

St. Sebastian's School, Inc.

Consolidated Financial Statements
and
Supplementary Information

Years Ended June 30, 2015 and 2014

St. Sebastian's School, Inc.

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
Years Ended June 30, 2015 and 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of St. Sebastian's School, Inc. (the "School") which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Sebastian's 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.

RSM US LLP

Boston, Massachusetts
October 28, 2015

St. Sebastian's School, Inc.
 Consolidated Statements of Financial Position
 June 30, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 3,726,153	\$ 3,513,520
Tuition receivable, net	32,141	25,113
Inventories and prepaid expenses	853,405	1,016,688
Pledges receivable, net	1,777,043	2,661,105
Financial aid loans receivable, net	27,218	91,686
Cash whose use is limited	4,368,331	5,378,323
Investments	31,041,006	26,215,559
Land, buildings, and equipment, net	38,598,112	39,497,884
	<u>\$ 80,423,409</u>	<u>\$ 78,399,878</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,522,948	\$ 1,372,552
Deferred revenue	993,681	942,845
Accrued pension benefits	673,000	676,000
Bonds payable	8,987,760	9,216,195
Total liabilities	<u>12,177,389</u>	<u>12,207,592</u>
Contingencies		
Net assets:		
Unrestricted	51,954,686	49,559,939
Temporarily restricted	10,414,809	11,294,400
Permanently restricted	5,876,525	5,337,947
Total net assets	<u>68,246,020</u>	<u>66,192,286</u>
	<u>\$ 80,423,409</u>	<u>\$ 78,399,878</u>

See notes to consolidated financial statements.

St. Sebastian's School, Inc.
 Consolidated Statements of Activities
 Years Ended June 30, 2015 and 2014

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses), and other support:								
Tuition and fees	\$ 15,245,750	\$ -	\$ -	\$ 15,245,750	\$ 14,664,336	\$ -	\$ -	\$ 14,664,336
Less - financial aid	(2,633,921)	-	-	(2,633,921)	(2,317,749)	-	-	(2,317,749)
Net tuition and fees	12,611,829	-	-	12,611,829	12,346,587	-	-	12,346,587
Contributions	2,210,637	1,006,086	508,578	3,725,301	2,042,606	978,715	535,643	3,556,964
Campaign contributions	1,058,007	-	30,000	1,088,007	632,207	5,625	100,000	737,832
Provision for bad debts	-	-	-	-	-	(100,000)	-	(100,000)
Skating rink	451,154	-	-	451,154	399,866	-	-	399,866
Net investment income:								
Dividends and interest income	410,877	313,400	-	724,277	318,118	283,044	-	601,162
Unrealized/realized (losses) gains on investments	(95,934)	(46,450)	-	(142,384)	1,626,277	1,487,593	-	3,113,870
Total net investment income	314,943	266,950	-	581,893	1,944,395	1,770,637	-	3,715,032
Other	206,361	-	-	206,361	141,537	-	-	141,537
Change in minimum pension liability	3,000	-	-	3,000	368,000	-	-	368,000
Loss on disposal of fixed assets	-	-	-	-	(1,111,578)	-	-	(1,111,578)
Net assets released from restriction:								
For expenses	917,628	(917,628)	-	-	664,077	(664,077)	-	-
For property and equipment expenditures	1,234,999	(1,234,999)	-	-	2,209,507	(2,209,507)	-	-
Total net assets released from restriction	2,152,627	(2,152,627)	-	-	2,873,584	(2,873,584)	-	-
Total revenues, gains (losses), and other	19,008,558	(879,591)	538,578	18,667,545	19,637,204	(218,607)	635,643	20,054,240
Expenses:								
Instructional	8,319,508	-	-	8,319,508	7,908,499	-	-	7,908,499
General and administrative	2,094,177	-	-	2,094,177	1,922,764	-	-	1,922,764
Operations and maintenance	1,397,896	-	-	1,397,896	1,287,538	-	-	1,287,538
General institutional	1,221,540	-	-	1,221,540	1,323,547	-	-	1,323,547
Athletics	807,545	-	-	807,545	812,200	-	-	812,200
Student activities	194,583	-	-	194,583	133,584	-	-	133,584
Dining hall	422,352	-	-	422,352	404,549	-	-	404,549
Fund-raising	1,262,505	-	-	1,262,505	1,172,372	-	-	1,172,372
Admissions	352,056	-	-	352,056	322,283	-	-	322,283
Skating rink	501,911	-	-	501,911	437,695	-	-	437,695
Other programs	39,738	-	-	39,738	43,444	-	-	43,444
Total expenses	16,613,811	-	-	16,613,811	15,768,475	-	-	15,768,475
Change in net assets	2,394,747	(879,591)	538,578	2,053,734	3,868,729	(218,607)	635,643	4,285,765
Net assets, beginning of year	49,559,939	11,294,400	5,337,947	66,192,286	45,691,210	11,513,007	4,702,304	61,906,521
Net assets, end of year	\$ 51,954,686	\$ 10,414,809	\$ 5,876,525	\$ 68,246,020	\$ 49,559,939	\$ 11,294,400	\$ 5,337,947	\$ 66,192,286

