounting Pronouncements Recently Adopted (continued)

The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Leases with an initial term of twelve months or less are not recorded on the statement of financial position as a lease obligation and right-of-use asset, rather the related lease expense is recognized on a straight-line basis over the lease term. For lease agreements entered into or modified after the adoption of ASC 842, lease and non-lease components are combined.

The Organization is not required to reassess each of the following:

- Whether any expired or existing contracts are or contain leases
- The lease classification for any expired or existing leases
- Initial direct costs for any existing leases

There is no material transition adjustment related to the adoption of ASC 842. In addition, the Organization elected the package of practical expedients as permitted under the transition guidance within the new standard which allows for the carryforward of an historical lease classification.

Under ASC 842, the Organization has elected to implement the certain practical expedients as follows:

- The accounting policy election, by class of underlying asset, to adopt the practical expedient under ASC 842 to not separate lease and nonlease components from all classes of ROU assets.
- The short-term lease exception in which lessees may elect to not apply the lease accounting guidance for short-term leases. A short-term lease is a lease that, at the commencement date, has a lease term of twelve months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958), which requires contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The ASU requires enhanced disclosures regarding whether such nonfinancial assets were monetized or utilized during the reporting period, any donor-imposed restrictions associated with the contributions as well as a description of the valuation techniques and inputs used to arrive at a fair value measure. The amendments in this ASU are effective for annual periods beginning after June 15, 2021.

The Organization adopted ASU 2020-07 July 1, 2021. The adoption did not have a significant impact on the financial statements as of July 1, 2021, however it did result in a reclassification to adhere to the presentation requirements in the statements of activities. The presentation of the statement of activities for the year ended June 30, 2021 has been revised accordingly for nonfinancial assets on a separate line item to be in conformity with the current year presentation.

Recent Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB Issued ASU 2021-10 Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance, which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2022 and 2021

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

Recent Accounting Pronouncements Not Yet Adopted (continued)

The disclosure requirements in ASC 832 only apply to transactions with a government that are accounted for by analogizing to either a grant model (for example, in International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance), or a contribution model (for example, in ASC 958-605, Not-for-Profit Entities – Revenue Recognition).

ASC 832 requires the following disclosures about government assistance transactions in the notes to the annual financial statements:

- Information about the nature of the transactions, including a general description and the form (cash or other assets, for example) in which the assistance has been received.
- The accounting policies used to account for the transactions.
- Line items on the financial statements affected by the transactions and the amounts applicable to each financial statement line item in the current reporting period.

Entities are required to provide the new disclosures prospectively for all transactions with a government entity that are accounted for under either a grant or a contribution accounting model and are reflected in the financial statements at the date of initially applying the new amendments, and to new transactions entered into after that date. Retrospective application of the guidance is permitted. The guidance in ASU 2021-10 is effective for financial statements of all entities, including private companies, for annual periods beginning after December 15, 2021, with early application 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 as of June 30, 2022 and 2021, respectively.

Unconditional Promises to Give

Unconditional promises to give (pledges) are recognized as assets and contribution revenue in the period the pledges are received. Conditional promises to give are recognized when the conditions (e.g., barriers) on which they depend are substantially met.

Pledges that are to be collected within one year are recorded at net realizable value. Pledges extending beyond one year are discounted at an appropriate discount rate to recognize the present value of the future cash flows. An allowance for uncollectible pledges is estimated based on the Organization's collection history and is presented as a component of net pledges receivable. The change in estimate for uncollectible pledges is recorded as a change on the statement of activities and the allowance is adjusted up or down as the estimate changes each year. No allowance was considered necessary as of June 30, 2022 and 2021, respectively.

See accompanying independent auditors' report

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

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

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.

Impairment of Assets

Accounting principles generally accepted in the United States of America ("GAAP") require that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of an asset may not be recoverable. There was no impairment loss recognized during the years ended June 30, 2022 and 2021, respectively.

