

The Gesu School, Inc.

Financial Statements

Years Ended June 30, 2020 and 2019



WIPFLI

Independent Auditor's Report

Board of Trustees
The Gesu School, Inc.
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of The Gesu School, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Gesu School, Inc. as of June 30, 2020 and 2019, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

December 3, 2020
Philadelphia, Pennsylvania

The Gesu School, Inc.

Statements of Financial Position

<i>As of June 30, 2020 and 2019</i>	2020	2019
ASSETS		
Cash and cash equivalents	\$ 6,270,355	\$ 4,436,977
Investments:		
Marketable securities	20,408,532	19,768,006
Other	84,179	82,023
Tuition receivable, net of allowance for doubtful accounts of \$0 and \$28,674 in 2020 and 2019, respectively	3,063	28,674
Unconditional promises to give, net of allowance for doubtful accounts of \$309,000 in 2020 and 2019	2,370,211	1,115,320
Other receivables	-	7,024
Prepaid expenses	66,067	64,942
Property and equipment, net	6,052,334	5,968,142
Property held for future development	118,500	115,000
TOTAL ASSETS	\$ 35,373,241	\$ 31,586,108
LIABILITIES		
Accounts payable and accrued expenses	\$ 670,215	\$ 563,324
Deferred revenue	22,930	74,558
Loan payable	-	2,569
Refundable advance	829,800	-
Total Liabilities	1,522,945	640,451
NET ASSETS		
Without donor restrictions	20,346,260	19,032,057
With donor restrictions	13,504,036	11,913,600
Total Net Assets	33,850,296	30,945,657
TOTAL LIABILITIES AND NET ASSETS	\$ 35,373,241	\$ 31,586,108

See accompanying notes to financial statements.

The Gesu School, Inc.

Statement of Activities

<i>Year Ended June 30, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 3,363,134	\$ 3,896,223	\$ 7,259,357
Tuition and registration fees, net of scholarships and discounts	640,813	-	640,813
Interest and dividend income	243,629	181,653	425,282
Endowment return used for operations	669,495	258,439	927,934
Other	25,880	-	25,880
Net assets released from restriction	2,763,944	(2,763,944)	-
Total Public Support and Revenues	7,706,895	1,572,371	9,279,266
EXPENSES			
School and related programs	4,249,543	-	4,249,543
Management and general	936,870	-	936,870
Fundraising	907,625	-	907,625
Total Expenses	6,094,038	-	6,094,038
Excess of Public Support and Revenues Over Expenses	1,612,857	1,572,371	3,185,228
Unrealized and realized gain (loss) on investments, net of endowment return used for operations	(298,654)	18,065	(280,589)
CHANGE IN NET ASSETS	1,314,203	1,590,436	2,904,639
NET ASSETS - BEGINNING OF YEAR	19,032,057	11,913,600	30,945,657
NET ASSETS - END OF YEAR	\$ 20,346,260	\$ 13,504,036	\$ 33,850,296

See accompanying notes to financial statements.

The Gesu School, Inc.

Statement of Activities

<i>Year Ended June 30, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Contributions	\$ 1,957,074	\$ 2,979,884	\$ 4,936,958
Tuition and registration fees, net of scholarships and discounts	805,699	-	805,699
Interest and dividend income	289,853	207,827	497,680
Endowment return used for operations	631,995	239,783	871,778
Other	40,478	-	40,478
Net assets released from restriction	2,282,774	(2,282,774)	-
Total Public Support and Revenues	6,007,873	1,144,720	7,152,593
EXPENSES			
School and related programs	3,951,921	-	3,951,921
Management and general	858,281	-	858,281
Fundraising	880,138	-	880,138
Total Expenses	5,690,340	-	5,690,340
Excess of Public Support and Revenues Over Expenses	317,533	1,144,720	1,462,253
Unrealized and realized loss on investments, net of endowment return used for operations	(501,209)	(146,009)	(647,218)
CHANGE IN NET ASSETS	(183,676)	998,711	815,035
NET ASSETS - BEGINNING OF YEAR	19,215,733	10,914,889	30,130,622
NET ASSETS - END OF YEAR	\$ 19,032,057	\$ 11,913,600	\$ 30,945,657

See accompanying notes to financial statements.