See notes to consolidated financial statements.

St. Sebastian's School, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 2,053,734	\$ 4,285,765
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,739,082	1,725,730
Bad debt expense	10,000	110,000
Unrealized and realized loss (gain) on investments	142,384	(3,113,870)
Loss on disposal of fixed assets	-	1,111,578
Contributions restricted for long-term investment	(538,578)	(641,268)
(Increase) decrease in:		
Tuition receivable	(7,028)	39,343
Pledges receivable	884,062	2,202,394
Inventories and prepaid expenses	163,283	(220,191)
Financial aid loans receivable	54,468	6,696
Increase (decrease) in:		
Accounts payable and accrued expenses	150,396	7,694
Deferred revenue	50,836	(140,295)
Accrued pension benefits	(3,000)	(368,000)
Net cash provided by operating activities	<u>4,699,639</u>	<u>5,005,576</u>
Cash flows from investing activities:		
Cash whose use is limited	1,009,992	(428,534)
Purchases of investments	(5,670,952)	(4,338,643)
Proceeds from sales and maturities of investments	703,121	519,136
Additions to land, buildings, and equipment	(839,310)	(1,335,052)
Net cash used in investing activities	<u>(4,797,149)</u>	<u>(5,583,093)</u>
Cash flows from financing activities:		
Donor-restricted contributions	-	5,625
Donor-restricted contributions for permanent endowment	538,578	635,643
Repayment of bonds payable	(228,435)	(200,203)
Net cash provided by financing activities	<u>310,143</u>	<u>441,065</u>
Net increase (decrease) in cash and cash equivalents	212,633	(136,452)
Cash and cash equivalents, beginning of year	<u>3,513,520</u>	<u>3,649,972</u>
Cash and cash equivalents, end of year	<u>\$ 3,726,153</u>	<u>\$ 3,513,520</u>
Supplemental disclosures:		
Interest paid	<u>\$ 277,171</u>	<u>\$ 354,571</u>

See notes to consolidated financial statements.

St. Sebastian's School, Inc.

Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

1. NATURE OF ACTIVITIES

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 fiscal 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. The Fund conducts fund-raising and receives donations on behalf of St. Sebastian's School, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Presentation

The consolidated financial statements of the School have been prepared on the accrual basis of accounting.

Classification and Reporting of Net Assets

The School follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, "Financial Statements of Not-For Profit Organizations". This standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Institutional Funds Act ("UPMIFA").

UPMIFA is a model act approved by the Uniform Law Commission that serves as guidance for states to use in enacting legislation. This standard also requires disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

The classification of the School's net assets and its revenue, expenses, gains, and losses is based on the existence or absence of donor-imposed restrictions. Net assets are grouped into the following three categories:

- Unrestricted net assets represent the portion of net assets of the School that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for support of the School as well as funds invested in plant, including campus buildings. In addition, unrestricted net assets of the School include funds which represent unrestricted resources designated by the Board of Trustees (the "Board") for specific purposes.

