

LOWELL CATHOLIC HIGH SCHOOL, INC.

Financial Statements

For the Year Ended June 30, 2006
(With Independent Auditors' Report)

Anstiss & Co., P.C.
Certified Public Accountants
Lowell, Massachusetts

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INDEPENDENT AUDITOR'S REPORT

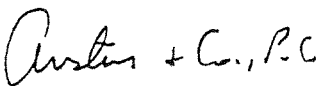
To the Board of Trustees
Lowell Catholic High School, Inc.
Lowell, MA 01851

We have audited the accompanying statements of financial position of Lowell Catholic High School, Inc., "the school", (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not recorded the fair value of its variable-to-fixed interest rate swap agreement "the agreement". The School is recognizing interest expense based on net payments currently due under the agreement without regard to any change in its estimated fair value. Accounting principles generally accepted in the United States of America require that an asset or liability be recorded equal to the estimated fair value of the agreement. The amount by which this departure would affect the assets, liabilities, net assets and expenses of the School is not reasonably determinable. Management has determined that the cost associated with estimating this amount is not justified based on the benefits that would be achieved.

In our opinion, except for the effects of not recording the fair value of the swap agreement as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Lowell Catholic High School, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.


Anstiss & Co., P.C.
Lowell, MA
September 27, 2006

Lowell Catholic High School, Inc.
Statements of Financial Position
June 30, 2006 and 2005

| | Assets | |
|--|------------------|------------------|
| | <u>2006</u> | <u>2005</u> |
| Assets | | |
| Cash and cash equivalents | \$ 505,234 | \$ 639,590 |
| Investments | 21,057 | 3,406,578 |
| Accounts receivable | 11,900 | - |
| Unconditional promises to give | - | 58,000 |
| Prepaid expenses | 71,169 | 16,579 |
| Property, equipment, and improvements, net | 6,897,122 | 3,324,317 |
| Total assets | \$ 7,506,482 | \$ 7,445,064 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 50,410 | \$ 245,164 |
| Accrued compensation | 102,417 | 106,212 |
| Deferred revenue | 291,186 | 162,190 |
| Bond payable | 4,250,000 | 4,250,000 |
| Total liabilities | 4,694,013 | 4,763,566 |
| Net Assets | | |
| Unrestricted | 2,698,286 | 2,598,467 |
| Temporarily restricted | 114,183 | 83,031 |
| Total net assets | 2,812,469 | 2,681,498 |
| Total liabilities and net assets | \$ 7,506,482 | \$ 7,445,064 |

See accompanying notes to the financial statements.

Lowell Catholic High School, Inc.
Statements of Unrestricted Revenues, Expenses, and Other Changes in Unrestricted Net Assets
For the years ended June 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|--------------|--------------|
| Support and Revenue | | |
| Tuition and fees | \$ 1,690,874 | \$ 1,563,925 |
| Donated use of facility | - | 115,322 |
| Contributions | 196,823 | 126,988 |
| Investment income | 6,758 | 10,216 |
| Facility rentals | 6,700 | 2,304 |
| Auxiliary services and other revenue | 84,833 | 244,145 |
| Net assets released from restrictions | 58,018 | 35,232 |
| | <hr/> | <hr/> |
| Total support and revenue | 2,044,006 | 2,098,132 |
| Expenses | | |
| Program services: | | |
| Salaries and fringe benefits | 722,852 | 723,560 |
| Instruction and student activities | 245,599 | 289,809 |
| Other expenses | 21,283 | 15,097 |
| | <hr/> | <hr/> |
| Total program services | 989,734 | 1,028,466 |
| Supporting services: | | |
| Salaries and fringe benefits | 546,945 | 502,814 |
| Facility rent expense | - | 115,322 |
| Facility operations | 275,335 | 177,744 |
| Auxiliary services expenses | 43,688 | 65,574 |
| General administration | 4,411 | 38,743 |
| Fundraising expenses | 33,933 | 56,570 |
| Depreciation expense | 50,141 | 41,179 |
| Interest expense | - | 52,970 |
| | <hr/> | <hr/> |
| Total support services | 954,453 | 1,050,916 |
| Excess of Revenues over Expenses | <hr/> | <hr/> |
| | 99,819 | 18,750 |
| Other Income (Expense): | | |
| Donated facility - Archdiocese | - | 1,198,975 |
| Debt forgiveness - Archdiocese | - | 1,434,191 |
| Net assets released from restrictions - Facility | - | 500,000 |
| | <hr/> | <hr/> |
| Total other income | - | 3,133,166 |
| Change in Unrestricted Net Assets | <hr/> | <hr/> |
| | \$ 99,819 | \$ 3,151,916 |

See accompanying notes to the financial statements.