The Gesu School, Inc.

Statement of Functional Expenses

<i>Year Ended June 30, 2020</i>	Program Services	Supporting Services		Total
	School and Related Programs	Management and General	Fundraising	
Advertising and promotion	\$ 776	\$ -	\$ 96,565	\$ 97,341
Bad debt expense	23,715	-	-	23,715
Conferences and meetings	18,449	-	6,263	24,712
Depreciation and amortization	337,243	3,816	4,463	345,522
Employee benefits	343,236	81,260	67,237	491,733
Event expenses	-	-	75,696	75,696
Information technology	24,219	274	24,483	48,976
Insurance	84,744	959	1,122	86,825
Meals and entertainment	21,089	-	-	21,089
Occupancy	226,703	2,565	3,584	232,852
Office expenses	27,608	7,334	27,128	62,070
Payroll taxes	184,394	49,620	38,999	273,013
Professional fees and services	70,943	83,525	939	155,407
Salaries and wages	2,756,453	707,517	554,733	4,018,703
Scholarships and discounts	3,411,818	-	-	3,411,818
Student activities	44,006	-	-	44,006
Supplies and other	70,871	-	4,669	75,540
Travel	15,094	-	1,744	16,838
Total expenses by function	7,661,361	936,870	907,625	9,505,856
Less expenses included with revenues on the statement of activities:				
Scholarships and discounts	(3,411,818)	-	-	(3,411,818)
TOTAL EXPENSES	\$ 4,249,543	\$ 936,870	\$ 907,625	\$ 6,094,038

See accompanying notes to financial statements.

The Gesu School, Inc.

Statement of Functional Expenses

<i>Year Ended June 30, 2019</i>	Program Services	Supporting Services		Total
	School and Related Programs	Management and General	Fundraising	
Advertising and promotion	\$ 892	\$ -	\$ 78,976	\$ 79,868
Bad debt expense	10,926	9,000	-	19,926
Conferences and meetings	15,219	-	8,098	23,317
Depreciation and amortization	312,378	3,534	4,135	320,047
Employee benefits	306,508	80,764	52,745	440,017
Event expenses	-	-	152,107	152,107
Information technology	19,637	222	16,345	36,204
Insurance	65,768	744	870	67,382
Meals and entertainment	34,272	-	-	34,272
Occupancy	269,884	3,054	4,216	277,154
Office expenses	17,061	4,318	25,601	46,980
Payroll taxes	167,674	47,644	36,157	251,475
Professional fees and services	79,693	64,951	1,055	145,699
Salaries and wages	2,477,254	644,050	489,539	3,610,843
Scholarships and discounts	3,535,535	-	-	3,535,535
Student activities	61,212	-	-	61,212
Supplies and other	93,659	-	6,659	100,318
Travel	19,884	-	3,635	23,519
Total expenses by function	7,487,456	858,281	880,138	9,225,875
Less expenses included with revenues on the statement of activities:				
Scholarships and discounts	(3,535,535)	-	-	(3,535,535)
TOTAL EXPENSES	\$ 3,951,921	\$ 858,281	\$ 880,138	\$ 5,690,340

See accompanying notes to financial statements.

The Gesu School, Inc.

