



NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

As of and For
YEAR ENDED JUNE 30, 2023



MILLER CPA GROUP, P.C.
AN AUDITING AND CONSULTING FIRM

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
TABLE OF CONTENTS
June 30, 2023

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position as of June 30, 2023	3
Statement of Activities for the Year Ended June 30, 2023	4
Statement of Functional Expenses for the Year Ended June 30, 2023	5
Statement of Cash Flows for the Year Ended June 30, 2023	6
Notes to the Financial Statements	7 – 23



MILLER CPA GROUP, P.C.
AN AUDITING AND CONSULTING FIRM

INDEPENDENT AUDITORS' REPORT

To the Audit Committee
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 statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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.

Miller CPA Group, P.C.

Vista, California
February 21, 2024

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2023

	2023
Assets	
Current Assets	
Cash and cash equivalents	\$ 765,467
Accounts receivable	4,882
Unconditional promises to give	75,000
Prepaid expenses and other assets	38,332
Total Current Assets	883,681
Noncurrent Assets	
Investments (Note 6)	1,578,243
Property and equipment, net of accumulated depreciation (Note 7)	3,278,523
Beneficial interest in endowment funds (Note 13)	1,183,686
Total Assets	\$ 6,924,133
Liabilities and Net Assets	
Current Liabilities	
Line of credit	\$ 200,000
Accounts payable and accrued expenses	87,458
Graduate support and scholarships payable (Note 8)	122,500
Other liabilities	675
Deferred revenue	2,500
Finance lease obligation, current portion (Note 9)	4,273
Total Current Liabilities	417,406
Noncurrent Liabilities	
Finance lease obligation, net of current portion (Note 9)	9,506
Total Liabilities	426,912
Commitments and Contingencies	
Net Assets	
Without donor restrictions (Note 12)	5,283,296
With donor restrictions (Note 12)	1,213,925
Total Net Assets	6,497,221
Total Liabilities and Net Assets	\$ 6,924,133

The accompanying notes are an integral part of the financial statements.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023

	2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 1,985,896	\$ 253,260	\$ 2,239,156
Contributed nonfinancial assets (Note 10)	13,137	-	13,137
Government grants and assistance	61,700	-	61,700
Special events less direct expenses of \$70,682	205,593	-	205,593
Nutrition reimbursements	40,084	-	40,084
Fees and uniforms	21,684	-	21,684
Investment gain	176,705	18,256	194,961
Interest income	6,077	-	6,077
Rental income (Note 11)	51,000	-	51,000
Net assets released from restrictions (Note 12)	217,252	(217,252)	-
Total Support and Revenue	2,779,128	54,264	2,833,392
Expenses			
Program services	1,948,245	-	1,948,245
Supporting services			
Management and general	415,954	-	415,954
Fundraising	332,589	-	332,589
Total Expenses	2,696,788	-	2,696,788
Change in Net Assets	82,340	54,264	136,604
Net Assets, Beginning	\$ 5,200,956	\$ 1,159,661	\$ 6,360,617
Net Assets, Ending	\$ 5,283,296	\$ 1,213,925	\$ 6,497,221

The accompanying notes are an integral part of the financial statements.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	<u>Program Expenses</u>			<u>Supporting Services</u>		
	<u>Middle School</u>	<u>Graduate Support</u>	<u>Total Program Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 836,081	\$ 170,290	\$ 1,006,371	\$ 152,141	\$ 174,900	\$ 1,333,412
Benefits	62,911	9,905	72,816	22,082	9,806	104,704
Payroll taxes	48,509	13,219	61,728	18,430	24,621	104,779
Professional fees	95,045	180	95,225	136,260	31,207	262,692
Office expenses	34,504	818	35,322	8,325	24,091	67,738
Information technology	76,881	-	76,881	6,455	10,312	93,648
Occupancy	66,274	236	66,510	1,059	1,406	68,975
Travel	4,269	69	4,338	2,698	583	7,619
Conferences and meetings	1,465	870	2,335	30,399	1,464	34,198
Interest	-	-	-	1,076	-	1,076
Depreciation	71,128	22,825	93,953	15,516	10,153	119,622
Insurance	31,883	3,423	35,306	15,431	6,198	56,935
Nutrition program	55,736	-	55,736	-	-	55,736
Graduate tuition assistance	-	288,889	288,889	-	-	288,889
Academic support	52,105	-	52,105	-	-	52,105
Marketing	730	-	730	6,082	37,848	44,660
Total expenses	\$ 1,437,521	\$ 510,724	\$ 1,948,245	\$ 415,954	\$ 332,589	\$ 2,696,788