Leases

The Organization determines if a contract is considered or contains an embedded lease at inception of the agreement. The Organization's right-of-use assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the Organization's obligation to make lease payments arising from the leases. The lease commencement date is when the asset is available for use and in possession of the Organization. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

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)

Leases (continued)

The Organization recognizes payments for certain leases as expense when incurred including short-term leases with a lease term of 12 months or less and leases with future lease payments less than \$5,000. Lease expense for operating lease payments is recognized on the statements of activities on a straight-line basis over the lease term. These leases are not included as lease liabilities or right of use assets on the statement of financial position.

Finance lease assets (previously referred to as a capital lease before the adoption of ASU 2016-02) are depreciated on a straight-line basis over the lease term, and are included within property, plant and equipment, net on the statements of financial position. Interest expense associated with finance leases is recorded based on the incremental borrowing rate. See additional disclosures in Note 9.

Revenue Recognition

Revenue from Contracts with Customers

The Organization recognizes revenue in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization generally measures revenue based on the amount of consideration the Organization expects to be entitled for the transfer of goods to a customer, then recognizes this revenue when the Organization satisfies its performance obligations.

The Organization evaluates its revenue contracts with customers based on the five-step model under Topic 606: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when (or as) each performance obligation is satisfied.

There was no revenue from contracts with customers for the years ended June 30, 2022 and 2021, respectively.

Contributions and Support

The Organization recognizes contributions in accordance with ASU 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made. In accordance with Topic 958, Revenue Recognition, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution.

Contributed revenue may include gifts of cash or promises to give. Contributions and grants are recognized as revenues in the period received and 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. 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.

A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2022 and 2021

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

Revenue Recognition (continued)

Government Grants and Assistance

The Organization received government grants and assistance including Paycheck Protect Program (PPP) loans, Economic Injury Disaster Loan (EIDL) advance and Employee Retention Credits (ERC). As the government is not receiving a benefit as a result of these transactions, revenue is considered to be contributions to the Organization.

In accordance with ASC 958, the proceeds from PPP loans are recognized initially as a refundable advance and recognized as revenue upon forgiveness (see Note 13). The EIDL advance is a grant that does not have to be repaid. The ERC is a credit against certain payroll taxes allowed to an eligible employer for qualifying wages, was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and further amended by the Consolidated Appropriations Act (CAA) and the American Rescue Plan (ARP) (see Note 13).

Nutrition Reimbursement

Nutrition reimbursements from the State of California is recognized as revenue on the statements of activities when costs are incurred and specific contract requirements are met, as required by the agreement. Costs billed for program services are subject to review and possible disallowance. In management's opinion, the potential for material disallowances is remote and, therefore, is not a barrier that would prevent the recognition of revenue.

Special Events

Special event revenues received are not recognized until the revenue is earned, which is at the time of the event or when the services are provided, and the Organization does not believe it is required to provide additional goods or services to fulfill its related performance obligation. The recognition of revenue is conditional on the event taking place, as this is the point in time when the performance obligation of hosting the event occurs.

The Organization records special event revenue equal to contribution revenue less the cost of direct benefits to donors which is included in special event revenue on the statement of activities and changes in net assets.

Contributed Nonfinancial Assets

Contributed nonfinancial assets (in-kind) are recorded as support in the statements of activities. Such contributions are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. The Organization's policy is to use contributed nonfinancial assets for programmatic or other purposes unless the assets have no utility consistent with the Organization's mission. In those instances, the assets would be monetized. See Note 12 for additional disclosures.

Contributed Services

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.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2022 and 2021

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

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, 2022 and 2021, 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, 2022 and 2021, respectively. Management believes the Organization is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to June 30, 2018.

