

San Francisco Nativity Academy

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

San Francisco Nativity Academy

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of June 30, 2020 and 2019	2
Statement of Activities for the year ended June 30, 2020	3
Statement of Activities for the year ended June 30, 2019	4
Statements of Cash Flows for the years ended June 30, 2020 and 2019	5
Statements of Functional Expenses for the years ended June 30, 2020 and 2019	6
Notes to Financial Statements for the years ended June 30, 2020 and 2019	7

Independent Auditors' Report

To the Board of Trustees of
San Francisco Nativity Academy:

We have audited the accompanying financial statements of San Francisco Nativity Academy, which comprise the statements of financial position as of June 30, 2020 and 2019 and the related statements of activities, of cash flows, and of functional expenses for the years then ended, and the related notes to the financial statements.

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

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Francisco Nativity Academy as of June 30, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



January 12, 2021

San Francisco Nativity Academy

Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 266,510	\$ 30,422
Contributions receivable, net <i>(Note 4)</i>	51,259	63,614
Deposits and other assets	7,309	8,323
Property, net <i>(Note 5)</i>	<u>1,719,091</u>	<u>1,685,604</u>
TOTAL ASSETS	<u>\$ 2,044,169</u>	<u>\$ 1,787,963</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 52,144	\$ 31,872
Paycheck Protection Program refundable advance <i>(Note 3)</i>	111,400	
Notes payable <i>(Note 6)</i>	<u>1,332,214</u>	<u>1,199,824</u>
Total liabilities	<u>1,495,758</u>	<u>1,231,696</u>
Net assets:		
Without donor restrictions <i>(Note 7)</i>	489,325	472,653
With donor restrictions <i>(Note 8)</i>	<u>59,086</u>	<u>83,614</u>
Total net assets	<u>548,411</u>	<u>556,267</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,044,169</u>	<u>\$ 1,787,963</u>

See accompanying notes to financial statements.

San Francisco Nativity Academy

Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 552,740	\$ 317,238	\$ 869,978
Special events	103,025		103,025
Direct donor benefits	(10,096)		(10,096)
Program fees and other income	<u>14,382</u>	<u></u>	<u>14,382</u>
Total revenue	660,051	317,238	977,289
Net assets released from restrictions:			
Program expenditures	315,516	(315,516)	
Release of time restrictions	<u>26,250</u>	<u>(26,250)</u>	<u></u>
Total	<u>1,001,817</u>	<u>(24,528)</u>	<u>977,289</u>
EXPENSES:			
Instructional services	884,387		884,387
Management and general	46,128		46,128
Fundraising	<u>54,630</u>	<u></u>	<u>54,630</u>
Total expenses	<u>985,145</u>	<u></u>	<u>985,145</u>
CHANGES IN NET ASSETS	16,672	(24,528)	(7,856)
Net assets, beginning of year	<u>472,653</u>	<u>83,614</u>	<u>556,267</u>
Net assets, end of year	<u>\$ 489,325</u>	<u>\$ 59,086</u>	<u>\$ 548,411</u>

See accompanying notes to financial statements.

San Francisco Nativity Academy

Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 474,286	\$ 319,252	\$ 793,538
Special events	153,105		153,105
Direct donor benefits	(9,101)		(9,101)
Program fees and other income	<u>14,407</u>		<u>14,407</u>
Total revenue	632,697	319,252	951,949
Net assets released from restrictions:			
Program expenditures	284,674	(284,674)	
Release of time restrictions	<u>37,750</u>	<u>(37,750)</u>	
Total	<u>955,121</u>	<u>(3,172)</u>	<u>951,949</u>
EXPENSES:			
Instructional services	832,355		832,355
Management and general	83,824		83,824
Fundraising	<u>46,682</u>		<u>46,682</u>
Total expenses	<u>962,861</u>		<u>962,861</u>
CHANGES IN NET ASSETS BEFORE UNUSUAL AND INFREQUENT ITEM	(7,740)	(3,172)	(10,912)
Unusual and infrequent item (Note 9):			
Contributions restricted for building damage repairs		10,524	10,524
Contributions released for building damage repairs	10,524	(10,524)	
Insurance proceeds for building damage repairs	61,129		61,129
Building damage repairs	<u>(204,827)</u>		<u>(204,827)</u>
CHANGES IN NET ASSETS	(140,914)	(3,172)	(144,086)
Net assets, beginning of year	<u>613,567</u>	<u>86,786</u>	<u>700,353</u>
Net assets, end of year	<u>\$ 472,653</u>	<u>\$ 83,614</u>	<u>\$ 556,267</u>

See accompanying notes to financial statements.