The accompanying notes are an integral part of the financial statements.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023

	2023
Cash Flows From Operating Activities	
Change in net assets	\$ 136,604
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	119,622
Change in discount on pledge receivable	(1,886)
Contributed securities	(56,746)
Proceeds from sale of contributed securities	57,530
Gain on sale of contributed securities	(784)
Change in value of beneficial interest in endowment funds	(46,471)
Realized and unrealized gains	(106,936)
(Increase) decrease in operating assets	
Accounts receivable	7,963
Unconditional promises to give	75,000
Prepaid expenses and other assets	(29,777)
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	19,386
Deferred revenue	2,500
Other liabilities	(6,369)
Net Cash Provided by Operating Activities	169,636
Cash Flows From Investing Activities	
Purchases of property and equipment	(261,712)
Proceeds from sale of investments	112,000
Net Cash Used by Investing Activities	(149,712)
Cash Flows From Financing Activities	
Proceeds from line of credit	200,000
Payments on finance lease obligation	(4,095)
Net Cash Provided by Financing Activities	195,905
Net Change in Cash and Cash Equivalents	215,829
Cash and Cash Equivalents, Beginning	549,638
Cash and Cash Equivalents, Ending	\$ 765,467

The accompanying notes are an integral part of the financial statements.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 1. ORGANIZATION

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Year Ended June 30, 2023

NOTE 2. 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 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, accounts receivable, other assets, accounts payable and accrued expenses, fair value approximates carrying value.

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, 2023.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unconditional Promises to Give

Unconditional promises to give, including contributions and grants, represent contributions verifiably committed by donors that are scheduled for payment in the future. Unconditional promises are recognized as assets and contribution revenue in the period the promise is received. Unconditional promises that are expected to be collected within one year are recorded at net realizable value. Unconditional promises that are expected to be collected in future years are recorded at the present value of their estimated future cash flows discounted at a risk adjusted rate. Amortization of the discount is recorded as additional contribution revenue.

An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior giving history, type of contribution, and collection risk. Based on its prior experience with donors and grantors, management expects the contributions and grants receivable to be fully collectible. Accordingly, no allowance was considered necessary as of June 30, 2023.

Conditional promises to give are recognized when the conditions (e.g., barriers) on which they depend are substantially met.

Investments

Investments consist primarily of assets invested in balanced pool portfolios with various community foundations. The Organization accounts for investments in accordance with FASB ASC 958-320, Accounting for Certain Investments Held By Not-for-Profit Organizations. This standard requires that investments with readily determinable fair value be measured at fair value in the statement of financial position. Fair value of the respective balance pool portfolio is based on the valuation of underlying assets as provided by the respective community foundation.

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 returns are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. (See additional disclosures in Note 6).

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. (See additional disclosures in Note 13).

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 year ended June 30, 2023.

Leases

The Organization determines if an arrangement contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

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.

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 \$1,000. 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.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of the index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (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.

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.

Contributions and Support

The Organization recognizes revenue from contributions, including grants, in accordance with ASU 2018-08, Not-For-Profit Entities (ASC Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. In accordance with Topic 958, the Organization evaluates whether a transfer of assets is (i) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (ii) a contribution.

If the transfer of assets is determined to be an exchange transaction, the Organization applies guidance under Topic 606, discussed above. If the transfer of assets is determined to be a contribution, the Organization evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Organization is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Contributions and Support

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.

Conditional contributions and grants are not recognized until they become unconditional, that is, at the time when the conditions are substantially met. 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.

Government Grants and Assistance

The Organization received government grants and assistance from the State of California for nutritional reimbursements. As the government is not receiving a benefit as a result of these transactions, revenue is considered to be contributions to the Organization.

Nutrition Reimbursement

Nutrition reimbursements are recognized as revenue on the statement 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 additional disclosures in Note 10).

