

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**

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## Independent Auditors' Report

To the Board of Trustees  
Cardinal Spellman High School, Inc.

We have audited the accompanying financial statements of Cardinal Spellman High School, Inc., which comprise the statements of financial position as of June 30, 2015 and 2014, 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 of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the School'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 School'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 Cardinal Spellman High School, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Blum, Shapiro & Company, P.C.*

Quincy, Massachusetts  
November 2, 2015

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2015 AND 2014**

	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,809,254	\$ 3,173,677
Accounts receivable, less allowance for doubtful accounts of \$98,937 and \$66,130 at June 30, 2015 and 2014, respectively	66,426	51,065
Contributions receivable (Note 3)	43,954	54,064
Prepaid expenses and other assets	32,001	28,963
Investments (Notes 4 and 10)	4,189,157	4,086,745
Property and equipment, net (Note 5)	4,551,836	4,137,151
Property lease asset (Note 6)	9,000,000	9,200,000
Deferred financing costs, net	102,295	106,329
	<u>\$ 20,794,923</u>	<u>\$ 20,837,994</u>
<b>Total Assets</b>	<b>\$ 20,794,923</b>	<b>\$ 20,837,994</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 49,110	\$ 78,014
Accrued expenses	519,024	441,495
Deferred revenue	1,522,592	1,637,221
Capital lease obligations (Note 8)	439,874	301,952
Bonds payable (Note 9)	2,907,332	2,960,597
Total liabilities	<u>5,437,932</u>	<u>5,419,279</u>
<b>Net Assets</b>		
Unrestricted (Note 10)	3,931,875	3,980,290
Temporarily restricted (Note 10)	9,680,832	9,804,821
Permanently restricted (Note 10)	1,744,284	1,633,604
Total net assets	<u>15,356,991</u>	<u>15,418,715</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 20,794,923</b>	<b>\$ 20,837,994</b>

The accompanying notes are an integral part of the financial statements

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating</b>								
Revenues and other support:								
Tuition and fees	\$ 7,670,568	\$ -	\$ -	\$ 7,670,568	\$ 7,693,229	\$ -	\$ -	\$ 7,693,229
Less financial aid and discounts	(1,040,005)	-	-	(1,040,005)	(892,176)	-	-	(892,176)
Tuition and fees, net	6,630,563	-	-	6,630,563	6,801,053	-	-	6,801,053
Contributions	183,908	552,823	-	736,731	189,097	427,318	-	616,415
Auxiliary services	51,193	-	-	51,193	28,528	-	-	28,528
Fundraising events, net of related expenses of \$113,891 and \$131,733, respectively	135,390	78,066	-	213,456	105,623	49,740	-	155,363
Other income	139,006	-	-	139,006	106,804	-	-	106,804
In-kind contributions (Note 2)	10,083	-	-	10,083	34,710	-	-	34,710
Endowment income used for operations (Note 10)	87,725	-	-	87,725	54,140	-	-	54,140
Interest income on cash and cash equivalents	2,608	-	-	2,608	7,240	-	-	7,240
Net assets released from restrictions	738,608	(738,608)	-	-	553,651	(553,651)	-	-
Total revenues and other support	<u>7,979,084</u>	<u>(107,719)</u>	<u>-</u>	<u>7,871,365</u>	<u>7,880,846</u>	<u>(76,593)</u>	<u>-</u>	<u>7,804,253</u>
<b>Expenditures</b>								
Program services:								
Instructional	6,063,487	-	-	6,063,487	5,735,294	-	-	5,735,294
Auxiliary and other activities	195,217	-	-	195,217	82,059	-	-	82,059
Total program services	<u>6,258,704</u>	<u>-</u>	<u>-</u>	<u>6,258,704</u>	<u>5,817,353</u>	<u>-</u>	<u>-</u>	<u>5,817,353</u>
Supporting services:								
General and administrative	1,229,448	-	-	1,229,448	1,108,984	-	-	1,108,984
Development	491,402	-	-	491,402	496,708	-	-	496,708
Total supporting services	<u>1,720,850</u>	<u>-</u>	<u>-</u>	<u>1,720,850</u>	<u>1,605,692</u>	<u>-</u>	<u>-</u>	<u>1,605,692</u>
Total expenditures	<u>7,979,554</u>	<u>-</u>	<u>-</u>	<u>7,979,554</u>	<u>7,423,045</u>	<u>-</u>	<u>-</u>	<u>7,423,045</u>
<b>Change in Net Assets from Operating Activities</b>	<u>(470)</u>	<u>(107,719)</u>	<u>-</u>	<u>(108,189)</u>	<u>457,801</u>	<u>(76,593)</u>	<u>-</u>	<u>381,208</u>