Lowell Catholic High School, Inc.
 Statements of Changes in Net Assets
 For the years ended June 30, 2006 and 2005

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------------|-----------------------------------|----------------------------|
| Net Assets at June 30, 2004 | \$ (553,449) | \$ 581,068 | \$ 27,619 |
| Change in unrestricted net assets | 3,151,916 | - | 3,151,916 |
| Temporarily restricted net assets: | | | |
| Contributions | - | 31,092 | 31,092 |
| Investment income | - | 6,103 | 6,103 |
| Net assets released from restrictions | - | (535,232) | (535,232) |
| Change in net assets | <u>3,151,916</u> | <u>(498,037)</u> | <u>2,653,879</u> |
| Net assets at June 30, 2005 | <u>\$ 2,598,467</u> | <u>\$ 83,031</u> | <u>\$ 2,681,498</u> |
| Change in unrestricted net assets | 99,819 | - | 99,819 |
| Temporarily restricted net assets: | | | |
| Contributions | - | 89,642 | 89,642 |
| Investment income (loss) | - | (472) | (472) |
| Net assets released from restrictions | - | (58,018) | (58,018) |
| Change in net assets | <u>99,819</u> | <u>31,152</u> | <u>130,970</u> |
| Net assets at June 30, 2006 | <u><u>\$ 2,698,286</u></u> | <u><u>\$ 114,183</u></u> | <u><u>\$ 2,812,468</u></u> |

See accompanying notes to the financial statements.

Lowell Catholic High School, Inc.
Statements of Cash Flows
For the years ended June 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 130,970 | \$ 2,653,879 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation expense | 50,141 | 41,179 |
| Donated securities | - | - |
| Donated facility - Archdiocese | - | (1,198,975) |
| Debt forgiveness - Archdiocese | - | (1,434,191) |
| Realized and unrealized (gains) losses | 472 | (6,103) |
| Change in assets / liabilities: | | |
| Accounts receivable | (11,900) | 1,965 |
| Unconditional promises to give | 58,000 | 59,000 |
| Prepaid expenses | (54,590) | (16,579) |
| Accounts payable and accrued expenses | (194,754) | 207,870 |
| Accrued compensation | (3,795) | (6,524) |
| Deferred revenue | 128,996 | 50,232 |
| Accrued interest | - | 52,970 |
| | <hr/> | <hr/> |
| Net cash provided by operating activities | 103,540 | 404,723 |
| | <hr/> | <hr/> |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of investments | 3,385,049 | 405,445 |
| Purchase of investments | - | (3,406,578) |
| Purchase of property, equipment and improvements | (3,622,946) | (1,628,327) |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (237,897) | (4,629,460) |
| | <hr/> | <hr/> |
| Cash Flows From Financing Activities | | |
| Proceeds from Bond | - | 4,250,000 |
| Principal payments on Note Payable | - | - |
| | <hr/> | <hr/> |
| Net cash provided by (used) in financing activities | - | 4,250,000 |
| | <hr/> | <hr/> |
| Net Increase in Cash and Cash Equivalents | (134,357) | 25,263 |
| Cash and Cash Equivalents, Beginning of Year | 639,590 | 614,327 |
| | <hr/> | <hr/> |
| Cash and Cash Equivalents, End of Year | <u>\$ 505,233</u> | <u>\$ 639,590</u> |

Supplemental Information:

During the 2005 year \$1,434,191 of accrued interest and note payable was forgiven by the Archdiocese. Also during the 2005 year the Archdiocese donated real estate to the School with a fair value of \$1,198,975.

See accompanying notes to the financial statements.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2006

Note 1 - Organization

Lowell Catholic High School, Inc. (the School) was incorporated on May 9, 1975 under the laws of Massachusetts. The School is a private Catholic senior high school located in Lowell, MA. The School began operations in 1989 when three existing local Catholic schools were consolidated under the control of the School. While the School is tuition driven it has a substantial financial aid program. The School receives restricted contributions that are used to offset the financial aid that is offered to students. Substantially all of the students are located in Lowell and neighboring areas of Massachusetts.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

Revenues and expenses are reported on the accrual basis of accounting. Under this basis, revenues, other than contributions, and expenses are reported when incurred without regard to the date of receipt or payment of cash.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under those provisions, net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets represents gifts and pledges for which donor-imposed restrictions have not been met and for which the ultimate purpose of the proceeds is not permanently restricted.
- Permanently restricted net assets represent gifts and pledges for which donor restrictions require that the corpus be invested in perpetuity and only the income be made available for program operations, in accordance with donor restrictions.