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Functional Expenses

It is the policy of the Organization to ensure all expenses incurred are consistently and appropriately designated to their functional expense categories (program services, administrative, and fundraising) to allow for an accurate representation of the true program costs of the organization. Functional expenses are allocated as follows:

Direct Expense

Direct expenses relate to one classification and can be directly charged as incurred.

Shared Direct Expense

Shared direct expenses are those that are incurred in support of program work and can be allocated. Examples of shared direct expenses include occupancy costs, technology, equipment, telephone, postage, office supplies, etc.

Indirect Expense

Indirect expenses are only those expenses that are administrative in function. These typically include finance, human resources, and board expenses.

Allocation Basis – Payroll

The method of allocating costs for payroll is by the use of time studies. Employees document how time was being spent over a time period to determine, on average, where the employee is spending their time, whether it be program, management or fundraising.

Expense Allocation Process

Program: Costs that result in the Organization fulfilling its mission.

Management: Costs necessary for the operations of the Organization that are not identifiable with a specific program or fundraising.

Fundraising: Costs that involve seeking, soliciting, or securing contributions.

This allocation process achieves a complete distribution of expenses to program areas and provides the Organization with an accurate understanding of true program costs.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 year ended June 30, 2023.

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 year ended June 30, 2023. Management believes the Organization is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to June 30, 2019.

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 3. 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:	2023
Cash	\$ 765,467
Accounts receivable	4,882
Unconditional promises to give, current	75,000
Investments and endowment funds	2,761,929
Total financial assets	3,607,278
Less amounts not available to be used within one year:	
Board-designated operating reserves	137,143
Board-designated reserves held in investments	1,140,749
Investments designated for scholarships	437,494
Board-designated quasi-endowment funds	130,626
Portion of donor-restricted endowment to be retained in perpetuity	856,207
	2,702,219
Financial assets available to meet general expenditures over the next twelve months	\$ 905,059

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 3. AVAILABILITY AND LIQUIDITY

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 4. 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, 2023, the Organization exceeded federally insured limits by \$273,954.

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 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, 2023.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 5. FAIR VALUE MEASUREMENTS (continued)

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

Asset	2023			Total Fair Value
	Unadjusted Quoted Prices (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Balanced pool portfolio – Rancho Santa Fe Foundation	\$ -	\$ -	\$ 1,578,243	\$ 1,578,243
Beneficial interest in endowment funds –				
San Diego Foundation	-	-	672,357	672,357
Catholic Community Foundation	-	-	263,711	263,711
Rancho Santa Fe Foundation	-	-	247,618	247,618
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,761,929</u>	<u>\$ 2,761,929</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:

Asset	Fair Value	2023		
		Principal Valuation Technique	Unobservable Inputs	Significant Input Value
Balanced pool portfolio –				
Rancho Santa Fe Foundation	\$ 1,578,243	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A
Beneficial interest in endowment funds –				
San Diego Foundation	672,357	Valuation of underlying assets as provided by San Diego Foundation	Base Price	N/A
Catholic Community Foundation	263,711	Valuation of underlying assets as provided by Catholic Community Foundation	Base Price	N/A
Rancho Santa Fe Foundation	247,618	Valuation of underlying assets as provided by Rancho Santa Fe Foundation	Base Price	N/A

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

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.

	<u>RSFF</u>
U.S. equities	42%
International equities	15%
Emerging markets	5%
Bonds/Fixed Income	29%
Real assets/real estate	5%
Cash	4%
	<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 year ended June 30:

	<u>2023</u>
Beginning balance	\$ 1,583,306
Investment income (loss), net of fees	<u>(5,063)</u>
Ending balance	\$ <u>1,578,243</u>

NOTE 7. PROPERTY AND EQUIPMENT

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

	<u>2023</u>
Buildings and improvements	\$ 1,610,719
Computers and equipment	112,525
Furniture and fixtures	80,961
Automobile	<u>67,890</u>
	1,872,095
Less accumulated depreciation	<u>(463,479)</u>
Construction in process	270,363
Land	<u>1,599,544</u>
	\$ <u>3,278,523</u>

Depreciation expense was \$119,622 for the year ended June 30, 2023.

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 8. GRADUATE SUPPORT AND SCHOLARSHIPS

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 amounts that have been awarded, but not yet paid, for the upcoming school year. As of June 30, 2023, the balance of the graduate support fund payable account was \$122,500.