The accompanying notes are an integral part of the financial statements

**CARDINAL SPELLMAN HIGH SCHOOL, INC.  
STATEMENTS OF ACTIVITIES (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Nonoperating</b>								
Contributions for long-term purposes	\$ -	\$ -	\$ 104,700	\$ 104,700	\$ -	\$ -	\$ 126,542	\$ 126,542
Interest and dividend income on investments, net of fees (Note 10)	26,458	41,057	-	67,515	8,168	32,267	-	40,435
Net realized and unrealized gains (losses) on investments (Note 10)	(11,402)	30,398	5,980	24,976	68,367	100,229	13,729	182,325
Environmental remediation expenses	(63,001)	-	-	(63,001)	(315)	-	-	(315)
Endowment income used for operations (Note 10)	-	(87,725)	-	(87,725)	-	(54,140)	-	(54,140)
<b>Change in Net Assets from Nonoperating Activities</b>	<b>(47,945)</b>	<b>(16,270)</b>	<b>110,680</b>	<b>46,465</b>	<b>76,220</b>	<b>78,356</b>	<b>140,271</b>	<b>294,847</b>
<b>Change in Net Assets</b>	<b>(48,415)</b>	<b>(123,989)</b>	<b>110,680</b>	<b>(61,724)</b>	<b>534,021</b>	<b>1,763</b>	<b>140,271</b>	<b>676,055</b>
<b>Net Assets - Beginning of Year</b>	<b>3,980,290</b>	<b>9,804,821</b>	<b>1,633,604</b>	<b>15,418,715</b>	<b>3,446,269</b>	<b>9,803,058</b>	<b>1,493,333</b>	<b>14,742,660</b>
<b>Net Assets - End of Year</b>	<b>\$ 3,931,875</b>	<b>\$ 9,680,832</b>	<b>\$ 1,744,284</b>	<b>\$ 15,356,991</b>	<b>\$ 3,980,290</b>	<b>\$ 9,804,821</b>	<b>\$ 1,633,604</b>	<b>\$ 15,418,715</b>

The accompanying notes are an integral part of the financial statements

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2015 (WITH COMPARATIVE TOTALS FOR 2014)**

	Program Services			General and Administrative	Development	2015		2014	
	Instructional	Auxiliary and Other Activities	Total Program Services			Total	Total		
Salaries	\$ 3,715,272	\$ -	\$ 3,715,272	\$ 671,465	\$ 269,128	\$ 4,655,865	\$ 4,414,083		
Employee benefits	392,519	-	392,519	55,003	21,447	468,969	475,798		
Payroll taxes	254,698	-	254,698	49,914	19,649	324,261	332,129		
Retirement plans	159,982	-	159,982	30,438	14,093	204,513	139,739		
Total personnel expenses	4,522,471	-	4,522,471	806,820	324,317	5,653,608	5,361,749		
Admissions	-	-	-	20,914	-	20,914	29,626		
Amortization of property lease asset	174,000	-	174,000	16,000	10,000	200,000	200,000		
Athletics	295,496	-	295,496	-	-	295,496	265,901		
Bad debts	-	-	-	73,687	-	73,687	41,505		
Bank and credit card processing fees	-	-	-	23,324	-	23,324	19,724		
Board related	-	-	-	536	-	536	5,960		
Bookstore	-	38,559	38,559	-	-	38,559	22,645		
Cafeteria	-	2,272	2,272	-	-	2,272	3,572		
Computer	71,810	-	71,810	2,956	45,190	119,956	98,182		
Conferences and meetings	6,216	-	6,216	47	-	6,263	6,843		
Depreciation and amortization	363,252	-	363,252	33,403	20,877	417,532	379,930		
Dues and subscriptions	34,008	-	34,008	5,778	1,937	41,723	36,242		
Facilities	120,072	-	120,072	49,733	22,698	192,503	139,120		
Instructional	17,110	-	17,110	-	-	17,110	18,692		
Insurance	52,870	-	52,870	-	-	52,870	42,099		
Interest	152,975	-	152,975	-	-	152,975	161,803		
Miscellaneous	12,090	2,904	14,994	9,057	2,325	26,376	56,502		
Postage and shipping	2,529	-	2,529	15,977	8,437	24,414	29,307		
Printing and publications	-	-	-	8,149	22,650	33,328	34,669		
Professional fees	-	-	-	100,877	-	100,877	76,397		
Public relations	17,584	-	17,584	9,895	16,405	26,300	23,402		
Supplies	34,751	151,482	186,233	16,001	4,230	35,693	44,564		
Student activities	186,253	-	186,253	22,415	-	202,234	127,564		
Utilities and telephone	-	-	-	-	12,336	221,004	197,047		
<b>Total Functional Expenses</b>	<b>\$ 6,063,487</b>	<b>\$ 195,217</b>	<b>\$ 6,258,704</b>	<b>\$ 1,229,448</b>	<b>\$ 491,402</b>	<b>\$ 7,979,554</b>	<b>\$ 7,423,045</b>		