Statements of Cash Flows

<i>Years Ended June 30, 2020 and 2019</i>	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,904,639	\$ 815,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	345,522	320,047
(Recovery of) provision for uncollectible tuition	(28,674)	3,674
Change in reserve for uncollectible promises to give	-	9,000
Unrealized and realized gain on investments	(647,345)	(224,560)
Change in operating assets and liabilities:		
Tuition receivable	54,285	(9,145)
Unconditional promises to give	(1,254,891)	(746,105)
Other receivables	7,024	(7,024)
Prepaid expenses	(1,125)	(28,556)
Accounts payable and accrued expenses	(10,649)	52,581
Deferred revenue	(51,628)	28,626
Refundable advance	829,800	-
Net Cash Provided by Operating Activities	2,146,958	213,573
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment, including property held for future development and construction in progress	(315,674)	(160,006)
Purchases of investments	(9,310,154)	(12,201,690)
Proceeds from sale of investments	9,314,817	12,550,433
Net Cash Provided by (Used in) Investing Activities	(311,011)	188,737
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on loan payable	(2,569)	(2,347)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,833,378	399,963
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,436,977	4,037,014
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,270,355	\$ 4,436,977
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the years for:		
Interest	\$ 4	\$ 216
Additions to construction in progress through accounts payable	\$ 117,540	\$ 97,805

See accompanying notes to financial statements.

The Gesu School, Inc.

Notes to Financial Statements

Note 1: Background and Organization

The Gesu School, Inc. (the "Organization"), a Pennsylvania non-profit corporation, was founded in June 1993. The Gesu School, Inc. is a private, full-time, twenty-classroom elementary school to educate children from pre-kindergarten through eighth grade. The Organization follows the curriculum used by Catholic elementary schools in the Archdiocese of Philadelphia, Pennsylvania. The Organization also conducts an after-school care program for children enrolled in the school.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are reported as follows:

Net assets without donor restrictions are not subject to donor-imposed stipulations. The Board of Directors may elect to designate such assets for specific purposes or to have them function as endowments. This designation may be removed at the Board's discretion.

Net assets with donor restrictions are subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature such as those that will be met either by actions of the Organization or by the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 period. Actual results could differ from those estimates. Management routinely makes estimates, including the allowance for doubtful accounts, discount on pledges receivable, useful lives of depreciable assets, fair value of alternative investments, and the fair value of the lease on the school building.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include unrestricted cash in checking and money market accounts held by banks and custodial investment firms.

The Gesu School, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Investments

Investments in equity and bond mutual funds are reported at fair value in the statements of financial position. Other investments in partnership interests and private funds without readily determinable fair values are reported at fair value based on net asset value (NAV) in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Tuition Receivable

Tuition receivable consists of amounts due from enrolled students. Management reviews the collectibility of these receivables at year-end and determines an appropriate allowance for doubtful accounts. Those balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to tuition receivable.

Property and Equipment

Substantially all of the Organization's property and equipment have been contributed and recorded at the related fair market value at the date of contribution. Purchased property and equipment are stated at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$1,500 and expense lesser amounts. Depreciation is provided over the estimated useful lives of the applicable asset using the straight-line method. Leasehold improvements are amortized over the lesser of the length of related lease terms or the estimated useful lives of the assets.

	<u>Years</u>
Buildings and leasehold improvements	15 to 39
Office furniture and equipment	5 to 7

Property Held for Future Development

During fiscal year 2018, the Organization purchased a property located across from the Organization's existing facility. The intent is to demolish the building and use the land for future development, therefore no provision has been made to record depreciation.

Deferred Revenue

Deferred revenue represents tuition and registration fees collected from students that pertain to the next fiscal year.

The Gesu School, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Scholarships and Discounts

Tuition and registration fees are recorded gross at the Organization's normal tuition rates for all students. Scholarships given on the basis of financial need are netted against gross tuition and fees for reporting in the statements of activities. Total scholarships and discounts netted against gross tuition were approximately \$3,400,000 and \$3,500,000 for the years ended June 30, 2020 and 2019, respectively.

Public Support

Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in the second subsequent year and thereafter are recorded at the present value of their net realizable value, using an appropriate discount rate applicable to the years in which the promises are expected to be received.

Conditional contributions and grants, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Any funding received prior to overcoming the barrier is recorded as a refundable advance on the statements of financial position.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions and investments are reported as net assets without donor restrictions unless they are restricted as specified by the donor. Investment earnings available for distribution are recorded in net assets without restrictions. Investment earnings with donor restrictions are recorded in net assets with donor restrictions.

