

ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
FINANCIAL STATEMENTS
AS OF JUNE 30, 2003 AND 2002
TOGETHER WITH
AUDITORS' REPORT



Callaghan Nawrocki LLP
CERTIFIED PUBLIC ACCOUNTANTS



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 statements of financial position of St. John the Baptist Diocesan High School of the Diocese of Rockville Centre (the "High School") as of June 30, 2003 and 2002, and the related statements of activities and changes in net assets and cash flows for the years 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 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 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 audits provide 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 St. John the Baptist Diocesan High School of the Diocese of Rockville Centre as of June 30, 2003 and 2002, and the results of its activities and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were 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 year ended June 30, 2003 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.

Callaghan Nawrocki

Melville, New York
July 31, 2003

ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2003 AND 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Cash	\$ 947,422	\$ 508,339
Investment in Diocesan Deposit and Loan Account	542,861	778,782
Cash and cash equivalents	1,490,283	1,287,121
Accounts receivable - students, net of allowance for doubtful accounts of \$102,775 and \$478,445, respectively	305,773	270,743
Inventories of fuel, books and food	81,433	87,477
Prepaid expenses and other assets	458,999	168,239
Property and equipment, net of accumulated depreciation and amortization of \$5,981,592 and \$5,702,282, respectively	1,471,762	1,635,387
 Total assets	 <u>\$ 3,808,250</u>	 <u>\$ 3,448,967</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 517,501	\$ 364,569
Accrued salaries and benefits	989,423	933,093
Accrued sick pay	660,511	546,107
Deferred revenue - advance tuition and registration fees	388,811	185,420
 Total liabilities	 <u>2,556,246</u>	 <u>2,029,189</u>
Commitments		
Net assets:		
Unrestricted:		
Undesignated	(517,925)	(626,153)
Plant	1,471,762	1,635,387
Total unrestricted net assets	<u>953,837</u>	<u>1,009,234</u>
Temporarily restricted	287,678	400,055
Permanently restricted	10,489	10,489
 Total net assets	 <u>1,252,004</u>	 <u>1,419,778</u>
 Total liabilities and net assets	 <u>\$ 3,808,250</u>	 <u>\$ 3,448,967</u>

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

ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003
(With Comparative Totals For 2002)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2003</u>	<u>2002</u>
REVENUES:					
Tuition	\$ 7,400,909	\$ -	\$ -	\$ 7,400,909	\$ 6,357,820
Less: financial grants	(257,549)	-	-	(257,549)	(199,446)
Net tuition	<u>7,143,360</u>	<u>-</u>	<u>-</u>	<u>7,143,360</u>	<u>6,158,374</u>
Sales-					
Cafeteria	45,537	-	-	45,537	38,347
Bookstore	137,705	-	-	137,705	134,690
State Aid - Mandated Services	315,416	-	-	315,416	300,196
Contributed services	201,417	-	-	201,417	208,452
Co-curricular activities	209,544	-	-	209,544	186,506
Driver education fees	146,506	-	-	146,506	122,488
Donations and gifts	58,013	604,277	-	662,290	745,161
Interest	86,049	-	-	86,049	65,902
Use of facilities	139,585	-	-	139,585	156,251
Student fees	273,883	-	-	273,883	259,359
Miscellaneous	73,946	-	-	73,946	66,058
Athletic activities	88,413	144,689	-	233,102	185,247
Insurance claims	15,407	-	-	15,407	5,533
Net assets released from restrictions	861,343	(861,343)	-	-	-
Total revenues	<u>9,796,124</u>	<u>(112,377)</u>	<u>-</u>	<u>9,683,747</u>	<u>8,632,564</u>
EXPENSES:					
Instructional expenses	4,831,411	-	-	4,831,411	4,350,506
Employee benefits	1,326,719	-	-	1,326,719	1,231,473
Operation and maintenance of plant	1,142,099	-	-	1,142,099	1,058,196
Administrative expenses	1,166,699	-	-	1,166,699	1,023,880
Bookstore, cafeteria and other	144,784	-	-	144,784	142,367
Athletic activities	654,068	-	-	654,068	580,087
Depreciation and amortization expense	279,310	-	-	279,310	285,210
Co-curricular activities	975,770	-	-	975,770	883,699
Rectory, convent and chapel	46,437	-	-	46,437	43,509
Bad debt expense	89,224	-	-	89,224	75,827
Total expenses	<u>10,656,521</u>	<u>-</u>	<u>-</u>	<u>10,656,521</u>	<u>9,674,754</u>
Deficiency of revenues under expenses	(860,397)	(112,377)	-	(972,774)	(1,042,190)
SUBSIDIES FROM DIOCESE OF ROCKVILLE CENTRE:					
Operating subsidy	540,000	-	-	540,000	540,185
Financial grants subsidy	150,000	-	-	150,000	150,000
Capital subsidy	115,000	-	-	115,000	150,000
Total subsidies	<u>805,000</u>	<u>-</u>	<u>-</u>	<u>805,000</u>	<u>840,185</u>
UNUSUAL ITEM:					
Incentive retirement expense	-	-	-	-	54,988
Change in net assets	(55,397)	(112,377)	-	(167,774)	(256,993)
NET ASSETS, BEGINNING OF YEAR	<u>1,009,234</u>	<u>400,055</u>	<u>10,489</u>	<u>1,419,778</u>	<u>1,676,771</u>
NET ASSETS, END OF YEAR	<u>\$ 953,837</u>	<u>\$ 287,678</u>	<u>\$ 10,489</u>	<u>\$ 1,252,004</u>	<u>\$ 1,419,778</u>