Estimates

The presentation 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 certain reported amounts or disclosures. Accordingly, actual results could differ from those estimates.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

Statement of Cash Flow

The School considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents. For the years ended June 30, 2006 and 2005 the School paid \$209,421 and \$61,756 of interest expense. The interest expense for both years was capitalized as part of the construction cost of the expansion project.

Investments

Investments are comprised of stock and mutual funds investing in debt and equity securities, which are carried at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Property, Equipment, Improvements and Depreciation

Property, equipment and improvements are carried at historical cost if purchased or at fair value if received by donation. It is the policy of the School to capitalize purchases over \$2,500. If unrestricted, proceeds from the sale of plant assets are transferred to operating net assets. If restricted, any proceeds are transferred to deferred amounts restricted for plant acquisitions. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Maintenance and repairs are charged to expense as incurred.

Contributed Facilities

The School operated free of rent in facilities, which were owned by the Archdiocese until ownership of the facility was transferred to the School on November 17, 2004. The estimated rental value of the facilities is reported as rent expense and a corresponding amount is reported as support in the statement of activities.

Contributions and Promises to Give

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor.

Unconditional promises to give due in the next year are reflected as current pledges and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the discounted present value of their net realizable value, using interest rates applicable to the years in which the promises are received. The School records promises to give as temporarily restricted support, unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the current period.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions and Promises to Give (Continued)

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the purpose of the restriction is accomplished in the reporting period in which the support is recognized.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations, are recorded at their fair values in the period received.

Tax Status

The School is exempt from federal and state income taxes under Section 501 (c) (3) of the Internal Revenue Code and Chapter 180 of Massachusetts general laws.

Note 3 – Reclassifications

Certain items included in the 2005 financial statements have been reclassified to allow for better comparison with the current year presentation.

Note 4 - Concentration of Risk

The School's financial instruments that potentially subject it to concentrations of credit risk consist of cash, cash equivalents, investments and accounts receivable.

The School maintains its cash accounts, cash equivalents and investments in high quality financial institutions. At times, the amounts on deposit at any one institution may be in excess of insured limits. Accounts receivable are dispersed among the families of the School's students in the Lowell area.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2006

Note 5 - Promises to Give

There were no unconditional promises to give as of June 30, 2006. The promises to give as of June 30, 2005 were scheduled to be collected through the year ended June 30, 2006; consequently, they have been discounted to their present value (based on a discount rate of 3.0%) as follows:

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|-------------|-------------|
| Pledges receivable – face amount | \$ - | \$ 60,000 |
| Less: discount | - | 2,000 |
| | - | 60,000 |
| Pledges receivable – present value | \$ - | \$ 58,000 |

Note 6 - Investments

The fair market value of investments at June 30, 2006 and 2005 were as follows:

| | <u>2006</u> | <u>2005</u> |
|------------------|-------------|--------------|
| Corporate stocks | \$ 9,528 | \$ - |
| Hypo Investments | 11,529 | 3,406,578 |
| | 21,057 | 3,406,578 |
| Total | \$ 21,057 | \$ 3,406,578 |

Investment income for the years ended June 30, 2006 and 2005 consisted of the following:

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|-------------|-------------|
| Interest and dividend income | \$ 6,758 | \$ 10,216 |
| Realized and unrealized gains | (472) | 6,103 |
| | 6,286 | 16,319 |
| Total | \$ 6,286 | \$ 16,319 |

Hypo Investments consists of a short-term investment with Hypo Real Estate Bank International. These funds were generated through the 2005 debt financing for the expansion of the School and are restricted for use in the expansion project. Corporate stocks consist of preferred stock with an original cost approximately equal to fair market value. Interest income of \$69,505 was netted against capitalized interest expense for the year ended June 30, 2006.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2006

Note 7 – Property, Equipment, and Improvements

At June 30, 2006 and 2005, the balance in property, equipment and improvements was composed of the following:

| | <u>2006</u> | <u>2005</u> |
|-----------------------------------|---------------------|---------------------|
| Land | \$ 1,145,500 | \$ 1,145,500 |
| Buildings and improvements | 5,947,730 | 1,207,365 |
| Furniture and equipment | 271,880 | 187,322 |
| Construction in progress | - | 1,201,819 |
| | <hr/> | <hr/> |
| Total | 7,365,110 | 3,742,006 |
| Less: Accumulated Depreciation | (467,988) | (417,689) |
| | <hr/> | <hr/> |
| Net property, plant and equipment | <u>\$ 6,897,122</u> | <u>\$ 3,324,317</u> |

Note 8 – Deferred Revenue

Revenue collected in advance for tuition for the upcoming school year is deferred and recorded as income when the services are rendered.