San Francisco Nativity Academy

Statements of Cash Flows for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (7,856)	\$ (144,086)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	36,429	34,943
In-kind contribution for property	(40,506)	
Contributions for property	(23,119)	
Changes in operating assets and liabilities:		
Contributions receivable	12,355	23,172
Deposits and other assets	1,014	48,544
Accounts payable and accrued expenses	20,272	10,994
Paycheck Protection Program refundable advance	<u>111,400</u>	<u> </u>
Net cash provided (used) by operating activities	<u>109,989</u>	<u>(26,433)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	150,000	
Repayments of notes payable	<u>(17,610)</u>	<u>(16,667)</u>
Net cash provided (used) by financing activities	<u>132,390</u>	<u>(16,667)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Contributions for property	23,119	
Purchase of property	<u>(29,410)</u>	<u>(99,492)</u>
Net cash used by investing activities	<u>(6,291)</u>	<u>(99,492)</u>
NET CHANGE IN CASH	236,088	(142,592)
Cash, beginning of year	<u>30,422</u>	<u>173,014</u>
Cash, end of year	<u>\$ 266,510</u>	<u>\$ 30,422</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest payments	\$71,641	\$72,546

See accompanying notes to financial statements.

San Francisco Nativity Academy

Statements of Functional Expenses for the years ended June 30, 2020 and 2019

	INSTRUCTIONAL SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2020 TOTAL
Salaries, taxes, and benefits	\$ 587,041	\$ 15,607	\$ 7,789	\$ 610,437
Interest and fees	70,209	3,817	716	74,742
Student meals	69,348			69,348
Utilities	27,654	501	709	28,864
Materials and supplies	43,082	4,472	1,909	49,463
Depreciation	35,701	364	364	36,429
Professional and contract fees		18,500	36,000	54,500
Insurance	26,621	272	272	27,165
Building repairs and maintenance	12,997	133	133	13,263
Other	11,734	2,462	6,738	20,934
Total expenses	<u>\$ 884,387</u>	<u>\$ 46,128</u>	<u>\$ 54,630</u>	985,145
Direct donor benefits				<u>10,096</u>
Total				<u>\$ 995,241</u>

	INSTRUCTIONAL SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2019 TOTAL
Salaries, taxes, and benefits	\$ 553,789	\$ 28,991	\$ 15,928	\$ 598,708
Interest and fees	64,566	9,180	1,623	75,369
Student meals	72,345			72,345
Utilities	45,749	4,065	977	50,791
Materials and supplies	31,460	3,378	9,368	44,206
Depreciation	34,290	308	345	34,943
Professional and contract fees	153	18,342	16,093	34,588
Insurance	18,419	2,547	414	21,380
Building repairs and maintenance	3,466	13,092	125	16,683
Other	8,118	3,921	1,809	13,848
Total expenses	<u>\$ 832,355</u>	<u>\$ 83,824</u>	<u>\$ 46,682</u>	962,861
Direct donor benefits				9,101
Building damage repairs				<u>204,827</u>
Total				<u>\$ 1,176,789</u>

See accompanying notes to financial statements.

San Francisco Nativity Academy

Notes to Financial Statements for the years ended June 30, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – San Francisco Nativity Academy (the Academy) was founded in 2014 and is a nonprofit corporation located in Houston, Texas. The Academy is a non-tuition based, private Christian pre-kindergarten 3 through 8th grade school serving exclusively low-income students and families of all faiths and cultures through a challenging, progressive curriculum, personalized attention, extended days, and a longer school year. During 2020, the Academy had pre-kindergarten through first grade class for a total of 81 students enrolled. An additional grade will be added each year until the 8th grade level is reached.

Federal income tax status – The Academy is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(ii).

Contributions receivable that are due within one year are reported at net realizable value. Amounts due in more than one year are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. An allowance for uncollectible contributions receivable is provided when it is believed receivables may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of contributions receivable balances each period.

Property is reported at cost if purchased and at fair value at the date of gift if donated. The Academy capitalizes expenditures in excess of \$5,000 for property. Depreciation is provided on a straight-line basis over an estimated useful life of 40 years for building and improvements.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the Academy is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advance. For the year ended June 30, 2020, \$396,608 or 46% of contributions were from two donors. For the year ended June 30, 2019, \$420,833 or 52% of contributions were from three donors.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During 2020, the Academy received in-kind donations for program of food supplies, supplies and educational equipment totaling \$119,258. During 2019, the Academy received in-kind donations for program food and educational equipment totaling \$64,185.

A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Amounts received in advance are reported as a refundable advance. Direct donor benefits represent the cost of goods and services provided to attendees of special events.

Program fees represent family fees and are recognized monthly as services are provided. Program fees are due monthly. There are no contract assets or liabilities at June 30, 2020, 2019, or 2018.

Functional allocation of expenses – Expenses are reported by their functional classification. Instructional services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Management and general activities are not directly identifiable with specific program or fundraising activities. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Building repairs and maintenance, interest, utilities, depreciation and insurance are allocated based on square footage.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

Effective August 1, 2019, the Academy adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Revenue from contracts is recognized as performance obligations are satisfied, either at a point in time or ratably over time which is no longer than one year for any of the Academy's contracts. Also effective August 1, 2019, the Academy adopted the guidance in ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions.