The accompanying notes are an integral part of the financial statements

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Program Services				Total
	Instructional	Auxiliary and Other Activities	Program Services	General and Administrative	
Salaries	\$ 3,524,033	-	\$ 3,524,033	\$ 609,795	\$ 4,114,083
Employee benefits	386,223	-	386,223	53,866	475,798
Payroll taxes	263,625	-	263,625	48,605	332,129
Retirement plans	109,489	-	109,489	21,409	139,739
Total personnel expenses	4,283,370	-	4,283,370	733,675	5,361,749
Admissions	-	-	-	29,626	29,626
Amortization of property lease asset	174,000	-	174,000	16,000	200,000
Athletics	265,901	-	265,901	-	265,901
Bad debts (recoveries)	-	-	-	41,505	41,505
Bank and credit card processing fees	-	-	-	19,724	19,724
Board related	-	-	-	5,960	5,960
Bookstore	-	22,645	22,645	-	22,645
Cafeteria	-	3,572	3,572	-	3,572
Computer	70,402	-	70,402	2,990	24,790
Conferences and meetings	6,061	-	6,061	72	6,843
Depreciation and amortization	330,539	-	330,539	30,394	379,930
Dues and subscriptions	27,288	-	27,288	7,688	36,242
Facilities	69,754	-	69,754	51,227	139,120
Instructional	18,692	-	18,692	-	18,692
Insurance	42,099	-	42,099	-	42,099
Interest	161,803	-	161,803	-	161,803
Miscellaneous	33,993	-	33,993	-	33,993
Postage and shipping	1,599	-	1,599	14,601	7,908
Printing and publications	-	-	-	15,192	14,115
Professional fees	-	-	-	6,629	26,441
Public relations	-	-	-	76,397	-
Supplies	-	-	-	9,527	13,875
Student activities	26,819	-	26,819	13,505	4,240
Utilities and telephone	58,608	55,842	114,450	13,114	127,564
	164,366	-	164,366	21,158	197,047
<b>Total Functional Expenses</b>	<b>\$ 5,735,294</b>	<b>\$ 82,059</b>	<b>\$ 5,817,353</b>	<b>\$ 1,108,984</b>	<b>\$ 7,423,045</b>

The accompanying notes are an integral part of the financial statements

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating Activities</b>		
Change in net assets	\$ (61,724)	\$ 676,055
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	621,566	583,964
Net realized and unrealized gains on investments	(24,976)	(182,325)
Amortization of discount on contributions receivable	(2,390)	(2,940)
Provision for bad debts	73,687	41,505
Contributions restricted for long-term purposes	(104,700)	(126,542)
Changes in operating assets and liabilities:		
Accounts receivable	(89,048)	(63,980)
Contributions receivable	12,500	12,500
Prepaid expenses and other assets	(3,038)	14,578
Accounts payable	(28,904)	66,376
Accrued expenses and other liabilities	77,529	(44,021)
Deferred revenue	(114,629)	120,665
Net cash provided by operating activities	<u>355,873</u>	<u>1,095,835</u>
<b>Investing Activities</b>		
Purchases of property and equipment	(531,966)	(165,889)
Expiration of certificates of deposit	-	1,674,175
Purchases of investments	(77,436)	(2,726,299)
Proceeds from the sale of investments	-	999,597
Net cash used in investing activities	<u>(609,402)</u>	<u>(218,416)</u>
<b>Financing Activities</b>		
Principal payments on bonds payable	(53,265)	(38,145)
Payments on capital lease obligation	(162,329)	(83,271)
Contributions restricted for long-term purposes	104,700	126,542
Net cash (used in) provided by financing activities	<u>(110,894)</u>	<u>5,126</u>
<b>Net Change in Cash and Cash Equivalents</b>	(364,423)	882,545
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>3,173,677</u>	<u>2,291,132</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 2,809,254</u>	<u>\$ 3,173,677</u>
<b>Noncash Investing and Financing Activities</b>		
Property and equipment - capital lease	<u>\$ 300,251</u>	<u>\$ 208,379</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 150,988</u>	<u>\$ 157,769</u>

The accompanying notes are an integral part of the financial statements

**CARDINAL SPELLMAN HIGH SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF THE ORGANIZATION**

Cardinal Spellman High School, Inc. (the School) is a nonprofit private institution located in Brockton, Massachusetts, which provides a secondary education covering grades 9 through 12 within a Catholic environment. The School is an affiliate corporation of the Roman Catholic Archdiocese of Boston (the Archdiocese) and is accredited by the New England Association of Schools and Colleges. The School is qualified as a tax-exempt organization under Internal Revenue Code Section 501(c)(3).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Statement Presentation** - The accompanying financial statements are presented on the accrual basis of accounting in accordance with the reporting standards for not-for-profit organizations. Generally accepted accounting principles (GAAP) require the classification of net assets and revenues, expenses, gains and losses into three categories based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

**Permanently Restricted** - Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the School. Generally, the donors of these assets permit the School to use all or part of the income earned and capital gains, if any, on related endowment funds for general or specific purposes.

