

BISHOP MCGANN-MERCY DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
FINANCIAL STATEMENTS
AS OF JUNE 30, 2004
TOGETHER WITH
AUDITORS' REPORT



Callaghan Nawrocki LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To Most Reverend William Murphy
Bishop of the Diocese of Rockville Centre:

We have audited the accompanying statement of financial position of Bishop McGann-Mercy Diocesan High School of the Diocese of Rockville Centre (the "High School") as of June 30, 2004, and the related statements of activities and change in net assets and cash flows for the ten months then ended. These financial statements and the statement referred to below are the responsibility of the High School's management. Our responsibility is to express an opinion on these financial statements and statement based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bishop McGann-Mercy Diocesan High School of the Diocese of Rockville Centre as of June 30, 2004, and the results of its activities and change in its net assets and its cash flows for the ten months then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The budget vs. actual statement of operating activities for the ten months ended June 30, 2004 is presented for purposes of additional analysis and is not a required part of the financial statements. The actual information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Melville, New York
October 7, 2004

Callaghan Nawrocki

BISHOP MCGANN-MERCY DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

Cash	\$	138,040
Accounts receivable - students, net of allowance for doubtful accounts of \$14,053		75,902
Subsidy receivable		200,000
Inventory		3,538
Prepaid expenses		10,300
Property and equipment, net of accumulated depreciation and amortization of \$150,483		663,741
Total assets	\$	1,091,521

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$	72,197
Accrued salaries and benefits		319,881
Capital lease obligation		25,649
Accrued sick pay		27,593
Deferred revenue - advance tuition and registration fees		37,315
Total liabilities		482,635
Commitments and contingencies		
Net assets:		
Unrestricted:		
Plant		663,741
Undesignated		(54,855)
Total unrestricted net assets		608,886
Total liabilities and net assets	\$	1,091,521

The accompanying notes to financial statements
are an integral part of this statement.

BISHOP MCGANN-MERCY DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE TEN MONTHS ENDED JUNE 30, 2004

REVENUES:	
Tuition	\$ 1,676,145
Fundraising	177,013
State Aid - Mandated Services	77,977
Contributed services	63,467
Registration fees	56,530
Donations and gifts	55,764
Miscellaneous	36,153
Student fees	27,337
Co-curricular activities	26,368
Driver education fees	19,148
Athletic activities	16,373
Use of facilities - other	15,280
Yearbook	14,880
Sales - Bookstore	13,276
Graduation fees	7,920
	<hr/>
Total operating revenues	2,283,631
EXPENSES:	
Instructional	1,774,515
Employee benefits	408,676
Administrative	394,003
Operation and maintenance of plant	310,220
Athletic activities	230,530
Fundraising	113,410
Depreciation and amortization	64,841
Co-curricular activities	39,144
Yearbook	21,340
Graduation	12,988
Bookstore	7,331
Bad debts	6,528
Miscellaneous	4,861
	<hr/>
Total operating expenses	3,388,387
Deficiency of revenues under expenses	(1,104,756)
SUBSIDIES FROM DIOCESE OF ROCKVILLE CENTRE:	
Operating subsidy	1,097,877
Capital subsidy	194,516
	<hr/>
Total subsidies	1,292,393
Change in net assets	187,637
NET ASSETS, BEGINNING OF PERIOD	<hr/> 421,249
NET ASSETS, END OF PERIOD	<hr/> <hr/> \$ 608,886

The accompanying notes to financial statements
are an integral part of this statement.

BISHOP MCGANN-MERCY DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 187,637
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization expense	64,841
Increase in accounts receivable - students, net	(67,477)
Increase in subsidy receivable	(200,000)
Increase in inventory	(2,527)
Increase in prepaid expenses	(8,987)
Decrease in accounts payable and accrued expenses	(44,267)
Increase in accrued salaries and benefits	319,881
Increase in accrued sick pay	27,593
Decrease in deferred revenue - advance tuition and registration	<u>(294,144)</u>
Net cash used by operating activities	<u>(17,450)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment, net	<u>(214,131)</u>
Net cash used by investing activities	<u>(214,131)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Increase in capital lease obligation	28,108
Payments on capital lease obligation	<u>(2,459)</u>
Net cash provided by financing activities	<u>25,649</u>

NET DECREASE IN CASH
AND CASH EQUIVALENTS

(205,932)

CASH AND CASH EQUIVALENTS,
BEGINNING OF PERIOD

343,972

CASH AND CASH EQUIVALENTS,
END OF PERIOD

\$ 138,040

The accompanying notes to financial statements
are an integral part of this statement.

BISHOP MCGANN-MERCY DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) **Nature of operations**

Bishop McGann-Mercy Diocesan High School of the Diocese of Rockville Centre (the "High School") was organized for the purpose of providing Catholic education at the secondary level. The High School receives significant operating and capital subsidies from the Current Operating Funds of the Administrative Offices of the Diocese of Rockville Centre (the "Administrative Offices"). Diocesan officials have informed the High School that the High School's operations will continue to be subsidized by the Diocese of Rockville Centre at least through June 30, 2005.