St. Sebastian's School, Inc.
Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Classification and Reporting of Net Assets...continued

- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. Temporarily restricted net assets also include, under Massachusetts law, funds not yet appropriated by the Board, generally representing cumulative interest, dividends, appreciation and reinvested gains on permanently restricted endowment funds, which are subject to prudent appropriation by the Board in accordance with donor use restrictions and provisions of Massachusetts law.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by actions of the School pursuant to those stipulations. Permanently restricted net assets may also include realized and unrealized gains and interest and investment income on certain contributions, as stipulated by the donor.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with remaining maturities of three months or less when purchased, except funds held in money market and mutual fund accounts with its investment brokers, which are included in investments.

The School maintains cash and cash equivalent balances at various financial institutions, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts and monitors the credit risk associated with these financial institutions. Accordingly, management does not believe that it is exposed to any significant credit risk on cash and cash equivalents.

Cash Whose Use is Limited

Cash whose use is limited includes amounts designated by the Board for specific purposes.

Tuition Receivable

Tuition receivable is carried at original invoice less an allowance made for doubtful accounts. Tuition receivable is reported net of management's estimated allowance for uncollectible receivables of \$141,805 and \$181,805 at June 30, 2015 and 2014, respectively. Management determines the allowance for doubtful accounts by evaluating individual student tuition receivables while considering the student's financial situation and current economic conditions. Tuition receivable is written off when deemed uncollectible. Recoveries of tuition receivable previously written off are recorded when received. Amounts are considered past due when they have been outstanding for 90 days. Interest is not charged on outstanding tuition receivable.

St. Sebastian's School, Inc.
 Notes to Consolidated Financial Statements
 Years Ended June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Pledges Receivable and Donor-Restricted Gifts

Contributions, including unconditional promises to give, are initially recognized at fair value as restricted support or 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. There are no conditional pledges for the year June 30, 2015 and 2014. 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. An 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.

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.

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, 2015 and 2014, the interest rate on the loans was 5%. An allowance is made for uncollectible loans based upon management's judgment, past collection experience, and other relevant factors. The allowance for uncollectible loans as of June 30, 2015 and 2014 was \$113,123 and \$63,123, respectively.

Financial aid loans receivable as of June 30, 2015 are expected to be collected during the years ended June 30:

2016	\$	5,922
2017		7,623
2018		7,000
2019		4,348
2020		2,896
Thereafter		<u>112,552</u>
Total financial aid loans receivable		140,341
Less - allowance for uncollectible loans		<u>(113,123)</u>
Total financial aid loans receivable, net	\$	<u>27,218</u>

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all debt securities are recorded 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.

St. Sebastian's School, Inc.

Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Investments and Investment Income...continued

Investment income and gains (losses) from unrestricted investment funds are reported as unrestricted revenue. Investment interest and gains (losses) on investments of temporarily restricted net assets are reported as increases (decreases) in temporarily restricted net assets. Investment income and gains (losses) on investments of permanently restricted net assets are reported as increases (decreases) in temporarily restricted net assets, unless permanently restricted by the donor, in which case they are recorded as increases (decreases) in permanently restricted net assets. There are no such restrictions placed on income gains (losses) from permanently restricted gifts in 2015 or 2014.

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.

The Board has interpreted Massachusetts General Law as requiring investment income and realized and unrealized gains of permanently restricted net assets to be retained in a restricted net asset classification until appropriated by the Board and expended. Massachusetts General Law allows the Board to appropriate as much of investment income and 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.

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 unexpended net gains.

Temporarily restricted net assets appropriated under the spending rule reported as a component of net assets released from restriction for the year ended June 30, have been used as follows:

	<u>2015</u>	<u>2014</u>
Faculty salaries and benefits	\$ 250,000	\$ 250,000
General expenses	41,217	27,151
Financial aid	<u>151,429</u>	<u>105,824</u>
	<u>\$ 442,646</u>	<u>\$ 382,975</u>

The purpose of the endowment is to support the School and its mission over the long term. The objective is to manage the funds within the endowment so that the future growth of the investments will be sufficient to offset normal inflation, plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the School for future generations. Additionally, management of the fund is designed to attain the maximum total return consistent with acceptable and agreed-upon levels of risk. It is the goal of the fund to generate an average total annual return that exceeds the spending payout/rate, plus inflation.

St. Sebastian's School, Inc.

Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Investments and Investment Income...continued

To satisfy the 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 yields (interest and dividends). The School targets an asset allocation strategy wherein assets are diversified among several asset classes. The School seeks broad diversification among assets having different characteristics to attain the appropriate levels of risk and return objectives in light of the School's risk tolerance and investment time horizon.

Other Investments Not Recorded at Fair Value

The School has a 33.3% interest in a real estate partnership that was donated to the School in 1997. The School accounts for this investment at the lower of cost or market (based upon periodic appraisals) as the investment does not have a readily determinable fair value. As of June 30, 2015 and 2014 the investment is recorded at \$220,851 which was the appraised value at the time of the donation. There have been no impairments recorded against the carrying value of this asset.

Land, Buildings, and Equipment

Land, buildings, and equipment 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 that do not extend the useful life of an asset are charged to expense as incurred. Donated land, buildings, and equipment are recorded at their fair value at the date of the gift.

Expenditures for capital projects in process are capitalized at cost 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.

Impairment of Long-Lived Assets

Long-lived assets, which consist primarily of property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When such events occur, the School compares the carrying amounts of the assets to the undiscounted expected future cash flows. If this comparison indicates that there may be an impairment, the amount of the impairment is calculated as the difference between the carrying value and fair value. During the fiscal years ended June 30, 2015 and 2014, no impairments have occurred.

Revenue Recognition

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.

Tuition revenue is recorded net of financial aid discounts. The School defers recognition of registration and tuition revenue to the period in which related educational instruction is performed and the related expenses are incurred. Accordingly, registration and tuition fees received for the next School term are deferred until the first day of the new fiscal year and recognized ratably over the school term.

St. Sebastian's School, Inc.
Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Federal Income Tax

The School has been determined to be a tax-exempt, nonprofit organization under Section 501(c)(3) 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.

Uncertainty of Income Taxes

The School follows FASB ASC 740, "Income Taxes", which clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The School recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management evaluated the School's tax positions and concluded that the School had no material uncertainties in income taxes as of June 30, 2015 and 2014. The School is no longer subject to income tax examinations by the U.S., federal, state, or local tax authorities for fiscal years before 2012. The School will account for interest and penalties related to uncertain tax positions, if any, as part of tax expense.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising and printing costs are expensed as incurred. Costs incurred for the years ended June 30, 2015 and 2014 amounted to \$172,518 and \$171,216, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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.

Liquidity

In order to provide information about liquidity, assets are sequenced according to their nearness of conversion to cash and liabilities according to the nearness of their estimated maturity.

St. Sebastian's School, Inc.
 Notes to Consolidated Financial Statements
 Years Ended June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018, and interim periods with annual periods beginning after December 15, 2019. Early implementation is not permitted. The School has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

3. PLEDGES RECEIVABLE

Expected collections of pledges receivable as of June 30, are as follows:

	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 914,187	\$ 1,104,056
One to five years	<u>1,088,143</u>	<u>2,582,565</u>
	2,002,330	3,686,621
Discount on pledges receivable (discounted at rates ranging from 0.72% to 4.92%)	(31,287)	(175,516)
Allowance on pledges receivable	<u>(194,000)</u>	<u>(850,000)</u>
	<u>\$ 1,777,043</u>	<u>\$ 2,661,105</u>

St. Sebastian's School, Inc.

Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

3. PLEDGES RECEIVABLE...continued

During the year ended June 30, 2015, the School also had direct write offs totaling \$656,000. There were no direct write offs during the year ended June 30, 2014.

The summary of the change in contributions receivable - net during the year ended June 30, is as follows:

	<u>2015</u>	<u>2014</u>
Balance, beginning of the year	\$ 2,661,105	\$ 4,963,499
New pledges	-	83,160
Collections on pledges	(1,684,291)	(2,257,227)
Allowance on pledges receivable	656,000	(100,000)
Decrease in unamortized discounts	<u>144,229</u>	<u>(28,327)</u>
Balance, end of year	<u>\$ 1,777,043</u>	<u>\$ 2,661,105</u>

During the year ended June 30, 2015 and 2014, two donors made up 50% and 33% of pledges receivable, respectively.

4. FAIR VALUE MEASUREMENTS

Under the FASB's authoritative guidance on fair value measurements, 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. In estimating fair value, the School uses the market approach method. Based on this approach, the School often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The School utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the School is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 - Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

Level 3 - Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data. The School has no level 3 investments as of June 30, 2015 and 2014.