Allocation of Functional Expenses

The costs of providing the Organization's programs and activities have been summarized on a functional basis in the accompanying statements of activities. The statements of functional expenses present the natural classification detail of the expenses by function. Accordingly, expenses directly related to the programs and supporting services are combined with allocations of certain common costs of the Organization, which have been allocated based on estimates made by management. Expenses that are allocated include certain salaries, payroll taxes, and benefits, which are allocated according to time spent on performance of specific tasks; depreciation and amortization, information technology, insurance, occupancy, and professional fees and services expenses, all of which are allocated according to square footage.

The Gesu School, Inc.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Tax Status

The Organization is a qualified public charity under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Tax filings are subject to audit by various taxing authorities. Open periods subject to audit are generally the previous three years of tax returns filed.

Change in Accounting Policy

On June 21, 2018, the FASB issued ASU 2018-08, Not-For-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Amendments in this Update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, and determining whether a transaction is conditional. During the year ended June 30, 2020, the Organization implemented the provisions of this ASU under a modified prospective basis and there is no effect on net assets or the comparability with prior year financial statements.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, Revenue Recognition, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. In June 2020, the FASB issued ASU 2020-05 which provides nonpublic entities with a one-year deferral of the effective date of ASC 606. The Organization has elected to adopt this deferral and ASU No. 2014-09 is effective for the Organization's year ending June 30, 2021. The Organization is currently evaluating the impact of the provisions of ASC 606.

Note 3: Liquidity and Availability of Financial Resources

As of June 30, 2020 and 2019, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 1,060,378	\$ 1,059,161
Tuition receivable, net	3,063	28,674
Other receivables	-	7,024
<hr/>		
Total financial assets available within one year	1,063,441	1,094,859
Liquidity resource:		
Bank line of credit	1,000,000	1,000,000
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Total financial assets and liquidity resources available within one year	\$ 2,063,441	\$ 2,094,859

The Gesu School, Inc.

Notes to Financial Statements

Note 3: Liquidity and Availability of Financial Resources (Continued)

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As of June 30, 2020 and 2019, the Organization's board-designated endowment of \$12,996,441 and \$13,051,466, respectively, is subject to an annual spending rate of 4.25% as described in Note 11. Although the Organization does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

Note 4: Investments

The Organization's investments consist of the following as of June 30, 2020 and 2019:

Miller Investment Management - mutual funds: Holdings consist of shares of equity and bond mutual funds.

CMS/Winston Equity Partners II, LP: The fund's objective was to make controlled (or investor-controlled) investments in companies with defensible market positions and underlying organic potential. The fund intended to target opportunities to invest between \$3 million and \$10 million in companies that were projected by the fund to generate a compound internal rate of return in excess of 30%. The fund, which was set to expire on December 31, 2018, was extended by the fund managers and is expected to close by December 31, 2020, with the expectation that a sale of the remaining assets will occur by early 2021.

The following table includes a comparison of investment cost and fair value and additional disclosures for the CMS/Winston Equity Partners' II Fund, whose fair values are estimated using net asset value (NAV) as of June 30, 2020 and 2019:

	Cost	Fair Value	Unfunded Commitments	Redemption Frequency
<u>2020</u>				
CMS/Winston Equity Partners II, LP	\$ 148,140	\$ 84,179	\$ 2,760	Ineligible
<u>2019</u>				
CMS/Winston Equity Partners II, LP	\$ 148,140	\$ 82,023	\$ 2,760	Ineligible

The CMS/Winston Equity Partners II, LP has stated that it does not anticipate the need to call additional capital from investors and is in the process of liquidating its holdings.

The Gesu School, Inc.

Notes to Financial Statements

Note 4: Investments (Continued)

A comparison of investment cost and fair value is as follows for marketable securities reported at fair value as of June 30:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Miller Investment Management - mutual funds	\$ 17,203,143	\$ 20,408,532	\$ 17,126,731	\$ 19,768,006

These investments are exposed to various risks such as market volatility, interest rate and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the values of these securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Note 5: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs that are not observable in the market and reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

The Gesu School, Inc.