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.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 2. AVAILABILITY AND LIQUIDITY

The following reflects the Organization's financial assets as of the statement of financial position date:

Financial assets as of year-end:	2022	2021
Cash	\$ 549,633	\$ 737,708
Accounts receivable	12,845	1,788
Other receivable	-	175,645
Unconditional promises to give, current	75,000	75,000
Investments (Note 5)	2,720,521	3,153,939
Total financial assets	3,357,999	4,144,080
Less amounts not available to be used within one year:		
Board-designated operating reserves	126,531	248,137
Board-designated reserves held in investments	1,174,077	1,428,035
Investments designated for scholarships	409,229	462,928
Board-designated quasi-endowment funds	117,262	136,714
Portion of donor-restricted endowment to be retained in perpetuity	856,207	856,207
	2,683,306	3,132,021
Financial assets available to meet general expenditures over the next twelve months	\$ 674,693	\$ 1,012,059

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. 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. Occasionally, the board designates a portion of any operating surplus to its liquidity cash reserve. There is also an investment fund established by the 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.

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. Pledges receivables are subject to implied time restrictions but are expected to be collected within one year.

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. As of June 30, 2022 and 2021, the Organization exceeded federally insured limits by \$350,000 and \$499,990, 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.

See accompanying independent auditors' report

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Pledges due in one year or less	\$ 75,000	\$ 75,000
Pledges due after one year through five years	<u>75,000</u>	<u>150,000</u>
	150,000	225,000
Less: imputed discount	<u>(1,886)</u>	<u>(5,452)</u>
Net pledged contributions	<u>\$ 148,114</u>	<u>\$ 219,548</u>

Pledges that are receivable beyond one year are discounted at a rate of 2.58% and 2.50%, respectively.

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, 2022 and 2021, respectively.

The following tables summarize assets measured at fair value by classification within the fair value hierarchy as of June 30:

Asset	2022			Total Fair Value
	Unadjusted Quoted Prices (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Balanced pool portfolio – Rancho Santa Fe Foundation	\$ -	\$ -	\$ 1,583,306	\$ 1,583,306
Beneficial interest in endowment funds –				
San Diego Foundation	-	-	657,506	657,506
Catholic Community Foundation	-	-	236,315	236,315
Rancho Santa Fe Foundation	<u>-</u>	<u>-</u>	<u>243,394</u>	<u>243,394</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,720,521</u>	<u>\$ 2,720,521</u>

See accompanying independent auditors' report

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2022 and 2021

NOTE 5. FAIR VALUE MEASUREMENTS (continued)

2021				
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	\$ -	\$ -	\$ 1,890,963	\$ 1,890,963
Beneficial interest in endowment funds –				
San Diego Foundation	-	-	711,453	711,453
Catholic Community Foundation	-	-	276,191	276,191
Rancho Santa Fe Foundation	-	-	275,332	275,332
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,153,939</u>	<u>\$ 3,153,939</u>

The following tables represent 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 as of June 30:

2022				
Asset	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Value
Balanced pool portfolio –				
Rancho Santa Fe Foundation	\$ 1,583,306	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A
Beneficial interest in endowment funds –				
San Diego Foundation	657,506	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A
Catholic Community Foundation	236,315	Valuation of underlying assets as provided by Catholic Community Foundation	Base Price	N/A
Rancho Santa Fe Foundation	243,394	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
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NOTE 5. FAIR VALUE MEASUREMENTS (continued)

		2021		
Asset	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Value
Balanced pool portfolio –				
Rancho Santa Fe Foundation	\$ 1,890,963	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A
Beneficial interest in endowment funds –				
San Diego Foundation	711,453	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A
Catholic Community Foundation	276,191	Valuation of underlying assets as provided by Catholic Community Foundation	Base Price	N/A
Rancho Santa Fe Foundation	275,332	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A

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.

The pooled funds held by RSFF reflects approximate allocations are as follows as of June 30:

	2022	2021
U.S. equities	36%	38%
International equities	16%	17%
Emerging markets	5%	6%
Bonds	26%	24%
Real assets	6%	-
Cash	11%	15%
	<u>100%</u>	<u>100%</u>

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 6. INVESTMENTS (continued)

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>2022</u>	<u>2021</u>
Beginning balance	\$ 1,890,963	\$ 1,518,076
Contributed securities	299,720	-
Sales	(403,085)	-
Investment income (loss), net of fees	<u>(204,292)</u>	<u>372,887</u>
Ending balance	<u>\$ 1,583,306</u>	<u>\$ 1,890,963</u>

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 1,585,622	\$ 1,412,942
Computers and equipment	112,525	91,046
Furniture and fixtures	80,961	80,961
Automobile	<u>67,890</u>	<u>67,890</u>
	1,846,998	1,652,839
Less accumulated depreciation	<u>(343,857)</u>	<u>(229,579)</u>
Construction in process	33,748	81,375
Land	<u>1,599,544</u>	<u>1,599,544</u>
	<u>\$ 3,136,433</u>	<u>\$ 3,104,179</u>

Depreciation expense was \$114,278 and \$91,201 for the years ended June 30, 2022 and 2021, respectively.

