Audited Financial Statements

St. Mary's High School Foundation, Inc.

June 30, 2013

G.T. Reilly & Company
Certified Public Accountants/Business Consultants

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
St. Mary's High School Foundation, Inc.
Lynn, Massachusetts

We have audited the accompanying financial statements of St. Mary's High School Foundation, Inc., which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets, 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 risk 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 Foundation'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 Foundation'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 St. Mary's High School Foundation, Inc. as of June 30, 2013 and 2012, 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.

G. T. Reilly & Company

G.T. Reilly & Company

Milton, Massachusetts
April 29, 2014

An independent firm associated with
MOORE STEPHENS

Statements of Financial Position

June 30

	2013	2012 (As Restated - Note 2)
Assets		
Cash and cash equivalents (Note 2)	**$ 349,870**	$ 305,769
Cash, restricted (Note 2)	**1,002,729**	22,500
Investments, at fair value (Notes 2 & 3)	**1,517,800**	1,717,819
Pledges receivable, net (Notes 2 & 4)	**2,563,111**	3,624,232
Total Assets	**$ 5,433,510**	$ 5,670,320
Liabilities and Net Assets		
Accounts payable and accrued expenses	**$ 20,526**	$ 24,305
Due to St. Mary's High School (Notes 2 & 8)	**-**	6,000
Note payable (Notes 5)	**-**	83,644
	20,526	113,949
Net Assets (Notes 2, 6 & 7)		
Unrestricted	**343,460**	265,711
Temporarily restricted	**4,791,537**	5,012,673
Permanently restricted	**277,987**	277,987
	5,412,984	5,556,371
Total Liabilities and Net Assets	**$ 5,433,510**	$ 5,670,320

The accompanying notes are an integral part of these financial statements.

Statement of Activities and Changes in Net Assets

For the Years Ended June 30

	2013				2012 (As Restated - Note 2)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support								
Contributions	$ -	$ 252,039	$ -	$ 252,039	$ -	$ 3,933,782	$ -	$ 3,933,782
Interest income	56,439	14,838	-	71,277	57,477	15,267	-	72,744
Unrealized gain (loss) on investments	110,450	4,391	-	114,841	(89,485)	(7,789)	-	(97,274)
Realized loss on investments	(10,389)	-	-	(10,389)	(2,957)	-	-	(2,957)
Net assets released from restrictions (Note 6)	492,404	(492,404)	-	-	556,417	(556,417)	-	-
Total Revenues, Gains & Other Support	648,904	(221,136)	-	427,768	521,452	3,384,843	-	3,906,295
Expenses								
Program services:								
Distributions to school	463,203	-	-	463,203	497,684	-	-	497,684
Supporting services:								
Payroll and benefits	65,501			65,501	26,038			26,038
Professional services and related travel	40,644			40,644	173,936			173,936
Bad debt expense	-	-	-	-	6,000	-	-	6,000
Interest expense	1,734			1,734	720			720
Other expenses	73	-	-	73	1,011	-	-	1,011
Total Expenses	571,155	-	-	571,155	705,389	-	-	705,389
Increase (Decrease) in Net Assets	77,749	(221,136)	-	(143,387)	(183,937)	3,384,843	-	3,200,906
Net Assets at Beginning of Year, as previously reported	265,711	5,012,673	277,987	5,556,371	427,148	1,627,830	300,487	2,355,465
Cumulative effect on prior years of retroactive restatement for change in net asset classification (Note 2)					22,500		(22,500)	-
Net Assets at End of Year	$ 343,460	$ 4,791,537	$ 277,987	$ 5,412,984	$ 265,711	$ 5,012,673	$ 277,987	$ 5,556,371

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the Years Ended June 30

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	**$ (143,387)**	$ 3,200,906
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Net realized and unrealized (gain) loss on investments	**(104,452)**	100,231
Changes in operating assets and liabilities:		
Cash, restricted	**(980,229)**	-
Pledges receivable, net	**1,061,121**	(3,561,406)
Due to/from St. Mary's High School	**(6,000)**	(74,000)
Accounts payable and accrued expenses	**(3,779)**	21,800
NET CASH USED IN OPERATING ACTIVITIES	**(176,726)**	(312,469)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(83,579)**	(120,898)
Proceeds from the sale of investments	**388,050**	211,899
NET CASH PROVIDED BY INVESTING ACTIVITIES	**304,471**	91,001
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	**-**	100,000
Payments on note payable	**(83,644)**	(16,356)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(83,644)**	83,644
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**44,101**	(137,824)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**305,769**	443,593
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 349,870**	$ 305,769