Notes to Financial Statements

Note 5: Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's financial instruments measured at fair value:

June 30, 2020				
	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity	\$ 9,565,561	\$ -	\$ -	\$ 9,565,561
Fixed income	7,440,144	-	-	7,440,144
International equity	3,402,827	-	-	3,402,827
Total investments in the fair value hierarchy	\$ 20,408,532	\$ -	\$ -	20,408,532
Investments measured at NAV				84,179
Total investments at fair value				\$ 20,492,711

June 30, 2019				
	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity	\$ 8,396,791	\$ -	\$ -	\$ 8,396,791
Fixed income	7,695,615	-	-	7,695,615
International equity	3,675,600	-	-	3,675,600
Total investment in the fair value hierarchy	\$ 19,768,006	\$ -	\$ -	19,768,006
Investments measured at NAV				82,023
Total investments at fair value				\$ 19,850,029

The following provides a brief description of the types of financial instruments the Organization holds and the methodology for estimating fair value.

Mutual Funds - These mutual funds invest in publicly traded fixed income and equity securities and have readily available market prices.

The Gesu School, Inc.

Notes to Financial Statements

Note 5: Fair Value Measurements (Continued)

Limited Partnerships - The limited partnerships are interests in private equity funds, representing the Organization's ownership interest in the net asset value (NAV) of the respective partnership. Investments held by the partnerships consist of marketable securities that do not have readily determinable fair values. The fair values of the investments held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investments, the fair value is determined by the general partner taking into consideration, among other things, the cost of the investments, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the investments relate.

Note 6: Unconditional Promises to Give

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

	2020	2019
Receivable in less than one year	\$ 1,462,980	\$ 484,640
Receivable in one to five years	1,355,000	1,071,639
Total unconditional promises to give	2,817,980	1,556,279
Less: Allowance for uncollectible promises to give	(309,000)	(309,000)
Less: Effect of discount to net present value	(138,769)	(131,959)
Unconditional promises to give, net	\$ 2,370,211	\$ 1,115,320

Unconditional promises to give that are due beyond one year are discounted using a discount rate of 2.25%.

Note 7: Property and Equipment, net

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

	2020	2019
Building and leasehold improvements	\$ 10,400,212	\$ 10,067,268
Furniture and fixtures	224,593	224,593
School equipment and computers	1,189,266	1,112,231
Library and reference books	19,300	19,300
Construction in progress	117,540	97,805
	11,950,911	11,521,197
Less accumulated depreciation and amortization	(5,898,577)	(5,553,055)
Total	\$ 6,052,334	\$ 5,968,142

The Gesu School, Inc.

Notes to Financial Statements

Note 7: Property and Equipment, net (Continued)

The Organization receives use of its school facilities from St. Joseph's Preparatory School under a lease agreement that expires on May 31, 2055. Under this agreement, the Organization is required to pay a nominal amount of rent; however, it is required to pay for all repairs and maintenance of the facility and for utilities. The value of the leased building over the term of the lease is \$1,850,000 and is included in building and leasehold improvements, and is being amortized over the estimated useful life of the facilities, which is less than the term of the lease. Accumulated amortization related to the contributed value of the leased building was \$715,493 and \$668,057 as of June 30, 2020 and 2019, respectively.

Depreciation and amortization expense was \$345,522 and \$320,047 for the years ended June 30, 2020 and 2019, respectively.

The Organization entered into a contract in fiscal 2020 in connection with the renovation of the school basement bathrooms. As of June 30, 2020, the contract amounts, including change orders, total approximately \$122,000. As of June 30, 2020, the total amount incurred under this contract was approximately \$118,000.

Note 8: Refundable Advance Liability – Paycheck Protection Program

At June 30, 2020, the Organization had a refundable advance liability of \$829,800. This amount represents the receipt of an award from the Small Business Administration's (SBA) Paycheck Protection Program (PPP) as a result of legislation passed to assist businesses in navigating the Coronavirus pandemic. The Organization has determined the award is a conditional grant and has applied the policy as described in Note 2. Accordingly, the award is reported as a refundable advance liability until the conditions are substantially met or explicitly waived.