NOTE 8. GRADUATE SUPPORT LIABILITY

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 the amount that have been awarded, but not yet paid, for the upcoming school year. The balance of the graduate support fund payable account as of June 30, 2022 and 2021 was \$126,600 and \$15,000, respectively.

NOTE 9. FINANCE LEASE

As discussed in Note 1, the Organization recognizes leases in accordance with ASU 2016-02 (ASC 842) Leases. Under ASC 842, lessees are required to recognize assets and liabilities on the statements of financial position for most leases and provide enhanced disclosures. Leases are classified as either financing or operating.

Effective July 2021, the Organization entered into a lease agreement for office equipment under a noncancelable lease agreement. The lease term expires in July 2026. The Organization used its incremental borrowing rate of 4.25% to calculate the present value of lease payments. The Organization's lease agreements do not contain any material guaranteed residual values or financial covenants.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 9. FINANCE LEASE (continued)

Property and equipment comprise owned and leased assets:

		<u>2022</u>
Gross property and equipment		
Owned	\$	3,458,811
Right-of-use assets		<u>21,479</u>
Property and equipment at cost		<u>3,480,290</u>
Right-of-use assets		
Balance as of July 1, 2021	\$	-
Additions		21,479
Depreciation charge for the year		<u>(3,938)</u>
Net, balance as of June 30, 2022	\$	<u>17,541</u>

The Organization's future minimum lease payments are as follows:

	<u>Year Ending June 30,</u>	
	2023	\$ 4,776
	2024	4,776
	2025	4,776
	2026	4,776
	2027	<u>398</u>
Total minimum lease payments		19,502
Less amount representing interest		<u>1,628</u>
Present value of net minimum lease payments	\$	<u>17,874</u>

NOTE 10. LINE OF CREDIT

On April 7, 2020, the Organization entered into a financing agreement with Western Alliance Bank for a revolving line of credit up to \$269,600 maturing on April 7, 2023. There was no balance on the line of credit for both years ended June 30, 2022 and 2021. On June 6, 2022, the line of credit was closed in connection with the mortgage loan payoff (see Note 11).

NOTE 11. LOAN PAYABLE

On April 7, 2020, the Organization executed a note payable with Western Alliance Bank in the amount of \$1,348,000 for the purchase of its principal campus. The note was 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 \$469,713.

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

For the Years Ended June 30, 2022 and 2021

NOTE 11. LOAN PAYABLE

In April 2015, FASB issued ASU 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 statement of financial position 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 the new loan, the Organization incurred debt issuance costs associated with Western Alliance Bank loan in the amount of \$5,706, which was amortized over the life of the loan.

For the year ended June 30, 2021, the principal balance was \$948,000 less unamortized debt issuances cost of \$4,626. The Organization paid the note in full on June 6, 2022.

NOTE 12. CONTRIBUTED NONFINANCIAL ASSETS

Revenues from contributions of nonfinancial assets recognized within the statements of activities were as follows for the years ended June 30:

	2022	2021	Usage in programs/ activities	Donor imposed restrictions	Fair value techniques and inputs
Stock contributions	\$ 106,335	\$ 321,532	Middle school program	None	Fair market value at date of contribution
Stock contributions	190,385	-	Fundraising	Capital campaign	Fair market value at date of contribution
Stock contributions	3,000	-	Special Events	Gala event	Fair market value at date of contribution
Computer equipment	650	-	Middle school program	None	Estimates based on prices of identical or similar products.
Furniture	1,400	-	Management & General/ Middle school program	None	Estimates based on prices of identical or similar products.
Gift cards	867	-	Middle school program	None	Estimates based on prices of identical or similar products.
Miscellaneous items	375	-	Middle school program	None	Estimates based on prices of identical or similar products.
Supplies	525	-	Middle school program	None	Estimates based on prices of identical or similar products.
Tickets	550	-	Middle school program	None	Estimates based on prices of identical or similar products.
Rent	-	865	Allocated across all programs	None	Fair market value adjustments for below market rate
Total	\$ 304,087	\$ 322,397			

All gifts were recognized in accordance with donor restrictions, when applicable. The Organization's general practice is to monetize contributed stock, depending upon current market conditions within 1-2 days of receipt. The Organization does not sell the other contributed nonfinancial assets and utilizes them in program use.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 13. CARES ACT LOANS AND CREDITS

Paycheck Protection Program – First Draw

On April 15, 2020, the Organization was granted a 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. For the year ended June 30, 2020, the Organization recognized \$97,130 attributable to expenses prorated over the 24-week coverage period as revenue in government grants and assistance on the statement of activities. For the year ended June 30, 2021, the Organization recognized the balance of \$135,970 as revenue in government grants and assistance on the statement of activities.

Paycheck Protection Program – Second Draw

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the “Economic Aid Act”) was signed into law, which reopened the Paycheck Protection Program (PPP) both to first-time borrowers and to borrowers that previously received a PPP loan (second draw borrowers). On April 15, 2020, the Organization was granted a loan from Western Alliance Bank in the aggregate amount of \$249,788, pursuant to the Paycheck Protection Program (the “PPP2”). In accordance with the loan forgiveness requirements of the Economic Aid Act, the Organization used the proceeds from the PPP2 loan for eligible expenses.

In accordance with ASC Subtopic 958-605 in situations in which the PPP2’s eligibility and loan forgiveness criteria are expected to be met, the proceeds from the PPP2 loan were initially recognized as a refundable advance until the conditions for forgiveness are substantially met. On February 17, 2022, the PPP2 loan was fully forgiven. For the year ended June 30, 2022, the Organization recognized \$252,445, including \$2,657 in accrued interest, as revenue in government grants and assistance on the statement of activities.

Employee Retention Credit (ERC)

The 2020 and 2021 Employee Retention Credit (ERC) act as fully refundable credits against the employer portion of Social Security taxes based on the amount of qualified wages that an eligible employer has incurred. The maximum credit is based on a qualified-wages ceiling for each employee. Filing the paperwork with the IRS is an administrative burden that does not impact the timing of when the receivable should be recognized. Therefore, for the year ended June 30, 2021, management elected to recognize a receivable, for the ERC amount that was not taken as a credit on payroll tax reporting forms, on the statement of financial position in the amount of \$175,645 and recognized the revenue in government grants and assistance on the statement of activities.

Laws and regulations concerning government programs, including the ERC established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Organization’s claim to the ERC, and it is not possible to determine the impact, if any, this would have upon the Organization.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 13. CARES ACT LOANS AND CREDITS (continued)

Targeted Economic Injury Disaster Loan Advance

The American Rescue Plan Act of 2021 created the Targeted EIDL Advance program, which became available on April 22, 2021. The Targeted EIDL Advance is a grant program designed to provide coronavirus-impacted businesses and nonprofit organizations with funding to meet immediate business needs and these funds do not need to be repaid. On December 29, 2021, The Organization received a \$10,000 Targeted EIDL Advance. For the year ended June 30, 2022, the Targeted EIDL Advance has been recognized as government grants and assistance in the statement of activities.

NOTE 14. RENTAL INCOME

The Organization leases space to unrelated religious organizations under various month to month agreements. Rental income for the years ended June 30, 2022 and 2021 was \$36,333 and \$24,000, respectively.