**Temporarily Restricted** - Net assets subject to donor-imposed stipulations that may or will be met by actions of the School and/or the passage of time.

**Unrestricted** - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as "net assets released from restrictions."

**Operations** - The statements of activities presents changes in net assets from operating and nonoperating activities. Operating activities consist of those revenues and expenses related to educational and general programs of the School, including annual fund contributions to support these programs. It also includes endowment income used for operations under the School's endowment spending policy. Nonoperating activities consist of contributions for long-term purposes (e.g., endowment and capital), investment results (other than those used to support operations), reclassifications to conform with donor intent, environmental remediation expenses and other items not directly related to the School's educational and general programs.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 use of 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 these estimates.

**Contributions** - Contributions are recognized when the donor makes a donation or a promise to give (pledge) to the School that is, in substance, unconditional. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets. Conditional promises to give are not included as support until the conditions are substantially met.

Unconditional pledges are recorded net of an allowance for uncollectible amounts. Those pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. The School's management believes no allowance for uncollectible amounts is necessary for its pledges receivable at June 30, 2015 and 2014.

**Donated Services and Equipment** - Gifts in-kind totaling \$10,083 and \$34,710 have been recorded at fair value on the date of the gift and are included in in-kind contribution revenue for the years ended June 30, 2015 and 2014, respectively. These gifts primarily include donated transportation services, electrical maintenance services, technological support services and other small donations.

The School also occupies property that is owned by the Archdiocese for which they are charged below market rent (see Note 6).

Donated services that do not meet the recognition criteria under current accounting standards have not been reflected in the accompanying financial statements.

**Cash and Cash Equivalents** - The School considers cash and cash equivalents to be currency on hand or deposit and all highly-liquid investments with maturities of three months or less when acquired. Cash and cash equivalents consist primarily of cash in bank deposit accounts which, at times, may exceed federally-insured limits. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash and cash equivalents for purposes of the statements of cash flows.

**Certificates of Deposit** - Certificates of deposit are valued at cost plus accrued interest which approximates fair value and have original maturities greater than three months.

**Accounts Receivable** - The School carries its accounts receivable net of an allowance for doubtful accounts. The allowance is determined on a periodic basis based on an evaluation of outstanding balances for accounts that do not appear collectible. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts. The School does not charge interest on its accounts receivable.

The School has not experienced significant losses related to accounts receivable. Therefore, management believes there is no additional credit risk, beyond amounts provided for doubtful accounts, related to accounts receivable.

**Investments and Investment Income** - Investments are reported at fair value. Fair value is 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. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains include the School's gains and losses on investments bought and sold as well as held during the year.

The School has a diversified investment portfolio, which is placed with investment advisors for management. Investment performance is subject to investment objectives, the mix of the portfolio and general market conditions. 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 investment balances and activities reported on the financial statements.

**Endowment** - The School's endowment includes approximately 30 donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment, 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 School classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School's spending policy and in accordance with the original restriction on the gift.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The School is subject to the Commonwealth of Massachusetts revised Chapter 180A of the statutes and the Uniform Management of Institutional Funds Act (UPMIFA). UPMIFA contains guidelines regarding prudent spending, which requires the consideration of the duration and preservation of the endowment funds.

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity, donor-restricted funds with stipulations that may or will be met by actions of the School and/or the passage of time as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to enhance or preserve the long-term purchasing power while assuming a moderate level of investment risk. The School expects its endowment funds over time to achieve an average rate of return superior to comparable benchmarks for each asset class measured over rolling three and five-year periods. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

On an annual basis, the School establishes a spending policy, based on the funding needs of its programs, while considering the long-term expected return on its endowment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the School to retain as a fund of perpetual duration. In accordance with GAAP, cumulative deficiencies of this nature that are reported in unrestricted net assets were \$5,639 and \$4,639 at June 30, 2015 and 2014, respectively. These deficiencies resulted from the unfavorable market fluctuations that have occurred in recent years.