The Academy adopted these new accounting standards using a retrospective method. Because the timing and amount of revenue recognized previously is not different from revenue recognized under new guidance, adoption of these standards had no impact on beginning net assets.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 266,510	\$ 30,422
Contributions receivable, net	<u>51,259</u>	<u>63,614</u>
Total financial assets	317,769	94,036
Less financial assets not available for general expenditure:		
Contributions receivable due in more than one year	<u>(20,000)</u>	<u>(40,000)</u>
Total financial assets available for general expenditure	<u>\$ 297,769</u>	<u>\$ 54,036</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Academy considers all expenditures related to its ongoing activities of education to low-income students and families to be general expenditures, as well as the conduct of services undertaken to support those activities. The Academy is substantially supported by contribution income and regularly monitors the liquidity required to meet its operating needs.

In April 2020, the Academy received a loan of approximately \$111,000 under the Small Business Administration's Paycheck Protection Program (PPP). The Academy expects all of the PPP loan to be forgiven since the proceeds were used to fund qualified payroll and other eligible costs. The loan is considered to be a conditional contribution and will be recognized as contribution revenue in 2021 upon forgiveness by the bank. Any amounts not forgiven bear interest at 1.0% and are due within 2 years. In addition, the Academy received an Economic Injury Disaster Loan (EIDL) from the Small Business Administration (SBA) in the amount of \$150,000. See the terms of this loan in Note 6.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2020</u>	<u>2019</u>
Contributions receivable	\$ 53,119	\$ 66,250
Discount at 2.63%	<u>(1,860)</u>	<u>(2,636)</u>
Contributions receivable, net	<u>\$ 51,259</u>	<u>\$ 63,614</u>

Contributions receivable at June 30, 2020 are expected to be collected as follows:

Less than one year	\$ 33,119
One to three years	<u>20,000</u>
Total contributions receivable	<u>\$ 53,119</u>

At June 30, 2020, approximately 75% of contributions receivable are due from one foundation.

NOTE 5 – PROPERTY

Property is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 399,450	\$ 399,450
Building and improvements	<u>1,471,230</u>	<u>1,401,314</u>
Total property, at cost	1,870,680	1,800,764
Accumulated depreciation	<u>(151,589)</u>	<u>(115,160)</u>
Property, net	<u>\$ 1,719,091</u>	<u>\$ 1,685,604</u>

NOTE 6 – NOTES PAYABLE

In December 2015, the Academy entered into a mortgage note payable for \$1,550,000 at a fixed rate of 6% per annum to purchase the land and building where the Academy is located. The land and building are pledged as collateral for the note payable. The Academy pays monthly payments of \$7,434 for interest and principal, at the rate of 6% per annum. A balloon payment for remaining principal of \$1,155,531 is payable on January 1, 2022.

In June 2020, the Academy received an Economic Injury Disaster Loan (EIDL) of \$150,000 funded by SBA. The loan bears interest at 2.75% and all remaining principal and accrued interest are due and payable 30 years from the date of the note in June 2050. Interest payments of \$641 are due monthly beginning in June 2021. Collateral includes all property that the Academy now owns or will acquire in the future.

As of June 30, 2020, the note payable is due as follows:

2021	\$ 18,964
2022	1,166,957
2023	3,520
2024	3,918
2025	3,719
Thereafter	<u>135,136</u>
Total note payable	<u>\$ 1,332,214</u>

Interest expense of \$71,641 and \$72,546 was recognized in 2020 and 2019, respectively.

NOTE 7 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2020</u>	<u>2019</u>
Property, net of related debt	\$ 536,877	\$ 527,467
Undesignated	<u>(47,552)</u>	<u>(54,814)</u>
Total net assets without donor restrictions	<u>\$ 489,325</u>	<u>\$ 472,653</u>

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to passage of time	\$ 38,140	\$ 63,614
Subject to expenditure for specified purpose:		
Classroom equipment	15,205	
Elevator repairs	5,000	
Consulting services		20,000
Other	<u>741</u>	<u> </u>
Total net assets with donor restrictions	<u>\$ 59,086</u>	<u>\$ 83,614</u>

NOTE 9 – UNUSUAL AND INFREQUENT ITEM

During 2019, the Academy's building incurred unexpected expenditures for mold remediation costs and plumbing-related water damage totaling \$204,827. Insurance proceeds and restricted contributions totaling \$71,653 were received to offset these expenditures. Management does not expect to incur such costs in the future.

NOTE 10 – SUBSEQUENT EVENTS

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. In fiscal year 2020, the Academy provided services remotely as the school campus was closed. The extent of the impact of COVID-19 on the Academy's future operational and financial performance will depend on developments such as the duration and spread of the outbreak, and the impact on the Academy's students, employees, and donors, all of which are uncertain and cannot be predicted.

The Academy received notice of forgiveness of the PPP loan in November 2020 and will recognize it as contributions revenue in fiscal year 2021.

Management has evaluated subsequent events through January 12, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.