

***St. Sebastian's  
School, Inc.***

*Consolidated Financial Statements  
as of and for the Years Ended  
June 30, 2006 and 2005, and  
Independent Auditors' Report*

# ST. SEBASTIAN'S SCHOOL, INC.

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
St. Sebastian's School, Inc.  
Needham, Massachusetts

We have audited the accompanying consolidated statements of financial position of St. Sebastian's School, Inc. (the "School") as of June 30, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these consolidated 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of St. Sebastian's School, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

October 24, 2006

**ST. SEBASTIAN'S SCHOOL, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2006 AND 2005**

<b>ASSETS</b>	<b>2006</b>	<b>2005</b>	<b>LIABILITIES AND NET ASSETS</b>	<b>2006</b>	<b>2005</b>
CASH AND CASH EQUIVALENTS	\$ 1,002,300	\$ 907,480	LIABILITIES:		
TUITION RECEIVABLE—Net	<u>35,816</u>	<u>25,525</u>	Accounts payable and accrued expenses	\$ 860,334	\$ 698,646
PLEDGES RECEIVABLE—Net	<u>319,150</u>	<u>372,150</u>	Deferred revenue	688,104	579,721
PREPAID EXPENSES	<u>162,659</u>	<u>150,899</u>	Notes payable	2,524,599	969,282
OTHER ASSETS	<u>21,987</u>	<u>25,990</u>	Accrued pension benefits	<u>123,641</u>	<u>322,000</u>
FINANCIAL AID LOANS RECEIVABLE—Net	<u>136,989</u>	<u>138,002</u>	Total liabilities	<u>4,196,678</u>	<u>2,569,649</u>
ASSETS WHOSE USE IS LIMITED:			NET ASSETS:		
Temporary cash investments	2,652,635	1,902,815	Unrestricted:		
Long-term investments	8,533,388	7,895,360	Undesignated	18,813,590	19,715,553
Long-term investment in partnership	<u>220,851</u>	<u>220,851</u>	Designated funds:		
Total assets whose use is limited	<u>11,406,874</u>	<u>10,019,026</u>	Reserve for operations	2,867,314	2,629,647
ASSETS RESTRICTED TO LONG-TERM INVESTMENT—			Reserve for plant replacement	1,977,515	1,402,169
Long-term investments	<u>2,038,450</u>	<u>1,915,676</u>	Reserve for retirement benefits	1,102,991	1,082,874
LAND, BUILDINGS, AND EQUIPMENT—Net	<u>22,923,285</u>	<u>22,162,737</u>	Financial aid loans	<u>296,239</u>	<u>284,238</u>
TOTAL	<u>\$38,047,510</u>	<u>\$35,717,485</u>	Total unrestricted	25,057,649	25,114,481
			Temporarily restricted	6,754,733	6,117,679
			Permanently restricted	<u>2,038,450</u>	<u>1,915,676</u>
			Total net assets	<u>33,850,832</u>	<u>33,147,836</u>
			TOTAL	<u>\$38,047,510</u>	<u>\$35,717,485</u>

See notes to consolidated financial statements.

# ST. SEBASTIAN'S SCHOOL, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES, GAINS (LOSSES), AND OTHER SUPPORT:				
Tuition and fees	\$ 9,132,500	\$ -	\$ -	\$ 9,132,500
Less financial aid	(1,402,843)			(1,402,843)
Net tuition and fees	<u>7,729,657</u>			<u>7,729,657</u>
CONTRIBUTIONS	<u>1,138,273</u>	<u>622,227</u>	<u>70,274</u>	<u>1,830,774</u>
CAPITAL CAMPAIGN CONTRIBUTIONS		<u>450,000</u>	<u>2,500</u>	<u>452,500</u>
SKATING RINK	<u>299,012</u>			<u>299,012</u>
Net investment income:				
Dividends and interest income	93,798	268,609		362,407
Realized gain on investments		391,263		391,263
Unrealized loss on investments	(31,941)	(112,973)		(144,914)
	<u>61,857</u>	<u>546,899</u>	<u>-</u>	<u>608,756</u>
LOSS ON DISPOSAL OF BUILDING	<u>(374,092)</u>			<u>(374,092)</u>
OTHER	<u>95,919</u>			<u>95,919</u>
Net assets released from restriction:				
For expenses	586,244	(586,244)		-
For property and equipment expenditures	66,059	(66,059)		-
Spending policy transfer to support operations	279,769	(279,769)		-
	<u>932,072</u>	<u>(932,072)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>9,882,698</u>	<u>687,054</u>	<u>72,774</u>	<u>10,642,526</u>
EXPENSES:				
Instructional	5,566,635			5,566,635
General and administrative	1,017,055			1,017,055
Operations and maintenance	616,375			616,375
General institutional	555,171			555,171
Athletics	356,978			356,978
Student activities	125,379			125,379
Dining hall	298,887			298,887
Fund-raising	656,364			656,364
Admissions	244,090			244,090
Skating rink	368,219			368,219
Other programs	134,377			134,377
Total expenses	<u>9,939,530</u>	<u>-</u>	<u>-</u>	<u>9,939,530</u>
OTHER CHANGES IN NET ASSETS—Reclassification of net assets to conform to donor intent		(50,000)	50,000	-
CHANGE IN NET ASSETS	(56,832)	637,054	122,774	702,996
NET ASSETS—Beginning of year	<u>25,114,481</u>	<u>6,117,679</u>	<u>1,915,676</u>	<u>33,147,836</u>
NET ASSETS—End of year	<u>\$ 25,057,649</u>	<u>\$ 6,754,733</u>	<u>\$ 2,038,450</u>	<u>\$ 33,850,832</u>