Supplemental Cash Flow Information

Cash paid for interest	**$ 1,734**	$ 720

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

June 30, 2013

Note 1 - Nature of Organization

St. Mary's High School Foundation, Inc. (the "Foundation") was formed on April 22, 2002 for the purpose of raising funds in the form of contributions from individuals, corporations and other foundations to assist in and facilitate the renovation and improvement of the buildings comprising St. Mary's High School, Inc. (the "High School") in Lynn, Massachusetts, and to generally support the overall educational mission of the School. The Foundation and the High School share a common membership from the respective Boards.

Note 2 - Significant Accounting Policies

Basis of Accounting and Reporting - The financial statements of the Foundation have been prepared under the accrual method of accounting in conformity with generally accepted accounting principles.

Accounting 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, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results may differ from those estimates.

Financial Statement Presentation – The Foundation presents a statement of financial position and a statement of activities segregated into three classes of net assets determined by donor-imposed restrictions as follows: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (see Note 6 regarding restrictions on net assets).

Endowment funds established by donor restrictions to permanently maintain the principal, while allowing the use of income generated therefrom, are classified as permanently restricted net assets. Income derived from the investment of endowed funds is reported as unrestricted revenue or as restricted revenue depending on the terms of the donor instrument. Unrealized gains or losses from endowment fund investments are reported as increases or decreases in temporarily restricted net assets unless the donor explicitly states otherwise. If the fair value of assets associated with an endowment fund falls below historic dollar value, the Massachusetts Uniform Prudent Management of Institutional Funds Act requires such deficiency to be reported as unrestricted net assets (see Note 7).

Contributions and Donor Restrictions – Contributions receivable that are, in effect, "unconditional promises to give" are recorded at the present value of future cash flows. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

In addition, use-restricted contributions are reported as increases to temporarily restricted net assets when received. When a donor restriction expires either by use of the funds for the specified purpose or by the expiration of a time restriction, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions (see Note 6).

Note 2 - Significant Accounting Policies (Cont.)

Fair Value Measurements - The Foundation follows the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 820, "Fair Value Measurements and Disclosures", for assets and liabilities that are measured and recorded at fair value on a recurring basis, and to determine fair value disclosures. The standard establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value, giving the highest priority to 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 – Valuations based on quoted prices available in active markets for identical assets and liabilities.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, for the asset or liability.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement for the asset or liability.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The methods used for valuing the assets and liabilities are not necessarily an indication of the risks associated with those assets.

Cash and Cash Equivalents - For the purpose of reporting the statement of cash flows, cash and cash equivalents includes amounts on-hand and in bank accounts. Restricted cash accounts are excluded from this classification.

Restricted Cash - Restricted cash represents cash that has been earmarked for specific purposes by donors. At June 30, 2013, $1,002,729 consists of temporarily restricted funds that are restricted for future replacement, improvement and additions to property and equipment of St. Mary's High School and to increase the School's endowment, as designated in the upcoming Building Futures Capital Campaign.

Investments – The Foundation's investments are carried at fair value. Changes in fair value are reflected in the statements of activities as net realized and unrealized gains (losses) on investments (see Note 3).

Pledges Receivable – Pledges receivable are stated net of an allowance for doubtful accounts, when considered necessary by management, which would be reported on the face of the Foundation's statement of financial position. The allowance is established via a provision for bad debts charged to operations. On a periodic basis, management evaluates its pledges receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible, based on evaluations of the collectibility of individual accounts, the Foundation's history of prior loss experience and on current economic conditions. Pledges are written off and charged against the allowance when management believes that the collectibility of the specific pledge is unlikely.

Income Tax Status - The Foundation is recognized as an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to income taxation.

Reclassification and Restatement of 2012 Net Assets - During 2013, certain amounts previously classified as permanently restricted net assets were reclassified to unrestricted net assets. In 2013, management determined that certain funds should have been classified as internally designated, or unrestricted. The individual net asset balances as of June 30, 2011 have been restated to reflect a reclassification of $22,500 from permanently restricted net assets to unrestricted net assets. Such reclassification had no effect on total net assets or the changes in net assets as previously reported for the year ended June 30, 2012.