The Organization has interpreted the condition of the award to be the approval of the forgiveness application by the lender and SBA. Should the conditions of the award not be substantially met or explicitly waived, all or a portion of the award will be treated as a loan bearing interest at 1% commencing upon receipt of notification of the unforgiven amount by the SBA, and would be required to be paid no later than April 2022.

Note 9: Net Assets Without Donor Restrictions

The Organization's Board of Trustees has approved that a portion of the net assets without donor restrictions be directed into a board-designated endowment. Investment earnings from the board-designated endowment are reinvested but are available for distribution at the discretion of the Board of Trustees. Investment earnings from the board-designated endowment are recorded as increases in net assets without donor restrictions. The board-designated endowment totaled \$12,996,441 and \$13,051,466 at June 30, 2020 and 2019, respectively, and is included in the net assets without donor restrictions balance as of June 30, 2020 and 2019.

The Gesu School, Inc.

Notes to Financial Statements

Note 10: Net Assets with Donor Restrictions

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

	2020	2019
Subject to expenditure for specified purposes:		
Accumulated earnings on permanently restricted endowment in excess of spending policy	\$ 2,829,900	\$ 2,630,182
After-school program	-	56,291
Building maintenance	80,000	-
Counseling program	70,000	140,000
Future value of leased building	1,134,507	1,181,943
GEM program	-	14,500
Graduate counselor expenses	447,700	143,279
Music program	3,000	-
Neighborhood Special Needs program	3,797	3,796
Science program	-	500
SERP	130,000	52,500
Student scholarships	38,968	19,114
Summer school program	-	1,550
Technology	-	1,413
YET program	47,547	41,200
Youngest Scholars program	57,917	52,810
Total subject to expenditure for specified purposes	4,843,336	4,339,078
Subject to the passage of time:		
Multi-year unconditional promises to give and other time restricted contributions	1,772,892	1,286,714
Endowments:		
Permanent funds subject to endowment spending policy and appropriation	6,887,808	6,287,808
Total net assets with donor restrictions	\$ 13,504,036	\$ 11,913,600

The Gesu School, Inc.

Notes to Financial Statements

Note 10: Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows for the years ended June 30:

	2020	2019
Satisfaction of purpose restrictions:		
Appropriation of endowment assets for expenditures	\$ 258,439	\$ 239,783
Advanced math program	-	3,000
After-school program	111,424	34,565
Building maintenance	20,000	-
Chapel	-	5,000
Counseling program	70,000	70,000
GEM program	18,955	-
Graduate counselor expenses	70,779	68,524
Music program	-	3,000
Science program	3,500	10,000
Student scholarships	1,974,652	1,550,583
Summer school program	2,300	-
Symposium	-	10,000
Teacher appreciation	-	3,633
Technology	1,413	-
Use of leased building	47,436	47,436
Writing program	20,000	30,000
YET program	19,153	-
Youngest Scholars program	44,893	-
Total purpose restrictions satisfied	2,662,944	2,075,524
Passage of time:		
Multi-year unconditional promises to give	101,000	207,250
Total net assets released from donor restrictions	\$ 2,763,944	\$ 2,282,774

Net assets were restricted in perpetuity at June 30, 2020 and 2019 as follows:

- a. \$100,000 and \$100,000, respectively, Edwin L. Knetzger Teaching Prize endowment established by an Organization trustee. Investment earnings from the teaching prize endowment are available to provide an annual award to a Gesu School teacher and are recorded as an increase in net assets without donor restrictions if the teaching prize is provided before the end of the fiscal year or as an increase in net assets with donor restrictions if not.

The Gesu School, Inc.

Notes to Financial Statements

Note 10: Net Assets with Donor Restrictions (Continued)

b. \$6,787,808 and \$6,187,808, respectively, scholarship endowment established by various contributors. Investment earnings from the scholarship endowment are available to provide scholarships to children attending the School and are recorded as an increase in net assets without donor restrictions if the scholarships are provided before the end of the fiscal year or as an increase in net assets with donor restrictions if not.