See notes to consolidated financial statements.

# ST. SEBASTIAN'S SCHOOL, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES, GAINS (LOSSES), AND OTHER SUPPORT:				
Tuition and fees	\$ 8,299,500	\$ -	\$ -	\$ 8,299,500
Less financial aid	<u>(1,258,760)</u>			<u>(1,258,760)</u>
Net tuition and fees	<u>7,040,740</u>	<u>-</u>	<u>-</u>	<u>7,040,740</u>
CONTRIBUTIONS	<u>1,045,238</u>	<u>865,208</u>	<u>126,674</u>	<u>2,037,120</u>
CAPITAL CAMPAIGN CONTRIBUTIONS		<u>84,806</u>		<u>84,806</u>
SKATING RINK	<u>283,845</u>			<u>283,845</u>
Net investment income:				
Dividends and interest income	49,415	281,528		330,943
Realized loss on investments		(9,765)		(9,765)
Unrealized gain on investments	<u>106,012</u>	<u>7,177</u>		<u>113,189</u>
	<u>155,427</u>	<u>278,940</u>	<u>-</u>	<u>434,367</u>
Other	<u>87,866</u>			<u>87,866</u>
Net assets released from restriction:				
For expenses	463,960	(463,960)		-
For property and equipment expenditures	149,048	(149,048)		-
Spending policy transfer to support operations	<u>295,439</u>	<u>(295,439)</u>		<u>-</u>
	<u>908,447</u>	<u>(908,447)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>9,521,563</u>	<u>320,507</u>	<u>126,674</u>	<u>9,968,744</u>
EXPENSES:				
Instructional	5,453,595			5,453,595
General and administrative	1,041,069			1,041,069
Operations and maintenance	579,319			579,319
General institutional	480,715			480,715
Athletics	325,801			325,801
Student activities	105,003			105,003
Dining hall	282,677			282,677
Fund-raising	549,772			549,772
Admissions	207,845			207,845
Skating rink	357,757			357,757
Other programs	<u>130,079</u>			<u>130,079</u>
Total expenses	<u>9,513,632</u>	<u>-</u>	<u>-</u>	<u>9,513,632</u>
OTHER CHANGES IN NET ASSETS—Reclassification of net assets to conform to donor intent		<u>5,124,700</u>	<u>(5,124,700)</u>	<u>-</u>
CHANGE IN NET ASSETS	7,931	5,445,207	(4,998,026)	455,112
NET ASSETS—Beginning of year	<u>25,106,550</u>	<u>672,472</u>	<u>6,913,702</u>	<u>32,692,724</u>
NET ASSETS—End of year	<u>\$ 25,114,481</u>	<u>\$ 6,117,679</u>	<u>\$ 1,915,676</u>	<u>\$ 33,147,836</u>

See notes to consolidated financial statements.