**Property and Equipment** - Purchases of property and equipment are recorded at cost. Maintenance, repairs and minor renewals are expensed as incurred. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in change in net assets.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Unless the donor stipulates how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The School provides for depreciation on a straight-line basis over various estimated useful lives as follows:

Category	Life
Building improvements	20 years
Land improvements	10 years
Furniture, fixtures and equipment	7 years
Vehicles	5 years
Computers and software	3-5 years

**Deferred Financing Costs** - Deferred financing costs were incurred to issue bonds payable (see Note 9). The costs totaled \$121,017 and are being amortized on a straight-line basis over the term of the bonds (30 years) beginning in October 2010. At June 30, 2015 and 2014, accumulated amortization totaled \$18,722 and \$14,688, respectively. Amortization expense was \$4,034 for each of the years ended June 30, 2015 and 2014, and was included in operating expenses on the statements of activities. Estimated amortization expense for deferred financing costs is \$4,034 per year for the next four years.

**Revenue Recognition** - The School records tuition revenue over the period in which the educational instruction is performed. Registration and tuition fees received in advance for the next school term are recorded in deferred revenue until the instruction period commences.

**Financial Aid** - Tuition reflects the School's gross nominal tuition rates for all students. Financial aid is reported as a reduction in gross tuition and fees. The School awards tuition financial aid to a number of students each year based on a variety of factors, such as need and ability. These awards are determined by the School's administration and are recorded as a reduction of tuition revenue on the statements of activities.

**Auxiliary Service Revenue** - Auxiliary service revenue includes activities related to campus store and food services provided by the School. Auxiliary service revenue is recognized as revenue in the period in which it was earned.

**Functional Allocation of Expenses** - The costs of providing various programs and activities have been summarized on a functional basis on the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on direct costs, usage and other factors.

**Advertising** - The School expenses the cost of advertising as the costs are incurred. Advertising expenses were \$26,300 and \$23,402 for the years ended June 30, 2015 and 2014, respectively, and are recorded in operating expenses on the statements of activities.

**Subsequent Events** - Management has evaluated subsequent events through November 2, 2015, the date the financial statements were available for issue, and determined that there were no events requiring adjustment to, or disclosure in, the June 30, 2015 financial statements.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

At June 30, 2015 and 2014, contributions receivable consisted of the following:

	<b>2015</b>		<b>2014</b>
Unconditional promises to give before unamortized discount	\$ 47,500	\$	60,000
Less unamortized discount (using discount rate of 5.75%)	(3,546)		(5,936)
<b>Net Unconditional Promises to Give</b>	<b>\$ 43,954</b>	<b>\$</b>	<b>54,064</b>
 Amounts due in:			
Less than one year	\$ 12,500	\$	12,500
One to five years	35,000		47,500
 Total	 \$ 47,500	 \$	 60,000

At June 30, 2015 and 2014, the School's contributions receivable balance was comprised of amounts due from a single donor.

**NOTE 4 - FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

**Level 2** - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - FAIR VALUE MEAUREMENTS (Continued)**

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for financial instruments measured at fair value:

**Mutual and Money Market Funds** - Mutual and money market funds are valued at the quoted net asset value of shares reported in the active market in which the funds are traded.

**Equity Securities and Governmental Bonds** - These items are valued at the closing price reported in the active market in which the individual securities are traded.

**Corporate Bonds** - Corporate bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings.

There have been no changes in the methodologies used at June 30, 2015 and 2014.

The methods described on the previous page may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2015, investments were recorded at fair value and were summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equity securities:			
Domestic	\$ 1,051,257	\$	\$ 1,051,257
Foreign	253,290		253,290
Domestic mutual funds	1,640,100		1,640,100
Government bonds	629,789		629,789
Domestic corporate bonds	-	302,896	302,896
Money market funds	311,825		311,825
Total Investments	<u>\$ 3,886,261</u>	<u>\$ 302,896</u>	<u>\$ 4,189,157</u>

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)**

At June 30, 2014, investments were recorded at fair value and were summarized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equity securities:			
Domestic	\$ 1,060,554	\$ -	\$ 1,060,554
Foreign	169,596	-	169,596
Domestic mutual funds	1,582,970	-	1,582,970
Government bonds	674,282	-	674,282
Domestic corporate bonds	-	329,109	329,109
Money market funds	270,234	-	270,234
	<u>3,757,636</u>	<u>329,109</u>	<u>4,086,745</u>
<b>Total Investments</b>	<b>\$ 3,757,636</b>	<b>\$ 329,109</b>	<b>\$ 4,086,745</b>

There were no transfers between levels of investments during the years ended June 30, 2015 and 2014.