St. Sebastian's School, Inc.
Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

4. FAIR VALUE MEASUREMENTS...continued

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, the inputs are based on the lowest level of input that is significant to the fair value measurement.

The School has various processes and controls in place to ensure that fair value is reasonably estimated.

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 estimate of fair value at the reporting date.

During the years ended June 30, 2015 and 2014, there were no changes to the School's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

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

Money Market Funds

The fair value of money market funds is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Mutual Funds

The fair value of mutual funds are based on quoted market prices for such funds as reported at the closing price reported on the active market on which the individual securities are traded.

U.S. Treasuries

The fair values of the U.S. Treasury notes are based on quoted market prices for identical instruments in active markets.

Information at June 30, about the School's financial assets that are measured at fair value on a recurring basis, is presented in the following tables:

<u>2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents:				
Money market funds	\$ -	\$ 18,750	\$ -	\$ 18,750
Mutual funds:				
Fixed income	7,873,553	-	-	7,873,553
Domestic equity	14,841,374	-	-	14,841,374
International equity	4,957,415	-	-	4,957,415
Natural resources	1,360,299	-	-	1,360,299
Real estate	1,481,809	-	-	1,481,809
U.S. treasury notes	<u>286,955</u>	<u>-</u>	<u>-</u>	<u>286,955</u>
Total investments recorded at fair value	<u>\$ 30,801,405</u>	<u>\$ 18,750</u>	<u>\$ -</u>	<u>30,820,155</u>
Real Estate Partnership (not at fair value)				<u>220,851</u>
Total investments				<u>\$ 31,041,006</u>

St. Sebastian's School, Inc.
Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

4. FAIR VALUE MEASUREMENTS...continued

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents:				
Money market funds	\$ -	\$ 21,924	\$ -	\$ 21,924
Mutual funds:				
Fixed income	6,561,806	-	-	6,561,806
Domestic equity	12,044,357	-	-	12,044,357
International equity	4,642,607	-	-	4,642,607
Natural resources	1,163,837	-	-	1,163,837
Real estate	1,277,352	-	-	1,277,352
U.S. treasury notes	<u>282,825</u>	<u>-</u>	<u>-</u>	<u>282,825</u>
Total investments recorded at fair value	<u>\$ 25,972,784</u>	<u>\$ 21,924</u>	<u>\$ -</u>	25,994,708
Real Estate Partnership (not at fair value)				<u>220,851</u>
Total investments				<u>\$ 26,215,559</u>

5. LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 22,018,683	\$ 21,277,065
Buildings	30,684,009	30,684,009
Furniture, fixtures, and equipment	<u>5,824,687</u>	<u>5,718,701</u>
	58,527,379	57,679,775
Less - accumulated depreciation	<u>(20,018,970)</u>	<u>(18,279,888)</u>
	38,508,409	39,399,887
Capital projects in process	<u>89,703</u>	<u>97,997</u>
Land, buildings and equipment, net	<u>\$ 38,598,112</u>	<u>\$ 39,497,884</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$1,739,082 and \$1,725,730, respectively.

Capital projects in process is for the west campus building improvements. The estimated cost and time to complete this project is unknown at this time.

St. Sebastian's School, Inc.

Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

6. BONDS PAYABLE

In December 2010, the School secured a direct purchase of outstanding bank-qualified tax-exempt bonds in the amount of \$10,000,000 to finance the construction of the Science and Math Building. The proceeds were maintained in a separate restricted account until they were used to pay construction costs. The issuer of the bonds is the Massachusetts Development Finance Agency. Eastern Bank is both the purchaser of the bonds and the disbursing agent. The rate was fixed at 3.75% for the first 10 years with a 30-year amortization schedule requiring monthly payments. In May 2014, the bonds were refinanced, reducing the fixed rate to 3% effective June 2014. The rate will reset in December 2020 and December 2030. The reset formula is the Federal Home Loan Bank of Boston rate plus 200 basis points to be taxed and adjusted as of the reset date. The School is required to comply with certain financial covenants. The School incurred interest expense of \$276,600 and \$348,185 in 2015 and 2014, respectively.