# ST. SEBASTIAN'S SCHOOL, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 702,996	\$ 455,112
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	846,935	853,574
Loss on disposal of assets	374,092	
Capital campaign contributions	(450,000)	(84,806)
Contributions for permanent endowment	(72,774)	(126,674)
Unrealized loss (gain) on investments	144,914	(113,189)
Realized (gain) loss on investments	(391,263)	9,765
(Increase) decrease in tuition receivable	(10,291)	26,122
Increase in prepaid expenses	(11,760)	(5,153)
Decrease in other assets	4,003	1,339
Decrease in financial aid loans receivable	1,013	4,431
Increase (decrease) in accounts payable and accrued expenses	161,688	(4,579)
Increase (decrease) in deferred revenue	108,383	(38,965)
(Decrease) increase in accrued pension benefits	(198,359)	77,000
	<u>1,209,577</u>	<u>1,053,977</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in temporary cash investments	(749,820)	(203,520)
Purchases of investments	(9,647,303)	(2,116,684)
Proceeds from sales and maturities of investments	9,132,850	1,187,871
Additions to land, buildings, and equipment	(1,981,575)	(213,570)
	<u>(3,245,848)</u>	<u>(1,345,903)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in pledges receivable	53,000	124,302
Donor-restricted contributions for property and equipment	450,000	84,806
Donor-restricted contributions for permanent endowment	72,774	126,674
Repayment of notes payable	(126,183)	(126,182)
Proceeds from issuance of new debt	1,681,500	
	<u>2,131,091</u>	<u>209,600</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	94,820	(82,326)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>907,480</u>	<u>989,806</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,002,300</u>	<u>\$ 907,480</u>

See notes to consolidated financial statements.

# ST. SEBASTIAN'S SCHOOL, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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### 1. GENERAL

St. Sebastian's School, Inc., formerly St. Sebastian's Country Day School, Inc., is a nonprofit private institution which provides a Catholic secondary education covering grades 7 through 12.

During the year ended June 30, 2003, St. Sebastian's School, Inc. created a separate Massachusetts charitable corporation known as St. Sebastian's School Fund, Inc. (the "Fund"), of which St. Sebastian's School, Inc. is the sole member with the power to elect the Fund's Board of Directors. The Fund is structured to serve as a supporting organization with respect to St. Sebastian's School, Inc. St. Sebastian's School, Inc. has transferred certain property to the Fund to hold on St. Sebastian's School, Inc.'s behalf. Also, it is anticipated that the Fund will conduct future fund-raising and receive donations on St. Sebastian's School, Inc.'s behalf.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The accompanying consolidated financial statements include the accounts of St. Sebastian's School, Inc. and the Fund (collectively, the "School"). Intercompany balances and transactions are eliminated in consolidation.

The consolidated financial statements of the School have been prepared on the accrual basis of accounting and in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Resources are reported for accounting purposes in separate classes of net assets: unrestricted, temporarily restricted, and permanently restricted, based on the existence or absence of donor-imposed restrictions.

**Cash and Cash Equivalents**—Cash and cash equivalents include highly liquid investments with a remaining maturity of three months or less at the date of purchase, excluding amounts whose use is limited or restricted to long-term investment.

**Tuition Receivable**—Tuition receivable is reported net of management's estimated allowance for uncollectible receivables of \$71,500 at June 30, 2006 and \$56,500 at June 30, 2005.

**Pledges Receivable**—Contributions, including unconditional promises to give, are recognized as restricted support and unrestricted support in the period received. Conditional promises to give and indications of promises to give are not recognized until the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. The allowance for uncollectible pledges as of June 30, 2006 and 2005, was \$179,850.

**Investments and Investment Income**—Investments in equity securities with readily determinable market values and all debt securities are recorded at fair market value.



Investment income from unrestricted investments and unrestricted investment income of permanently restricted assets are reported as unrestricted revenue and other support. Unrealized and realized gains (losses) from unrestricted investments are reported as other changes in unrestricted net assets. Restricted investment income and gains (losses) on investments of permanently restricted net assets are reported as increases (decreases) in temporarily restricted net assets, unless permanently donor restricted, in which case they are recorded as increases (decreases) in permanently restricted net assets. Net gains of permanently restricted net assets classified as temporarily restricted remain in temporarily restricted net assets until appropriated by the Board of Trustees (the "Board" or the "Trustees") and expended. Investment interest and gains (losses) on investments of temporarily restricted net assets are reported as increases (decreases) in temporarily restricted net assets.

The Trustees have interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a restricted net asset classification until appropriated by the Trustees and expended. State law allows the Trustees to appropriate as much of net appreciation of permanently restricted net assets as is prudent considering the School's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Chapter 180A (the "Uniform Management of Institutional Funds") of the Commonwealth of Massachusetts General Laws allows expending realized and unrealized gains up to 7% of such assets.