At June 30, 2015 and 2014, the School's investments consisted of the following:

	<u>2015</u>	<u>2014</u>
Endowment funds (Note 10)	\$ 2,512,198	\$ 2,415,935
Other Investments	<u>1,676,959</u>	<u>1,670,810</u>
<b>Total</b>	<b>\$ 4,189,157</b>	<b>\$ 4,086,745</b>

**NOTE 5 - PROPERTY AND EQUIPMENT**

At June 30, 2015 and 2014, property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Nondepreciable		
Construction in progress	\$ 486,071	\$ -
Depreciable		
Building improvements	3,964,339	3,977,670
Land improvements	288,700	288,700
Furniture, fixtures and equipment	931,168	888,725
Vehicles	138,228	131,518
Computers and software	<u>1,406,379</u>	<u>1,096,054</u>
	6,728,814	6,382,667
Less accumulated depreciation and amortization	<u>(2,663,049)</u>	<u>(2,245,516)</u>
<b>Property and Equipment, Net</b>	<b>\$ 4,551,836</b>	<b>\$ 4,137,151</b>

**CARDINAL SPELLMAN HIGH SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - PROPERTY AND EQUIPMENT (Continued)**

The following is a summary of property and equipment included above under capital lease as of June 30:

	<b>2015</b>	<b>2014</b>
Computers and software	\$ 765,107	\$ 464,856
Less accumulated depreciation	(320,087)	(166,563)
Computers and Software, Net	\$ 445,020	\$ 298,293

Depreciation expense recorded related to equipment under capital lease during the years ended June 30, 2015 and 2014 was \$153,524 and \$89,914, respectively (see Note 8).

Total depreciation and amortization expense for the years ended June 30, 2015 and 2014 was \$417,532 and \$379,930, respectively.

**NOTE 6 - PROPERTY LEASE ASSET**

The Archdiocese owns the property that is occupied by the School as its campus. In May 2010, the School entered into a 50-year lease agreement (the Lease) with the Archdiocese for the property which began on July 1, 2010. The terms of the Lease require the School to make annual rent payments of \$1 per year for the first 30 years, \$50,000 per year for years 31-40 and \$100,000 per year for years 41-50. The Lease allows for adjustments in the annual rent payments for inflation as measured by the Consumer Price Index during the years 31-50. The Lease also allows for credits during years 31-50 based on capital improvements made to the property. The Lease requires that the property be used for the sole purpose of operating a Roman Catholic high school.

As a result of the below market rent, the School was required under accounting standards for not-for-profit organizations to record a contribution related to the Lease. The School's management determined that the fair value of the property was the best measure for recording such a contribution, and recorded a contribution equal to the appraised fair value of the property (adjusted for land and building improvements included in property and equipment) which totaled \$10,000,000. The contribution was recorded in temporarily restricted net assets with an offsetting property lease asset during the year ended June 30, 2010, which is being amortized on a straight-line basis over the 50-year Lease term beginning on July 1, 2010. Amortization expense for each of the years ended June 30, 2015 and 2014 was \$200,000. Accumulated amortization as of June 30, 2015 and 2014 was \$1,000,000 and \$800,000, respectively.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LINE OF CREDIT**

At June 30, 2015, the School had a line of credit available from a bank for working capital purposes through October 2015. Borrowings under the line of credit agreement may not exceed \$200,000, are due on demand and bear interest at the bank's prime rate, but no less than 3.25%. The line of credit is cross collateralized with the bonds payable (see Note 9) and is subject to financial and other covenants. At June 30, 2015 and 2014, there were no borrowings outstanding on the line of credit.

**NOTE 8 - CAPITAL LEASE OBLIGATIONS**

The School is party to lease purchase obligations for certain technology equipment that meet the criteria for capitalization (see Note 5). Accordingly, the assets and related obligations have been recorded at the present value of the future minimum lease payments. The terms of the leases require the School to make principal and interest payments ranging from \$19,553 to \$133,329, expiring in June 2018. The effective interest rates on the present value of the annual lease payments range from approximately 2.65% to 7.43%. The leases are collateralized by the related equipment.

The following is a schedule of the future minimum lease payments under the capital lease obligations, together with the present value of minimum lease payments as of June 30, 2015:

Years ending June 30:	
2016	\$ 152,882
2017	152,882
2018	<u>152,882</u>
Minimum lease payments	458,646
Less amount representing interest	<u>(18,772)</u>
 Present Value of Future Minimum Lease Payments	 <u>\$ 439,874</u>

**NOTE 9 - BONDS PAYABLE**

On October 22, 2010, Revenue Bonds (Cardinal Spellman High School Issue, Series 2010) (the Bonds) of the Massachusetts Development Finance Agency (the Issuer), were issued in the aggregate principal amount of \$3,000,000. The Bonds were issued under the Loan and Security Agreement (the Agreement) dated as of July 1, 2010, between the Issuer, the School and Century Bank and Trust Company, as disbursing agent. Upon issuance, the Bonds were immediately purchased and are held by Century Bank (the Bank) through a Bond Purchase Agreement which is effective through October 2040. The School obtained the bond financing to fund facilities expansion and renovation projects.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - BONDS PAYABLE (Continued)**

The Bonds require level interest and principal payments based on amortization of the Bonds through October 2040. The interest rate is fixed at 5% through October 2020 when it will be adjusted based on the Federal Home Loan Bank Rate, but not less than 5%. The rate will be adjusted again in October 2030. The Agreement contains penalty provisions for prepayments of the Bonds.