NOTE 9. FINANCE LEASE

As discussed in Note 1, the Organization recognizes leases in accordance with ASU 2016-02 (Topic 842) Leases. Under Topic 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 the effective interest 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.

Property and equipment comprise owned and leased assets:

	2023
Gross property and equipment	
Owned	\$ 3,720,523
Right-of-use assets	21,479
Property and equipment at cost	\$ 3,742,002
Right-of-use assets	
Balance as of July 1, 2022	\$ 17,541
Depreciation charge for the year	(4,296)
Net, balance as of June 30, 2023	\$ 13,245

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

	Year Ending June 30,	
2024		\$ 4,776
2025		4,776
2026		4,776
2027		398
Total minimum lease payments		14,726
Less amount representing interest		(947)
Present value of net minimum lease payments		\$ 13,779

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 10. CONTRIBUTED NONFINANCIAL ASSETS

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

Nonfinancial Asset	2023	2022	Usage in programs/ activities	Donor imposed restrictions	Fair value techniques and inputs
Artwork	\$ 3,000	\$ -	Fundraising	None	Estimates based on prices of identical or similar products.
Professional Services	5,000	-	Fundraising	None	Estimates based on prices of identical or similar products.
Sports equipment	927	-	Middle school program	None	Estimates based on prices of identical or similar products.
Special event supplies	3,124	-	Fundraising	None	Estimates based on prices of identical or similar products.
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	849	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	237	550	Middle school program	None	Estimates based on prices of identical or similar products.
Total	\$ 13,137	\$ 4,367			

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 Year Ended June 30, 2023

NOTE 11. RENTAL INCOME

The Organization leases space to unrelated religious organizations under various month to month leases agreement. Rental income for the year ended June 30, 2023 was \$51,000.

NOTE 12. NET ASSETS

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

	2023
Undesignated	\$ 3,537,282
Board-designated	1,746,012
Total net assets without donor restrictions	\$ 5,283,296

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:

	2023
Purpose restricted:	
Scholarships	\$ 120,000
Middle school program activities	100,722
Time restricted:	
Pledges	75,000
Endowment funds subject to appropriation	61,996
Permanent endowments:	
Corpus value	856,207
Total net assets with donor restrictions	\$ 1,213,925

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

	2023
Satisfaction of time restrictions	\$ 73,114
Satisfaction of purpose restriction	144,138
Total net assets released from donor restrictions	\$ 217,252

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 13. 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, 2023.

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 Year Ended June 30, 2023

NOTE 13. ENDOWMENT (continued)

As of June 30, 2023, the beneficial interest in endowed pooled funds reflects approximate allocations as follows:

	<u>SDF</u>	<u>CCF</u>	<u>RSFF</u>
U.S. equities	-	41%	42%
International equities	46%	32%	16%
Emerging markets	-	-	5%
Bonds/Fixed Income	10%	14%	30%
Hedge funds	15%	-	-
Private equity/credit	18%	3%	-
Alternative	-	5%	-
Real assets/real estate	11%	5%	5%
Cash	-	-	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Endowment composition consists of the following as of June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment funds	\$ 265,483	\$ -	\$ 265,483
Donor restricted endowment funds	<u>-</u>	<u>918,203</u>	<u>918,203</u>
Total endowment funds	<u>\$ 265,483</u>	<u>\$ 918,203</u>	<u>\$ 1,183,686</u>

The following summarizes endowment related activities for the year ended June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 237,269	\$ 899,946	\$ 1,137,215
Investment gain, net of expenses	68,824	18,257	87,081
Appropriation of assets for expenditure	<u>(40,610)</u>	<u>-</u>	<u>(40,610)</u>
Endowment net assets, end of year	<u>\$ 265,483</u>	<u>\$ 918,203</u>	<u>\$ 1,183,686</u>

NATIVITY PREP ACADEMY OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023

NOTE 13. ENDOWMENT (continued)

The following reflects the Organization’s endowment net asset composition by fund type as of June 30, 2023:

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>61,996</u>
Total endowment funds classified as net assets with donor restrictions	\$ <u>918,203</u>

NOTE 14. 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 year ended June 30, 2023, the Organization paid contributions in the amount of \$8,972.

NOTE 15. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 21, 2024, the date on which the financial statements were available to be issued.