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

ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (167,774)	\$ (256,993)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	279,310	285,210
Increase in accounts receivable - students, net	(35,030)	(56,931)
(Increase) decrease in inventories of fuel, books and food	6,044	(7,525)
Increase in prepaid expenses and other assets	(290,760)	(41,075)
Increase in accounts payable and accrued expenses	152,932	125,713
Increase in accrued salaries and benefits	56,330	44,022
Increase in accrued sick pay	114,404	142,089
Increase in deferred revenue - advance tuition and registration	<u>203,391</u>	<u>2,761</u>
Net cash provided by operating activities	<u>318,847</u>	<u>237,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(115,685)</u>	<u>(150,876)</u>
Net cash used by investing activities	<u>(115,685)</u>	<u>(150,876)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	203,162	86,395
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,287,121</u>	<u>1,200,726</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,490,283</u></u>	<u><u>\$ 1,287,121</u></u>

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

ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(1) **Nature of operations**

St. John the Baptist 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, 2004.

(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.

Temporarily restricted - net assets of the High School which have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of the High School pursuant to those stipulations.

Permanently restricted - net assets of the High School donated with stipulations that they be invested to provide a permanent source of income based upon the invested principal which must remain intact.

As required by SFAS No. 117, the High School has also presented statements of cash flows for the years ended June 30, 2003 and 2002.

Cash and cash equivalents -

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents and include money market funds held in banks, and an investment in the Diocesan Deposit and Loan Account (“DLA”).

The DLA is administered by the Administrative Offices. The High School’s investment in the DLA earns interest at a rate of 75% of the prime rate per annum. As of June 30, 2003 and 2002, the cost of the High School’s investment in the DLA approximated market value. The High School had the following two investment accounts in the DLA at June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
General account	\$ 153,869	\$ 402,422
Sick pay account	<u>388,992</u>	<u>376,360</u>
	<u>\$ 542,861</u>	<u>\$ 778,782</u>

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.

Inventories -

Inventories are stated at the lower of cost or market and consist of fuel, books, and food. 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, 2003 and 2002:

	<u>2003</u>	<u>2002</u>	<u>Life</u> <u>(in years)</u>
Land	\$ 197,000	\$ 197,000	N/A
Building	5,161,156	5,161,156	40
Building improvements	1,309,873	1,229,873	15
Library books	78,077	78,077	10
Furniture and equipment	<u>707,248</u>	<u>671,563</u>	5
	7,453,354	7,337,669	
Less: accumulated depreciation and amortization	<u>5,981,592</u>	<u>5,702,282</u>	
	<u>\$ 1,471,762</u>	<u>\$ 1,635,387</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 years ended June 30, 2003 and 2002.

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, 2003 and 2002. 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, 2002/2003 and 2001/2002 school years. 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 year ended June 30, 2003, represented claims filed in the 2002/2003 school year based on costs incurred in the year preceding the claim. The amount received by the High School for the year ended June 30, 2002, represented claims filed in the 2001/2002 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

(3) 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.

(4) Classification of net assets

In accordance with SFAS No. 117, the High School has presented net assets in the accompanying financial statements according to the type of donor restriction or absence thereof. Temporarily restricted and permanently restricted net assets as of June 30, 2003 and 2002 are invested in cash and cash equivalents.