Scheduled annual minimum principal payments due for the years ending June 30 are as follows:

2016	\$ 58,594
2017	61,592
2018	64,743
2019	68,055
2020	71,537
Thereafter	<u>2,582,811</u>
 Total	 <u>\$ 2,907,332</u>

The Bonds are secured by a mortgage on the property and substantially all other assets of the School and are guaranteed by the Archdiocese. The Bonds are cross collateralized with the line of credit (see Note 7). In addition, the Bond Purchase Agreement with the Bank contains financial and other covenants including minimum debt service and loan to value ratios.

For the years ended June 30, 2015 and 2014, bond carrying costs were summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest expense	\$ 150,988	\$ 149,514
Amortization of deferred financing costs	<u>4,034</u>	<u>4,034</u>
 Total Bond Financing Costs Expensed	 <u>\$ 155,022</u>	 <u>\$ 153,548</u>

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENT AND NET ASSETS**

The School had the following endowment activities for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment investments, June 30, 2014	\$ 586,081	\$ 196,250	\$ 1,633,604	\$ 2,415,935
Stock contributions from donors	-	-	10,035	10,035
Portfolio reallocations for: Restricted contributions	(94,665)	-	94,665	-
Endowment income used for operations	87,725	(87,725)	-	-
	<u>(6,940)</u>	<u>(87,725)</u>	<u>94,665</u>	<u>-</u>
Investment return:				
Interest and dividends, net of fees of \$22,594	26,458	41,057	-	67,515
Net investment appreciation	(17,665)	30,398	5,980	18,713
	<u>8,793</u>	<u>71,455</u>	<u>5,980</u>	<u>86,228</u>
Endowment investments, June 30, 2015	<u>587,934</u>	<u>179,980</u>	<u>1,744,284</u>	<u>2,512,198</u>
Net investment in plant	<u>1,746,799</u>	<u>-</u>	<u>-</u>	<u>1,746,799</u>
Contributions receivable, net	<u>-</u>	<u>43,954</u>	<u>-</u>	<u>43,954</u>
Property lease asset, net	<u>-</u>	<u>9,000,000</u>	<u>-</u>	<u>9,000,000</u>
Amounts restricted for:				
Professional development	-	7,996	-	7,996
School programs	-	60,479	-	60,479
Tuition assistance	-	341,504	-	341,504
	<u>-</u>	<u>409,979</u>	<u>-</u>	<u>409,979</u>
Amounts restricted for capital projects	<u>-</u>	<u>679</u>	<u>-</u>	<u>679</u>
Undesignated	<u>1,597,142</u>	<u>46,240</u>	<u>-</u>	<u>1,643,382</u>
Total Net Assets	<u>\$ 3,931,875</u>	<u>\$ 9,680,832</u>	<u>\$ 1,744,284</u>	<u>\$ 15,356,991</u>

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENT AND NET ASSETS (Continued)**

The School had the following endowment activities for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment investments, June 30, 2013	\$ 566,490	\$ 117,895	\$ 1,493,333	\$ 2,177,718
Stock contributions from donors	-	-	10,164	10,164
Portfolio reallocations for: Restricted contributions	(116,378)	-	116,378	-
Endowment income used for operations	54,140	(54,140)	-	-
	(62,238)	(54,140)	116,378	-
Investment return:				
Interest and dividends, net of fees of \$14,493	8,168	33,674	-	41,842
Net investment appreciation	73,661	98,821	13,729	186,211
	81,829	132,495	13,729	228,053
Endowment investments, June 30, 2014	586,081	196,250	1,633,604	2,415,935
Net investment in plant	1,282,883	-	-	1,282,883
Contributions receivable, net	-	54,064	-	54,064
Property lease asset, net	-	9,200,000	-	9,200,000
Amounts restricted for:				
Professional development	-	3,262	-	3,262
School programs	-	43,165	-	43,165
Tuition assistance	-	307,407	-	307,407
	-	353,828	-	353,828
Amounts restricted for capital projects	-	679	-	679
Undesignated	2,111,326	-	-	2,111,326
Total Net Assets	\$ 3,980,290	\$ 9,804,821	\$ 1,633,604	\$ 15,418,715

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENT AND NET ASSETS (Continued)**

At June 30, 2015 and 2014, permanently restricted net assets were invested in perpetuity with the income being restricted primarily to support student financial aid. The donors of certain permanently restricted endowment funds require the School to reinvest a portion of annual investment earnings in perpetuity. The amount of investment earnings allocated to permanently restricted net assets in accordance with these donor requirements totaled \$5,980 and \$13,729 for the years ended June 30, 2015 and 2014, respectively.