The Diocese of Rockville Centre agreed with the Sisters of Mercy to assume the operations of the High School as well as the maintenance of its physical plant in Riverhead, effective September 1, 2003. The Diocese, in cooperation with the Sisters of Mercy, is developing a Memorandum of Understanding outlining its future responsibilities to Mercy High School and the Sisters of Mercy. Effective with the fiscal school year commencing September 1, 2003, the Diocese changed the name of the High School from Mercy High School to Bishop McGann-Mercy Diocesan High School.

(2) **Summary of significant accounting policies**

The accompanying financial statements include the assets, liabilities, revenues and expenses of the High School which are presented under the accrual basis of accounting. The following is a summary of significant accounting policies followed by the High School:

Financial statement presentation -

The High School presents its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, Financial Statements of Not-For-Profit Organizations. SFAS No. 117 requires that the High School's financial statements distinguish between unrestricted, temporarily restricted, and permanently restricted net assets and changes in net assets, depending on the existence and/or nature of any donor restrictions. The High School's net assets consist of the following:

Unrestricted - net assets of the High School which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the High School.

The High School does not possess any temporarily or permanently restricted net assets.

As required by SFAS No. 117, the High School has also presented a statement of cash flows for the ten months ended June 30, 2004.

Cash and cash equivalents -

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents and include money market funds held in banks.

Inventory -

Inventory is stated at the lower of cost or market and consists of clothing. Cost is determined by the first-in, first-out method. Materials and supplies used in normal operations are charged to expense as purchased.

Property and equipment -

Property and equipment are capitalized at cost or, if donated, at fair market value as of the date of receipt. Depreciation and amortization are computed by using the straight-line method over the estimated useful lives of the assets. The following represents the major classes of fixed assets as of June 30, 2004:

		Life (in years)
Building improvements	\$ 537,167	5 to 15
Furniture and equipment	<u>277,057</u>	3 to 5
	814,224	
Less: accumulated depreciation and amortization	<u>150,483</u>	
	<u>\$ 663,741</u>	

Accounting for the impairment or disposal of long-lived assets -

The High School follows the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The provisions of this Statement did not have a material impact on the High School's financial position, results of activities or liquidity during the ten months ended June 30, 2004.

Fair value of financial instruments -

Statement of Financial Accounting Standards No. 107, Disclosure about Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying value of all instruments classified as current assets or liabilities is deemed to approximate fair value because of their short-term nature.

Accrued salaries and benefits -

Accrued salaries and benefits represent the instructional faculty's summer pay for those instructors who opted to receive their salary over 24 pay periods for services rendered prior to June 30, 2004. Stipends for religious employees who perform instructional services are also included. Since the High School's administrators are required to work over the summer months, no accrual is made for administrators' summer pay.

Accrued sick pay -

Under a contractual agreement, the High School is obligated to pay one half of the accumulated sick pay (maximum accumulation of 135 days) at the then current salary level upon termination or resignation of teachers. Teachers who have accrued the maximum number of sick days are entitled to be paid for half of the unused sick days earned in the current year. Historically, lay administrators have received the same sick pay benefits as teachers.

Revenue recognition -

Revenues are generally recognized when earned and expenses are generally recognized when incurred.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at date of contribution.

Tuition -

Accounts receivable-students consists primarily of receivables for student tuition for the June 30, 2003/2004 school year. Accounts receivable-students and tuition income are shown net of tuition income reductions such as employee discounts and financial grants in the accompanying financial statements.

State aid - mandated services -

Mandated services revenue represents reimbursement to the High School from the State of New York for the costs of meeting state testing and recordkeeping requirements. The amount received by the High School for the ten months ended June 30, 2004, represented claims filed in the 2003/2004 school year based on costs incurred in the year preceding the claim. Because of frequent changes and uncertainties in the law, such revenue is recorded in the year received.

Contributed services -

Contributed services of religious employees have been recognized in the accompanying financial statements. The computation of these services represents the difference between the compensation paid to religious employees and the comparable compensation which would be paid to lay persons if lay persons were to occupy these positions.

The use of estimates in the preparation of financial statements -

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the period. Actual results may differ from those estimates.

(3) Capital lease obligation

In February 2004, the High School entered into a capital lease agreement for door monitors and security cameras with an original principal amount of \$28,108. The lease requires monthly principal and interest payments of \$582 through February 2009. Future principal payments on this capital lease at June 30, 2004 are as follows:

<u>Year ending June 30,</u>	
2005	\$ 4,887
2006	5,337
2007	5,830
2008	6,367
2009	<u>3,228</u>
	<u>\$ 25,649</u>

(4) Tax-exempt status

The High School is a nonprofit religious institution exempt from Federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of the New York State income tax law.