NOTE 15. NET ASSETS

Net assets without donor restrictions consist of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 3,473,857	\$ 2,771,859
Board-designated	<u>1,727,099</u>	<u>2,175,814</u>
Total net assets without donor restrictions	<u>\$ 5,200,956</u>	<u>\$ 4,947,673</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 as of June 30:

	<u>2022</u>	<u>2021</u>
Purpose restricted:		
Scholarships	\$ 100,000	\$ 100,000
Capital campaign	-	137,245
Field trip	11,600	-
Time restricted:		
Pledges	148,114	219,548
Endowment funds subject to appropriation	43,740	96,102
Permanent endowments:		
Corpus value	<u>856,207</u>	<u>856,207</u>
Total net assets with donor restrictions	<u>\$ 1,159,661</u>	<u>\$ 1,409,102</u>

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 15. NET ASSETS (continued)

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

	<u>2022</u>	<u>2021</u>
Satisfaction of time restrictions	\$ 71,434	\$ 71,476
Satisfaction of purpose restriction	<u>843,129</u>	<u>1,065,197</u>
Total net assets released from donor restrictions	<u>\$ 914,563</u>	<u>\$ 1,136,673</u>

NOTE 16. 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 as of June 30, 2022 and 2021.

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.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 16. ENDOWMENT (continued)

As of June 30, 2022, the beneficial interest in endowed pooled funds reflects approximate allocations as follows:

	<u>SDF</u>	<u>CCF</u>	<u>RSFF</u>
U.S. equities	-	35%	36%
International equities	39%	28%	16%
Emerging markets	-	-	5%
Bonds/Fixed Income	11%	22%	26%
Hedge funds	15%	-	-
Private equity/credit	18%	-	-
Alternative	-	7%	-
Real assets	17%	5%	6%
Multi-asset	-	3%	-
Cash	*	-	11%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

* percentage is considered negligible

As of June 30, 2021, the beneficial interest in endowed pooled funds reflects approximate allocations as follows:

	<u>SDF</u>	<u>CCF</u>	<u>RSFF</u>
U.S. equities	-	35%	38%
International equities	48%	28%	17%
Emerging markets	-	-	6%
Bonds/Fixed Income	14%	22%	24%
Hedge funds	14%	-	-
Private equity/credit	12%	-	-
Alternative	-	7%	-
Other	12%	8%	-
Cash	*	-	15%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

* percentage is considered negligible

Endowment composition consists of the following as of June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 237,269	\$ -	\$ 237,269
Donor restricted endowment funds	<u>-</u>	<u>899,946</u>	<u>899,946</u>
Total endowment funds	<u>\$ 237,269</u>	<u>899,946</u>	<u>1,137,215</u>

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 16. ENDOWMENT (continued)

The following summarizes endowment related activities for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 310,667	\$ 952,309	\$ 1,262,976
Investment loss, net of expenses	(60,223)	(52,363)	(112,586)
Appropriation of assets for expenditure	(13,175)	-	(13,175)
Endowment net assets, end of year	<u>\$ 237,269</u>	<u>899,946</u>	<u>1,137,215</u>

Endowment composition consists of the following as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 310,667	\$ -	\$ 310,667
Donor restricted endowment funds	-	952,309	952,309
Total endowment funds	<u>\$ 310,667</u>	<u>\$ 952,309</u>	<u>\$ 1,262,976</u>

The following summarizes endowment related activities for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 143,499	\$ 868,948	\$ 1,012,447
Investment return, net of expenses	191,649	83,361	275,010
Appropriation of assets for expenditure	(24,481)	-	(24,481)
Endowment net assets, end of year	<u>\$ 310,667</u>	<u>\$ 952,309</u>	<u>\$ 1,262,976</u>

The following reflects the Organization's endowment net asset composition by fund type as of June 30, 2022:

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>43,740</u>
Total endowment funds classified as net assets with donor restrictions	<u>\$ 899,947</u>

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2022 and 2021

NOTE 17. 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. For the years ended June 30, 2022 and 2021, respectively, the Organization paid contributions in the amount of \$4,491 and \$13,962.

NOTE 18. RECLASSIFICATIONS

Certain items in the 2021 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

NOTE 19. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 26, 2023, the date which the financial statements were available to be issued.