The Board of the School has adopted a spending policy which provides for the School to utilize an amount the donor has designated or up to 4% annually of the average market value of the donor-restricted and board-designated endowment funds for current operating needs. The average market value is measured using the quarterly market values for the previous three years. Amounts appropriated under the spending policy are drawn from accumulated income and gains and expendable principle on donor-restricted and board-designated endowment funds. Temporarily restricted net assets appropriated under the spending rule reported as a component of net assets released from restriction for the years ended June 30, 2006 and 2005, have been used as follows:

	2006	2005
Faculty salaries and benefits	\$250,000	\$250,000
Financial aid	15,595	35,054
Other	<u>14,174</u>	<u>10,385</u>
Total	<u>\$ 279,769</u>	<u>\$ 295,439</u>

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

In prior years, purchases and sales of investments were reported net in the statement of cash flows. Commencing in 2006, the School began reporting such purchases and sales gross. The 2005 statement of cash flows has been reclassified for comparability.

**Financial Aid Loans Receivable**—The School has provided tuition loans to students as part of its financial aid program. Payments are to be made in 32 installments, commencing on January 1 in the year following graduation. Payments consist of eight consecutive semiannual payments of interest only, followed by 24 consecutive quarterly payments of principal and interest. At June 30, 2006 and 2005, the interest rate on the loans was 5%. Allowance is made for uncollectible loans based upon management's

judgment, past collective experience, and other relevant factors. The allowance for uncollectible loans as of June 30, 2006 and 2005, was \$15,145. Repayment terms at June 30, 2006, by year are as follows.

<b>Years Ending June 30</b>	
2007	\$ 5,817
2008	8,287
2009	11,085
2010	12,053
2011	13,455
Thereafter	<u>101,437</u>
Total financial aid loan receivable at June 30, 2006	152,134
Less allowance for uncollectible loans	<u>(15,145)</u>
Total financial aid loan receivable at June 30, 2006—net	<u>\$ 136,989</u>

**Long-Term Investment in Partnership**—The School has a 33.3% interest in a real estate partnership that was donated to the School in 1997. The interest is recorded at \$220,851, which was the appraised value at the time of the donation.

**Land, Buildings, and Equipment**—Land, buildings, and equipment and capital projects in process are recorded at cost. Depreciation is computed on buildings and equipment using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 50 years. Expenditures for maintenance and repairs are charged to expense as incurred. Donated land, buildings, and equipment are recorded at their fair market value at the date of the gift.

Expenditures for capital projects in process are capitalized as incurred. Depreciation is not computed on such assets until such time as the capital project is completed and the asset is placed in service.

**Deferred Revenue**—Deferred revenue results from the School recognizing registration and tuition revenue in the period in which the related educational instruction is performed. Accordingly, registration and tuition fees received for the next school term are deferred until the school term commences.

**Temporarily and Permanently Restricted Net Assets**—Temporarily restricted net assets are those whose use by the School has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the School in perpetuity.

**Contributions**—Contributions received are recognized as restricted support and unrestricted support in the period received and as assets, decreases in liabilities, or expenses, depending on the form of benefits received, and are measured at their fair values.

**Donor-Restricted Gifts**—Unconditional promises to give cash and other assets to the School are reported at fair value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value at the date the conditional promise becomes unconditional or the gift is received. Gifts are reported as either temporarily or permanently restricted 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, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within

the year of receipt are reported as unrestricted contributions in the accompanying consolidated financial statements.

**Reclassifications to Conform to Donor Intent**— During the year ended June 30, 2006, management of the School determined, based on a review of donor instruments, that certain contributions totaling \$50,000 received in the prior year and recorded as temporarily restricted contributions, were permanently restricted contributions, and, accordingly, reclassified those amounts to permanently restricted net assets. During the year ended June 30, 2005, management of the School determined, based on a review of donor instruments, that certain contributions totaling \$5,124,700 received in prior years and recorded as permanently restricted contributions, were expendable for specific purposes, and, accordingly, reclassified those amounts to temporarily restricted net assets.

**Federal Income Tax**—The School has been determined to be a tax-exempt, nonprofit organization under Section 501(c) of the Internal Revenue Code (the “Code”) and is exempt from federal income tax on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for federal income tax has been recorded in the accompanying consolidated financial statements.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### 3. INVESTMENTS

Investments are recorded in the consolidated financial statements at market value. Such investments at June 30, 2006 and 2005, are composed of the following:

	2006	2005
Equity securities	\$ 6,081,204	\$6,576,259
Fixed income securities	4,490,634	2,631,332
Money market accounts	<u>                    </u>	<u>603,445</u>
Total	<u>\$10,571,838</u>	<u>\$9,811,036</u>

#### 4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30, 2006 and 2005, consist of the following:

	2006	2005
Land and improvements	\$ 6,875,544	\$ 6,662,040
Land acquired for future expansion	1,981,956	500,000
Buildings	18,767,731	19,074,283
Furniture, fixtures, and equipment	<u>3,470,419</u>	<u>3,262,753</u>
	31,095,650	29,499,076
Less accumulated depreciation	<u>(8,274,225)</u>	<u>(7,438,199)</u>
	22,821,425	22,060,877
Capital projects in process	<u>101,860</u>	<u>101,860</u>
Land, buildings, and equipment—net	<u>\$ 22,923,285</u>	<u>\$ 22,162,737</u>

Depreciation expense for the years ended June 30, 2006 and 2005, was \$846,935 and \$853,574, respectively.