Note 9 – Net Assets

Temporarily restricted net assets as of June 30, 2006 were primarily restricted to use in the scholarship program. There are no permanently restricted net assets.

Note 10 – Tuition and Fees, Net

Tuition and fees for the year ended June 30, 2006 and 2005 consisted of the following:

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Tuition and fees – net of scholarships & discounts | \$ 1,514,874 | \$ 1,376,502 |
| Scholarship income -other | 36,000 | 47,013 |
| Scholarship support -Catholic Schools Foundation | 140,000 | 140,410 |
| | <hr/> | <hr/> |
| Total tuition and fees | <u>\$ 1,690,874</u> | <u>\$ 1,563,925</u> |

The School granted approximately \$218,000 of scholarships and other discounts to qualified students for the year ended June 30, 2006.

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2006

Note 11 - Auxiliary Services and Other Revenue

All income and related expenses of activities promoted by the School not directly associated with instructional services, investment of School funds, or fundraising activities are reported as auxiliary services. These include revenue from sporting events, bookstore activity, and other miscellaneous events.

Note 12 - Pension Plans

The School participates in a multi-employer, noncontributory employee income retirement plan (the Roman Catholic Archdiocese of Boston Pension Plan). The plan provides defined benefits to participants upon retirement. The amount of the School's annual contribution is actuarially determined and is accrued and funded annually. The charge to pension plan expense and related contribution to the plan was \$45,677 and \$50,420 for the years ended June 30, 2006 and 2005, respectively.

The School also sponsors an Internal Revenue Service qualified code section 403 (b) salary reduction plan that eligible employees may contribute to. The School does not contribute to this plan.

Note 13- Bond Payable

On November 17, 2004 the School borrowed \$4,250,000 through a bond issued by the Massachusetts Development Finance Agency (MDFA). BankNorth Association (BN) is an additional party to the agreement as "Trustee" and "Purchaser" of the bond. The proceeds of the bond were restricted to use in the School's expansion project. The bond is secured by substantially all assets of the School.

The agreement provides for escalating principal payments, beginning March 11, 2007, from \$8,000 to \$20,137 per month. The School is required to prepay a portion of the bond as of July 1, 2010 in order to reduce the outstanding balance on that date to an amount not greater than \$3,600,000. Final maturity is on March 11, 2030. Future principal payments due under the obligation as of June 30, 2006 are as follows:

| <u>Year End</u> | |
|-----------------|-----------|
| 2007 | \$ 32,000 |
| 2008 | 97,712 |
| 2009 | 102,752 |
| 2010 | 1,090,044 |
| Thereafter | 2,927,492 |

Lowell Catholic High School, Inc.
Notes to Financial Statements
June 30, 2006

Note 13 – Bond Payable (Continued)

The bond provides for monthly interest payments based on 69% of the 30 day London International Bank Offered Rate "LIBOR" plus 1.83% (5.08% at June 30, 2006). On March 11, 2005 the School entered into a variable-to-fixed interest rate swap agreement with BN that terminates on March 11, 2010. Under the terms of the agreement the School agreed to pay a fixed interest rate of 5.2% to BN on \$3,250,000 of notional borrowings in return for a variable rate payment from BN equal to the variable rate due on the bond. Total interest expense of \$209,421 and \$61,756 through June 30, 2006 and 2005, respectively has been reported as capitalized interest and included in the cost of the expansion project.

Note 14 - Significant Events

On November 17, 2004 the School transferred \$500,000 of cash to the Archdiocese and in exchange the Archdiocese forgave 100% of the outstanding debt and accrued interest owed by the School at that time and also transferred the deed to the existing property to the School. The School recorded forgiveness of debt income in the amount of \$1,434,191, donated facility income in the amount of \$1,198,975 and an addition to property of \$1,699,229 as a result of this transaction.

On February 1, 2005 the School borrowed \$4,250,000 and began construction of additional facilities adjacent to the existing School facility. Construction activities were substantially complete by June 30, 2006.