Annual maturities of bonds payable for the year ended June 30, 2015 are as follows:

2016	\$	239,358
2017		246,637
2018		254,139
2019		261,868
2020		269,833
Thereafter		<u>7,715,925</u>
Total bonds payable	\$	<u>8,987,760</u>

The School has a \$2,000,000 revolving line of credit (the "Line of Credit"). The Line of Credit is secured by collateral as defined per the agreement and matures on December 31, 2015. The School plans on renewing the line of credit on an annual basis. As of June 30, 2015 and 2014, the School had not drawn any funds on the Line of Credit.

7. PENSION PLANS

Prior to June 30, 2004, the School participated in a noncontributory, defined benefit pension plan administered by the Roman Catholic Archdiocese of Boston (the "Archdiocese"). This plan is a single employer plan, where the Archdiocese is the employer. 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 underfunded. As such, the School remains responsible for the portion of the unfunded liability relating to its participants in the plan and must continue to make payments to the plan. The payments are required 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 the amortization of the unfunded present value of accrued benefits, which approximates \$673,000, and \$676,000 as of June 30, 2015 and 2014, respectively.

St. Sebastian's School, Inc.
Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

7. PENSION PLANS...continued

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. The assets are allocated by the Archdiocese and the total allocated to the School was approximately \$3.3 million, which is \$4.0 million in accumulated benefits net of the \$700 thousand unfunded status. The discount rate as of June 30, 2015 and 2014 is 6.5%. The approximate investment return as of June 30, 2015 and 2014 is 1.41% and 13.54%, respectively.

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 \$706,509 and \$649,177 for the years ended June 30, 2015 and 2014, 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.

8. NET ASSETS

A summary of net assets by designation and restriction at June 30 is as follows:

	<u>2015</u>	<u>2014</u>
<u>Unrestricted</u>		
Undesignated	\$ 32,443,948	\$ 32,334,559
Designated by the Board:		
Long term investment (quasi endowment)	17,606,159	13,316,337
Reserve for plant replacement	997,114	2,961,252
Reserve for retirement benefits	580,526	576,102
Financial aid loans	<u>326,939</u>	<u>371,689</u>
	<u>\$ 51,954,686</u>	<u>\$ 49,559,939</u>
<u>Temporarily Restricted</u>		
Available for student financial aid:		
Endowment	\$ 214,126	\$ 217,196
Purpose restricted gifts	548,954	365,686
Available for operations and other:		
Endowment	6,749,347	6,921,973
Purpose restricted gifts	<u>2,902,382</u>	<u>3,789,545</u>
	<u>\$ 10,414,809</u>	<u>\$ 11,294,400</u>
<u>Permanently Restricted</u>		
Endowment:		
For student financial aid	\$ 4,827,005	\$ 4,288,477
For operations and other	<u>1,049,520</u>	<u>1,049,470</u>
	<u>\$ 5,876,525</u>	<u>\$ 5,337,947</u>

There are reclassifications in the table above to the 2014 presentation to confirm to the 2015 presentation with no effect on net assets.

St. Sebastian's School, Inc.
Notes to Consolidated Financial Statements
Years Ended June 30, 2015 and 2014

9. ENDOWMENT NET ASSETS

Endowment net asset composition by type of fund for the years ending June 30 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2015</u>				
Board designated	\$ 17,606,159	\$ -	\$ -	\$ 17,606,159
Donor restricted	-	6,963,473	5,876,525	12,839,998
	<u>\$ 17,606,159</u>	<u>\$ 6,963,473</u>	<u>\$ 5,876,525</u>	<u>\$ 30,446,157</u>
<u>2014</u>				
Board designated	\$ 13,316,337	\$ -	\$ -	\$ 13,316,337
Donor restricted	-	7,139,169	5,337,947	12,477,116
	<u>\$ 13,316,337</u>	<u>\$ 7,139,169</u>	<u>\$ 5,337,947</u>	<u>\$ 25,793,453</u>