#### 5. NOTES PAYABLE

The School has a \$4,500,000 line of credit with the Bank of America. This line of credit was obtained by the School to fund improvements made to the academic building and to the gymnasium. The line of credit bears interest at the Eurodollar rate plus 1.85% (6.95% at June 30, 2006), and is collateralized by the School's unrestricted assets and all pledges relating to fund-raising campaigns from which capital campaign proceeds are to be delivered. The maturity date for this line of credit is December 31, 2008. At June 30, 2006 and 2005, the outstanding balance on the line of credit was \$843,099 and \$969,282, respectively.

In October 2005, the School obtained an additional \$3,000,000 line of credit with the Bank of America to fund the purchase of contiguous properties and to fund the improvements thereon. The line of credit bears interest equal to the Bank of America's Prime rate (8.25% at June 30, 2006). As of June 30, 2006, the outstanding balance on the line of credit was \$1,681,500. The line of credit was repaid in July 2006.

#### 6. PENSION PLANS

The School participated in a multi employer, noncontributory, defined benefit pension plan administered by the Roman Catholic Archdiocese of Boston (the "Archdiocese"). The Archdiocese amended the pension plan as of January 1, 2004, by reducing various factors, which had the effect of reducing employees' pension benefits. Effective June 30, 2004, the School ceased participating in the plan, but did not take its assets out of the plan. The plan is currently under funded, so the School must make payments to the pension plan in order to insure that the value of the assets in the Pension Plan and Trust of the Roman Catholic Archdiocese of Boston (the "Trust") is sufficient to cover the cost of providing the pension benefits that have been earned by the employees of the School. Effective July 1, 2004, the monthly payment by the School to the Trust is \$4,300. This payment reflects a nine-year amortization of the unfunded present value of accrued benefits, which approximates \$123,641 as of June 30, 2006. This

amount will be reviewed each calendar year and may be adjusted as deemed necessary to consider the effects of asset appreciation or depreciation and changes in the actuarial assumptions.

In connection with the withdrawal and resulting deduction in benefits, the School's trustees voted, effective July 1, 2004, to provide supplemental benefits to those employees whose pension benefits declined due to the withdrawal from the Trust. The School estimates that the supplemental benefits, which will be funded on a pay-as-you-go basis, could be as much as \$1,255,000 as of June 30, 2006. These supplemental benefits, which amount to \$116,373 for the year ended June 30, 2006, are paid to the impacted employees as compensation on a monthly basis.

The School sponsors a defined contribution plan, the Defined Contribution Retirement Plan (the "Plan"). All employees with at least 1,000 hours of service annually and one year of service are eligible to participate and all participants are fully vested. Years of service with any educational organization will be counted for meeting the eligibility requirement. The Plan was amended effective July 1, 2004, to require eligible employees to contribute 2% of their salary to the Plan. The amendment also increased the School's match from 2% of the employee's annual salary to 7% of the employee's salary for employees who have 1 to 5 years of service, 9% for employees who have 6 to 10 years of service, and 11% for employees who have more than 10 years of service. The expense under the Plan was \$421,882 and \$457,974 for the years ended June 30, 2006 and 2005, respectively.

The School also sponsors a voluntary defined contribution plan for eligible employees pursuant to Section 403(b) of the Code. The School makes no contributions to this plan.

**7. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2006 and 2005, consist of donor-restricted gifts as of June 30:

	2006	2005
Available for capital purposes	\$ 695,374	\$ 234,357
Available for student financial aid	307,421	333,921
Available for operations and other	<u>5,751,938</u>	<u>5,549,401</u>
Total	<u>\$6,754,733</u>	<u>\$6,117,679</u>

Permanently restricted net assets at June 30, 2006 and 2005, consisted generally of investments to be held in perpetuity, the income from which is expendable for the purposes designated by the donor.

**8. OPERATING LEASE**

The School leases certain classrooms under a lease expiring in 2015 at an annual rental cost of \$29,350, subject to adjustment based on the lesser of tuition increases or increases in the Consumer Price Index, commencing in July, 2002. The lease contains automatic renewal provisions for 15 successive 5-year periods. The School has entered into discussions to purchase the land and buildings currently under lease.

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