Note 11: Endowment Fund

As required by accounting principles generally accepted in the United States, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as quasi-endowments.

Interpretation of Relevant Law

The Organization interprets the Commonwealth of Pennsylvania Act 141 (Act 141) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as perpetually restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified as restricted in perpetuity and is regarded as "net appreciation" is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the Organization's spending policy.

Funds with Deficiencies

At times, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Act 141 requires the Organization to retain as a fund of perpetual duration (underwater endowments). We have interpreted Act 141 to permit spending from underwater endowments in accordance with prudent measures required under Act 141. As of June 30, 2020 and 2019, there were no funds with deficiencies. When applicable, these deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. Over time, these may reverse due to appreciation of the underlying investments.

Endowment Investment and Spending

The Organization has an investment committee which oversees the investment advisors' investment of endowment assets to protect the future purchasing power of the principal of the endowed funds and provide a source of income to support the activities of the Organization.

The Gesu School, Inc.

Notes to Financial Statements

Note 11: Endowment Fund (Continued)

Investment returns through June 30, 2020 have averaged an annual rate of return of 6.0% for the last five years. The return objective is to produce an average rate of return sufficient to preserve the purchasing power of the endowment after withdrawals are taken. Actual returns in any given year may vary from this amount.

The investment committee determines spending of the Organization's permanently restricted net assets in its investment portfolio within the parameters of Act 141 (between 2% to 7% of endowment value). For each of the years ended June 30, 2020 and 2019, the investment committee determined the spending rate to be 4.25% of donor-restricted and board-designated endowment funds in its investment portfolio, based on the investment portfolio's fair value determined quarterly on the last trading day of each calendar quarter and averaged over the 12 quarters through March 31 of the previous fiscal year.

Strategies Employed for Achieving Objectives

The investment objectives for the endowment require disciplined and consistent management that accommodates all those events which are relevant, reasonable, and probable. The management of the endowment should ensure a total return (yield plus capital appreciation) sufficient to preserve and enhance, in real dollar terms, the principal funds endowed net of withdrawals to support the Organization over the long term.

Investments of endowed funds are diversified so as to maximize expected returns while controlling risk. Within agreed upon parameters, investment managers have complete investment discretion based on the expectation that the assets of the fund will be invested with care, skill, prudence and diligence.

The asset allocation, consistent with the return objective, consisted of the following at June 30:

	% of Assets	
	2020	2019
Money market funds	15 %	8 %
Equity mutual funds	54	56
Bond mutual funds	30	35
Limited partnerships	1	1
	100 %	100 %

The Gesu School, Inc.

Notes to Financial Statements

Note 11: Endowment Fund (Continued)

Endowment Fund Activity

Endowment net assets composition by type of fund at June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 9,717,708	\$ 9,717,708
Board-designated endowment funds	12,996,441	-	12,996,441
Total funds	\$ 12,996,441	\$ 9,717,708	\$ 22,714,149

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 13,051,466	\$ 8,917,990	\$ 21,969,456
Investment return			
Interest and dividends	243,629	181,653	425,282
Unrealized and realized appreciation	370,841	276,504	647,345
Net investment return	614,470	458,157	1,072,627
Appropriation of endowment assets for expenditure (draw)	(669,495)	(258,439)	(927,934)
Contributions	-	600,000	600,000
Endowment net assets, end of year	\$ 12,996,441	\$ 9,717,708	\$ 22,714,149

Endowment net assets composition by type of fund at June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 8,917,990	\$ 8,917,990
Board-designated endowment funds	13,051,466	-	13,051,466
Total funds	\$ 13,051,466	\$ 8,917,990	\$ 21,969,456

The Gesu School, Inc.