(5) Pension and retirement plans

The High School is a participant in the noncontributory lay pension plan established by the Diocese of Rockville Centre covering employees who meet certain minimum service requirements. The High School also participates in a noncontributory retirement plan for clergy. Due to the nature of the plans, it is not practicable to determine the extent to which the assets of the plans cover the actuarially computed value of vested benefits for the High School on a stand-alone basis.

In addition, because the plans are considered multi-employer plans, they are not subject to the reporting requirements of SFAS No. 87, Employers' Accounting for Pensions, as amended by SFAS No.132, Employers' Disclosures about Pensions and Other Postretirement Benefits. Pension expense allocated to the High School for the ten months ended June 30, 2004 was \$77,400 for the noncontributory lay pension plan.

(6) **Commitments and contingencies**

The High School is obligated under various operating leases for equipment. Future minimum lease payments for all non-cancellable operating leases at June 30, 2004 are as follows:

Year ending June 30,

2005	\$	4,440
2006		4,440
2007		4,440
2008		4,440
2009		<u>740</u>
	\$	<u>18,500</u>

BISHOP MCGANN-MERCY DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
BUDGET VS. ACTUAL STATEMENT OF OPERATING ACTIVITIES
FOR THE TEN MONTHS ENDED JUNE 30, 2004

	Budget (Unaudited)	Actual	Favorable (Unfavorable)
REVENUES:			
Tuition	\$ 1,928,531	\$ 1,676,145	\$ (252,386)
Fundraising	174,500	177,013	2,513
State Aid - Mandated Services	52,000	77,977	25,977
Contributed services	-	63,467	63,467
Registration fees	56,875	56,530	(345)
Donations and gifts	75,000	55,764	(19,236)
Miscellaneous	-	36,153	36,153
Student fees	20,000	27,337	7,337
Co-curricular activities	-	26,368	26,368
Driver education fees	10,000	19,148	9,148
Athletic activities	9,000	16,373	7,373
Use of facilities - other	15,500	15,280	(220)
Yearbook	20,000	14,880	(5,120)
Sales - Bookstore	8,000	13,276	5,276
Graduation fees	5,000	7,920	2,920
	<u>\$ 2,374,406</u>	<u>\$ 2,283,631</u>	<u>\$ (90,775)</u>
Total operating revenues	<u>\$ 2,374,406</u>	<u>\$ 2,283,631</u>	<u>\$ (90,775)</u>

(Continued)

The accompanying notes to financial statements
should be read in conjunction with this statement.

BISHOP MCGANN-MERCY DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
BUDGET VS. ACTUAL STATEMENT OF OPERATING ACTIVITIES
FOR THE TEN MONTHS ENDED JUNE 30, 2004

(Continued)

	<u>Budget</u> <u>(Unaudited)</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
EXPENSES:			
Instructional	\$ 1,752,508	\$ 1,774,515	\$ (22,007)
Employee benefits	458,896	408,676	50,220
Administrative	327,050	394,003	(66,953)
Operation and maintenance of plant	360,000	310,220	49,780
Athletic activities	214,200	230,530	(16,330)
Fundraising	90,000	113,410	(23,410)
Co-curricular activities	80,750	39,144	41,606
Yearbook	20,500	21,340	(840)
Graduation	2,500	12,988	(10,488)
Bookstore	-	7,331	(7,331)
Bad debts	-	6,528	(6,528)
Miscellaneous	6,700	4,861	1,839
	<u>3,313,104</u>	<u>3,323,546</u>	<u>(10,442)</u>
Total operating expenses			
Decrease in unrestricted net assets before subsidies and excluding depreciation and amortization expense	(938,698)	(1,039,915)	(101,217)
OPERATING AND FINANCIAL GRANTS SUBSIDIES FROM DIOCESE OF ROCKVILLE CENTRE	<u>863,697</u>	<u>1,097,877</u>	<u>234,180</u>
Increase (decrease) in unrestricted net assets excluding depreciation and amortization expense	<u>(75,001)</u>	<u>57,962</u>	<u>132,963</u>
CAPITAL EXPENDITURES CAPITAL SUBSIDY FROM DIOCESE OF ROCKVILLE CENTRE	<u>379,303</u>	<u>214,131</u>	<u>165,172</u>
Capital expenditures in excess of capital subsidy	<u>-</u>	<u>(19,615)</u>	<u>19,615</u>
Increase (decrease) in net assets after capital expenditures and excluding depreciation and amortization expense	<u>\$ (75,001)</u>	<u>\$ 38,347</u>	<u>\$ 113,348</u>

NOTE: Actual operating expenses exclude depreciation and amortization expense of \$64,841 for the ten months ended June 30, 2004 since the budget does not include depreciation and amortization expense.

Capital expenditures are subsidized by the Capital Subsidy from the Diocese of Rockville Centre and the remainder is subsidized by unrestricted donations.

The accompanying notes to financial statements
should be read in conjunction with this statement.