Endowment fund activity for the years ended June 30 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>2015</u>				
Endowment net assets, beginning of year	\$ 13,316,337	\$ 7,139,169	\$ 5,337,947	\$ 25,793,453
True - Up	(170,589)	-	-	(170,589)
Investment income	407,993	313,400	-	721,393
Net appreciation (realized/unrealized)	(103,003)	(46,450)	-	(149,453)
Contributions	3,268,644	-	538,578	3,807,222
Funds designated by the board	1,142,131	-	-	1,142,131
Net assets released from restriction for operations	-	(442,646)	-	(442,646)
Net assets released for operations	(255,354)	-	-	(255,354)
Endowment net assets, end of year	<u>\$ 17,606,159</u>	<u>\$ 6,963,473</u>	<u>\$ 5,876,525</u>	<u>\$ 30,446,157</u>
<u>2014</u>				
Endowment net assets, beginning of year	\$ 8,670,870	\$ 5,751,507	\$ 4,702,304	\$ 19,124,681
Investment income	316,666	283,044	-	599,710
Net appreciation (realized/unrealized)	1,611,792	1,487,593	-	3,099,385
Contributions	2,674,813	-	635,643	3,310,456
Funds designated by the board	174,721	-	-	174,721
Net assets released from restriction for operations	-	(382,975)	-	(382,975)
Net assets released for operations	(132,525)	-	-	(132,525)
Endowment net assets, end of year	<u>\$ 13,316,337</u>	<u>\$ 7,139,169</u>	<u>\$ 5,337,947</u>	<u>\$ 25,793,453</u>

**Independent Auditor's Report
on Supplementary Information**

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

We have audited the consolidated financial statements of St. Sebastian's School, Inc. as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon, dated October 28, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to October 28, 2015.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Boston, Massachusetts
October 28, 2015

St. Sebastian's School, Inc.

Schedule of Consolidated Expenses
Year Ended June 30, 2015

	Total	Instructional	General and Administrative	Operations and Maintenance	General Institutional	Athletics	Student Activities	Dining Hall	Fund-Raising	Admissions	Skating Rink	Other Programs
Salaries	\$ 8,028,677	\$ 5,139,391	\$ 1,506,263	\$ 338,441	\$ -	\$ -	\$ -	\$ -	\$ 717,000	\$ 205,000	\$ 122,562	\$ -
Heat, light, and water	651,765	279,607	-	-	66,650	104,692	-	-	-	-	200,816	-
Employee benefits	1,653,542	1,111,224	282,729	63,525	-	-	-	-	134,581	38,478	23,005	-
Materials and supplies	378,781	88,119	-	44,400	110,644	21,388	-	49,261	56,419	5,232	3,318	-
Payroll taxes	542,156	347,050	101,716	22,854	-	-	-	-	48,417	13,843	8,276	-
Repairs and maintenance	381,702	-	-	344,187	22,277	-	-	-	-	-	15,238	-
Food service	139,180	-	-	-	-	-	-	139,180	-	-	-	-
Equipment expense	219,555	79,170	-	1,573	57,953	77,109	-	-	-	-	3,750	-
Transportation and travel	171,996	2,406	7,330	-	8,404	122,895	-	-	30,961	-	-	-
Conferences and workshops	60,860	40,595	-	-	-	4,394	-	-	7,093	8,778	-	-
Tuition reciprocity	276,640	212,000	64,640	-	-	-	-	-	-	-	-	-
Telephone	28,090	-	-	-	28,090	-	-	-	-	-	-	-
Professional fees	193,836	-	-	-	144,606	-	-	18,000	31,230	-	-	-
Insurance	139,053	-	-	-	129,053	-	-	-	-	-	10,000	-
Student publications	22,006	-	-	-	-	-	22,006	-	-	-	-	-
Miscellaneous - other	242,235	46,862	5,186	-	142,052	44,982	-	-	326	-	2,827	-
Entertainment	204,464	-	397	-	18,568	-	-	-	167,863	17,636	-	-
Game officials	40,493	-	-	-	-	40,493	-	-	-	-	-	-
Commencement	39,932	-	-	-	39,932	-	-	-	-	-	-	-
Postage	55,132	-	-	-	55,080	-	-	-	52	-	-	-
Advertising and printing	172,518	536	-	-	42,829	-	-	-	67,663	61,490	-	-
Dues and memberships	39,423	3,588	1,190	-	26,088	6,408	-	-	550	1,599	-	-
Student events	172,577	-	-	-	-	-	172,577	-	-	-	-	-
Contracted services	703,778	3,401	-	433,112	38,271	-	-	214,654	350	-	13,990	-
Summer camp	39,738	-	-	-	-	-	-	-	-	-	-	39,738
Interest	276,600	-	-	-	276,600	-	-	-	-	-	-	-
Depreciation	1,739,082	965,559	124,706	149,804	14,443	385,184	-	1,257	-	-	98,129	-
	\$ 16,613,811	\$ 8,319,508	\$ 2,094,177	\$ 1,397,896	\$ 1,221,540	\$ 807,545	\$ 194,583	\$ 422,352	\$ 1,262,505	\$ 352,056	\$ 501,911	\$ 39,738