Note 2 - Significant Accounting Policies (Cont.)

Evaluation of Subsequent Events - Management has evaluated subsequent events involving the Foundation for potential recognition or disclosure in the accompanying financial statements. Subsequent events are events or transactions that occurred after June 30, 2013 through April 29, 2014, the date the accompanying financial statements were available to be issued.

Note 3 - Investments

Investments consist of the following:

	Cost	Unrealized Gains (losses)	Fair Value
June 30, 2013:			
Investments in Common Investment Fund	**$ 1,439,244**	**$ 78,556**	**$ 1,517,800**
June 30, 2012:			
Investments in Common Investment Fund	$ 1,754,104	$ (36,285)	$ 1,717,819

The investment in the Common Investment Fund represents shares in a mutual fund established by The Roman Catholic Archbishop of Boston, A Corporation Sole (RCAB), to provide a common investment pool in which it and other related entities may participate.

The Foundation currently receives a quarterly dividend from the Common Investment Fund equaling 1% (4% annually) of the prior quarter's fair value. These dividends are reinvested on a quarterly basis.

The Foundation's unit holdings in the Common Investment Fund do not have quoted prices in active markets or significant other observable inputs that have quoted market prices although the Foundation can redeem its investment at the net asset value per share at June 30, 2013. These assets are classified as being valued using Level 2 inputs. The Foundation estimates the fair value of its unit holdings in the Common Investment Fund based on the Foundation's share of the underlying investment portfolio that consists of actively traded equities, bonds and money market funds.

The Foundation's financial assets that are reported for at fair value on a recurring basis as of June 30, by level within the fair value hierarchy, are presented in the table below:

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
June 30, 2013:				
Common Investment Fund	**$ -**	**$ 1,517,800**	**$ -**	**$ 1,517,800**
June 30, 2012:				
Common Investment Fund	$ -	$ 1,717,819	$ -	$ 1,717,819

Risks and Uncertainties – The Foundation's investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with these investment securities, and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the Statements of Financial Position and the Statements of Activities and Changes in Net Assets.

Note 4 - Pledges Receivable

Pledges receivable consist of pledges raised for the Foundation's capital campaign program and are summarized as follows:

	2013	2012
Amounts expected to be collected in less than one year	**$ 1,299,112**	$ 1,100,101
Amounts expected to be collected in one to five years	**1,567,500**	2,586,750
	2,866,612	3,686,851
Less allowance for uncollectible pledges	**(32,000)**	(32,000)
Less unamortized discount	**(271,501)**	(30,619)
Recorded net value of pledges receivable	**$ 2,563,111**	$ 3,624,232

For the years ended June 30, 2013 and 2012, approximately $2,800,000 and $3,600,000 represent pledges made for the Foundation's Building Futures Capital Campaign. Pledges are recorded at the present value of estimated future cash flows. The present value of estimated cash flows has been measured utilizing a risk adjusted discount rate of 8% at June 30, 2013 (3.18% at June 30, 2012).

At June 30, 2013, pledges from a member of the board and another individual, represent 36% and 21% of the pledges receivable, respectively (41% and 22% at June 30, 2012). The Foundation's remaining pledges receivable represent donor pledges due from various individuals, corporations and foundations.

Note 5 - Note Payable

In October 2011, the Foundation entered into a $100,000 note payable with the Lynn Municipal Finance Corporation for the purpose of funding capital campaign expenses. The note bore interest at a fixed rate of 4.50%. No payments were due during the initial six months of the note and beginning in June, 2012, the note was payable in monthly interest and principal installments of $8,538. The note matured in May, 2013. The Foundation had the option to prepay all or part of the principal balance at any time. The outstanding balance of $83,644 at June 30, 2012 was fully paid in fiscal 2013.

For the years ended June 30, 2013 and 2012, interest expense on the above note payable was $1,734 and $720, respectively.

Note 6 - Restricted Net Assets

Permanently restricted net assets totaling $277,987 at both June 30, 2013 and 2012 are restricted in perpetuity, the income from which is expendable to support scholarships for needy students of the High School.