Notes to Financial Statements

Note 11: Endowment Fund (Continued)

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 13,262,822	\$ 8,696,172	\$ 21,958,994
Investment return			
Interest and dividends	289,853	207,827	497,680
Unrealized and realized appreciation	130,786	93,774	224,560
Net investment return	420,639	301,601	722,240
Appropriation of endowment assets for expenditure (draw)	(631,995)	(239,783)	(871,778)
Contributions	-	160,000	160,000
Endowment net assets, end of year	\$ 13,051,466	\$ 8,917,990	\$ 21,969,456

Note 12: Commitments and Contingencies

Line of Credit

The Organization has a line of credit with a financial institution which provides for borrowings up to \$1,000,000 and bears interest at a floating interest rate at prime less 1% (2.25% effective rate at June 30, 2020), which has been extended through January 31, 2021 and is renewable annually. The line is secured by pledged cash of the Organization equal to \$1,350,000. There were no outstanding borrowings against the line of credit at June 30, 2020 and 2019.

Leases

The Organization leases school equipment under operating leases expiring through 2022. Rental expense for the years ended June 30, 2020 and 2019 was \$11,160 and \$11,282, respectively.

Future minimum lease payments under these operating leases as of June 30, 2020 are:

<u>Year Ending June 30,</u>		
2021	\$	11,282
2022		3,521
Total	\$	14,803

The Gesu School, Inc.

Notes to Financial Statements

Note 13: Risks and Uncertainties

As of June 30, 2020 and 2019, the Organization held financial instruments which potentially subject it to concentrations of credit risk. The financial instruments consist primarily of checking and money market accounts in excess of federally insured limits. As of June 30, 2020 and 2019, the uninsured balances were approximately \$6,014,000 and \$4,192,000, respectively. The Organization has not experienced any losses in such financial instruments. Management believes the Organization is not exposed to any significant credit risk related to cash and cash equivalents.

As a result of the COVID-19 pandemic, economic uncertainties have arisen which may negatively affect the financial position, operating results and cash flows of the Organization. These uncertainties include uncertain levels of donor giving, collections of tuition and fees, and market value fluctuations of investments. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 14: Related Party

During the fiscal year 2017, the Gesu School Scholarship #1 LLC, a Pennsylvania limited liability company (the "Company") was formed and organized exclusively to participate in the Pennsylvania Educational Improvement/Opportunity Scholarship Tax Credit Programs and earn Educational Improvement Tax Credits (EITC) and/or the Opportunity Scholarship Tax Credits (OSTC) from the Commonwealth of Pennsylvania. The Company is expected to make charitable scholarship donations in the future to the Organization. The Organization is providing management services to the Company. There were no transactions between the Organization and the Company during fiscal years 2020 and 2019.

Note 15: Employee Benefit Plans

Defined Contribution Retirement Plan

All full-time employees who have one year of service and have attained the age of 21 are eligible to participate in the Organization's defined contribution retirement plan. Pension expense for the years ended June 30, 2020 and 2019 was \$26,957 and \$21,370, respectively.

457(b) Plan

During the year ended June 30, 2019, the Board of Trustees of the Organization approved the creation of a contributory 457(b) plan for certain eligible employees. The plan is effective July 1, 2019, and eligibility for this plan is based solely on the discretion of the Board of Trustees. The Organization may make contributions to the plan at such time and in such amount as the Organization determines. Employee contributions to the plan amounted to \$19,000 and \$0 for the years ended June 30, 2020 and 2019, respectively. There were no employer contributions for the years ended June 30, 2020 and 2019.

The Gesu School, Inc.

Notes to Financial Statements

Note 15: Employee Benefit Plans (Continued)

457(f) Plan

During the year ended June 30, 2019, the Board of Trustees of the Organization approved the creation of a non-contributory 457(f) plan for the Organization's President/CEO. The plan is effective July 1, 2019, and requires the Organization to make annual credits during the four year period beginning July 1, 2019 and ending June 30, 2023, totaling \$250,000. As of June 30, 2020, the total liability relating to this plan was \$62,500, and expenses incurred amounted to \$62,500 for the year ended June 30, 2020.

The amounts contributed by the Organization will then be paid to the President/CEO within sixty days upon completing continuous employment from July 1, 2019 to June 30, 2023.

Note 16: Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 3, 2020, the date the financial statements were available to be issued.