St. Sebastian's School, Inc.

Schedule of Consolidated Expenses
Year Ended June 30, 2014

	Total	Instructional	General and Administrative	Operations and Maintenance	General Institutional	Athletics	Student Activities	Dining Hall	Fund-Raising	Admissions	Skating Rink	Other Programs
Salaries	\$ 7,542,208	\$ 4,935,483	\$ 1,352,817	\$ 304,947	\$ -	\$ -	\$ -	\$ -	\$ 649,500	\$ 191,000	\$ 108,461	\$ -
Heat, light, and water	547,041	224,019	-	-	52,945	110,568	-	-	-	-	159,509	-
Employee benefits	1,525,647	1,063,454	239,865	54,069	-	-	-	-	115,162	33,866	19,231	-
Materials and supplies	360,239	79,496	5,154	47,475	118,070	19,259	-	37,357	49,764	1,915	1,749	-
Payroll taxes	511,160	334,493	91,685	20,667	-	-	-	-	44,019	12,945	7,351	-
Repairs and maintenance	283,906	-	-	219,556	24,568	-	-	-	-	-	39,782	-
Food service	135,030	-	-	-	-	-	-	135,030	-	-	-	-
Equipment expense	203,669	10,453	-	6,260	94,753	91,321	-	-	-	-	882	-
Transportation and travel	158,939	6,290	8,893	-	14,756	103,501	-	-	25,499	-	-	-
Conferences and workshops	37,447	25,389	-	-	-	4,892	-	-	2,588	4,578	-	-
Tuition reciprocity	346,340	253,100	93,240	-	-	-	-	-	-	-	-	-
Bad debts	10,000	-	-	-	10,000	-	-	-	-	-	-	-
Telephone	25,683	-	-	-	25,683	-	-	-	-	-	-	-
Professional fees	167,262	-	-	-	141,512	-	-	17,500	8,250	-	-	-
Insurance	124,458	-	-	-	116,058	-	-	-	-	-	8,400	-
Student publications	34,887	-	-	-	-	-	34,887	-	-	-	-	-
Miscellaneous - other	223,647	23,702	-	-	160,703	36,885	-	-	153	-	2,204	-
Entertainment	247,746	-	4,548	-	21,273	-	-	-	203,898	18,027	-	-
Game officials	41,677	-	-	-	-	41,677	-	-	-	-	-	-
Commencement	34,658	-	-	-	34,658	-	-	-	-	-	-	-
Postage	57,680	-	-	-	57,680	-	-	-	-	-	-	-
Advertising and printing	171,216	-	-	-	39,631	-	-	-	72,508	59,077	-	-
Dues and memberships	38,600	4,908	2,084	-	23,141	6,561	-	-	1,031	875	-	-
Student events	98,697	-	-	-	-	-	98,697	-	-	-	-	-
Contracted services	723,279	10,529	-	468,874	25,959	-	-	214,662	-	-	3,255	-
Summer camp	43,444	-	-	-	-	-	-	-	-	-	-	43,444
Interest	348,185	-	-	-	348,185	-	-	-	-	-	-	-
Depreciation	1,725,730	937,183	124,478	165,690	13,972	397,536	-	-	-	-	86,871	-
	\$ 15,768,475	\$ 7,908,499	\$ 1,922,764	\$ 1,287,538	\$ 1,323,547	\$ 812,200	\$ 133,584	\$ 404,549	\$ 1,172,372	\$ 322,283	\$ 437,695	\$ 43,444