**NOTE 11 - RETIREMENT PLANS**

**Pension Plan** - The School participated with other organizations affiliated with the Archdiocese in a multiemployer, noncontributory defined benefit pension plan which covered substantially all employees, except the religious and clergy affiliated with the School. Benefits are provided through the Roman Catholic Archdiocese of Boston Pension Plan (the Pension Plan). The Pension Plan's federal identification number and plan number are 04-2106175 and 001, respectively. The Pension Plan is not subject to the Employee Retirement Income Security Act of 1974.

During the year ended June 30, 2011, the Pension Plan trustees voted to amend the Pension Plan to implement a "soft freeze" effective December 31, 2010, and a "hard freeze" effective December 31, 2011. Under the provision of the amendment, any employee hired after December 1, 2010 is not eligible to become a participant in the Pension Plan. As of December 31, 2011, all participants stopped accruing benefits. Employees with five or more years of service will remain vested. Employees with at least one year of service as of December 31, 2011 are allowed to continue to add years of service towards vesting after the freeze date. In addition, participating organizations will continue to pay amounts into the Pension Plan on a monthly basis subsequent to the freeze date until it is fully funded. The Pension Plan will continue to pay out benefits when due and the School must continue to fund any liabilities to the extent the allocated assets of the Pension Plan are insufficient to provide for the guaranteed benefits.

During the year ended June 30, 2015 and 2014, the underfunded liability was reviewed to consider the effects of contributions, asset appreciation or depreciation and changes in the actuarial assumptions. Based on an actuarial valuation, there was an estimated funding surplus of \$298,000 and \$202,000 at June 30, 2015 and 2014, respectively.

The School's contributions to the Pension Plan during the years ended June 30, 2015 and 2014 amounted to \$126,036 and \$126,048, respectively. For the year ended June 30, 2015, the entire balance was recorded as an operating expense on the statements of activities. For the year ended June 30, 2014, \$60,000 was recorded as a reduction to the funding deficit, which was previously recognized as a liability as of June 30, 2013, and \$66,048 was recorded in operating expenses on the statements of activities.

**CARDINAL SPELLMAN HIGH SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - RETIREMENT PLANS (Continued)**

The assumptions used in the above calculation are as follows:

Discount rate	6.5%
Future expenses	4.0%
Mortality	2015 IRS Static Mortality Table (based on RP-2000)
Termination rates	0-31.8%
Disability rates	0.134-0.435%
Retirement age	65

**403(b) Plan** - The School also has a 403(b) Plan (the Plan) that covers substantially all employees, except the religious and clergy working at the School. Employees may make voluntary contributions to the Plan, subject to the limitations set forth by the Internal Revenue Code. In addition, as a result of the now frozen Pension Plan (see previous page), the School began contributing 2% of the eligible salary of all employees who have been employed for at least one year. Employer contributions totaled \$73,432 for the year ended June 30, 2015. Employer contributions totaled \$68,834 for the year ended June 30, 2014.

**Religious and Clergy** - During the years ended June 30, 2015 and 2014, the School paid \$5,045 and \$4,857, respectively, to various orders for the retirement benefits of the religious and clergy working at the School.

Retirement plan expense for the above plans totaled \$204,513 and \$139,739 for the years ended June 30, 2015 and 2014, respectively.

**NOTE 12 - RELATED PARTY TRANSACTIONS**

**Archdiocese** - The School makes payments to the Archdiocese for various employee benefits and other expenses. These expenses include liability insurance, property insurance, health insurance, pension contributions and worker's compensation expenses. Total expenses paid to the Archdiocese for these costs were \$712,773 and \$626,392 for the years ended June 30, 2015 and 2014, respectively. There were no amounts related to these services in accounts payable at June 30, 2015 and 2014.

**Catholic Schools Foundation** - The Catholic Schools Foundation (the Foundation) is an affiliated organization of the Archdiocese that provides restricted contributions to the School to be used for financial aid for students. Total contributions from the Foundation were \$149,940 and \$202,700 for the years ended June 30, 2015 and 2014, respectively.

**NOTE 13 - DONOR CONCENTRATION**

During the year ended June 30, 2015, the School received approximately 27% of its contributions from two donors.