Temporarily restricted net assets consist of, or are available for, the following purposes:

	2013	2012
Scholarships and financial aid to students of the High School	**$ 977,044**	$ 872,009
Capital campaign for the High School	**3,565,840**	3,624,232
Head of School position at the High School	**53,969**	338,374
College scholarships for students of the High School	**172,184**	155,558
	$ 4,769,037	$ 4,990,173

Note 6 - Restricted Net Assets (Cont.)

Net assets were released from restrictions as distributions to the High School as follows for the year ended June 30:

	2013	2012
Scholarships and financial aid to students of the High School	**$ 124,203**	$ 47,822
College scholarships	**-**	8,000
Head of School position at the High School	**310,000**	95,000
Consulting expenses for capital campaign	**58,201**	58,733
Leasehold improvements at the High School	**-**	346,862
	$ 492,404	$ 556,417

Note 7 - Endowments

The Foundation's endowments consist of individual funds established for the scholarships to students of St. Mary's High School (see Note 7). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Foundation has historically viewed the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the School to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowment fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed in UPMIFA.

Funds with Deficiencies - From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value". Deficiencies of this nature are reported by a charge to unrestricted net assets. Deficiencies may result from unfavorable market fluctuations that occurred. Over time, these deficiencies may reverse due to the appreciation of the underlying investments. Such deficiencies approximated $19,000 as of June 30, 2012. There were no such deficiencies as of June 30, 2013.

Endowment Investment Policy - The Foundation has adopted an investment philosophy which, combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods. Under the Foundation's Investment Policy and spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation has invested its endowment investment portfolio in the Common Investment Fund, which in-turn invests in the Collective Investment Partnership.

Note 7 – Endowments (Cont.)

The Investment Committee of Corporation Sole is responsible for selecting the investment managers of the Collective Investment Partnership. The Investment Committee's investment rationale is to include an array of different strategy and investment managers for the Collective Investment Partnership's portfolio to reduce overall volatility while providing investment returns above industry benchmarks. (See Note 3, Investments, for more details on the Foundation's investments and how they are valued.)

Endowment net asset composition by type of fund as of June 30 is as follows:

	Endowment Fund Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
For the year ended June 30, 2013:				
Endowment net assets at beginning of year	**$ (18,666)**	**$ 52,593**	**$ 277,987**	**$ 311,914**
Contributions	**-**	**-**	**-**	**-**
Interest and dividends	**-**	**14,838**	**-**	**14,838**
Unrealized gains on investments	**18,666**	**4,391**	**-**	**23,057**
Appropriation of endowment assets for expenditure	**-**	**(12,900)**	**-**	**-** **(12,900)**
Endowment net assets at end of year	**$ -**	**$ 58,922**	**$ 277,987**	**$ 336,909**
For the year ended June 30, 2012:				
Endowment net assets at beginning of year	$ (5,852)	$ 59,230	$ 277,987	$ 331,365
Contributions	-	-	-	-
Interest and dividends	-	15,267	-	15,267
Unrealized losses on investments	(12,814)	(7,789)	-	(20,603)
Appropriation of endowment assets for expenditure	-	(14,115)	-	(14,115)
Endowment net assets at end of year	$ (18,666)	$ 52,593	$ 277,987	$ 311,914

Note 8 - Related Party Transactions

All of the Foundation's investments are in the Common Investment Fund of the Archdiocese (see Note 3).

As discussed in Note 1, St. Mary's High School, Inc. is the sole beneficiary of the Foundation. The Foundation is related through common Board membership to St. Mary's High School, Inc.

At June 30, 2012, amounts due to St. Mary's High School, Inc. from the Foundation were $6,000. There were no amounts due to St. Mary's High School, Inc. at June 30, 2013.

Note 9 - Financial Instruments and Concentrations of Credit Risk

The Foundation's financial instruments that potentially subject it to concentrations of credit risk consist of cash, investments and donor pledges receivable.

The Foundation maintains cash balances in high quality financial institution. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At times, the amounts on deposit may be in excess of insured limits. At June 30, 2013, there was approximately $74,000 of deposits in excess of FDIC insured limits based on bank balances.

The Foundation's investments consist solely of uninsured mutual funds administered by the Archdiocese, $1,517,800 at June 30, 2013 (see Note 3).