The High School is required to utilize the temporarily restricted net assets for certain school clubs, activities and scholarships over a stipulated period of time during which these net assets are released from restriction. The permanently restricted net assets must remain intact to generate a source of income to provide scholarships to certain students.

(5) **Incentive retirement expense**

Under a contractual agreement, teachers meeting certain eligibility requirements were granted the option to retire at the end of the school year, receiving one year annual base salary payable over a three year period beginning the following school year. Incentive retirement expense was \$54,988 for the year ended June 30, 2002.

(6) **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 years ended June 30, 2003 and 2002 was \$168,783 and \$211,918, respectively, for the noncontributory lay pension plan and \$3,539 and \$3,539, respectively, for the noncontributory retirement plan for clergy.

(7) **Commitments**

The High School is obligated under various operating leases for vans, automobiles and equipment. Future minimum lease payments for all non-cancellable operating leases at June 30, 2003 are as follows:

2004	\$ 29,609
2005	<u>29,245</u>
	<u>\$ 58,854</u>

ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
UNRESTRICTED NET ASSETS
BUDGET VS. ACTUAL STATEMENT OF OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Budget</u> <u>(Unaudited)</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
OPERATING REVENUES:			
Tuition	\$ 7,363,938	\$ 7,400,909	\$ 36,971
Less: financial grants	<u>(200,000)</u>	<u>(257,549)</u>	<u>(57,549)</u>
Net tuition	7,163,938	7,143,360	(20,578)
Sales-			
Cafeteria	30,000	45,537	15,537
Bookstore	120,000	137,705	17,705
State Aid - Mandated Services	316,800	315,416	(1,384)
Contributed services	239,275	201,417	(37,858)
Co-curricular activities	176,600	209,544	32,944
Driver education fees	130,000	146,506	16,506
Donations and gifts	58,500	58,013	(487)
Interest	55,150	86,049	30,899
Use of facilities	148,500	139,585	(8,915)
Student fees	286,500	273,883	(12,617)
Miscellaneous	60,550	73,946	13,396
Athletic activities	75,770	88,413	12,643
Insurance claims	800	15,407	14,607
Net assets released from restrictions	<u>742,000</u>	<u>861,343 (1)</u>	<u>119,343</u>
 Total operating revenues	 <u>\$ 9,604,383</u>	 <u>\$ 9,796,124</u>	 <u>\$ 191,741</u>

(Continued)

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

ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL
OF THE DIOCESE OF ROCKVILLE CENTRE
UNRESTRICTED NET ASSETS
BUDGET VS. ACTUAL STATEMENT OF OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

(Continued)

	Budget (Unaudited)	Actual	Favorable (Unfavorable)
OPERATING EXPENSES:			
Instructional expenses	\$ 4,794,629	\$ 4,831,411 (1)	\$ (36,782)
Employee benefits	1,413,071	1,326,719	86,352
Operation and maintenance of plant	1,156,843	1,142,099	14,744
Administrative expenses	1,111,051	1,166,699	(55,648)
Bookstore, cafeteria and other	122,820	144,784	(21,964)
Athletic activities	703,731	654,068 (1)	49,663
Co-curricular activities	813,599	975,770 (1)	(162,171)
Rectory, convent and chapel	45,649	46,437	(788)
Bad debt expense	50,000	89,224	(39,224)
	<u>10,211,393</u>	<u>10,377,211</u>	<u>(165,818)</u>
Increase (decrease) in unrestricted net assets before subsidies and excluding depreciation and amortization expense	(607,010)	(581,087)	25,923
OPERATING AND FINANCIAL GRANTS			
SUBSIDIES FROM DIOCESE OF			
ROCKVILLE CENTRE			
	<u>690,000</u>	<u>690,000</u>	<u>-</u>
Increase in unrestricted net assets, excluding depreciation and amortization expense	<u>82,990</u>	<u>108,913</u>	<u>25,923</u>
CAPITAL EXPENDITURES			
CAPITAL SUBSIDY FROM DIOCESE	115,000	115,685	(685)
OF ROCKVILLE CENTRE	<u>115,000</u>	<u>115,000</u>	<u>-</u>
Capital expenditures in excess of capital subsidy	<u>-</u>	<u>(685)</u>	<u>(685)</u>
Increase in unrestricted net assets after capital expenditures and excluding depreciation and amortization expense	<u>\$ 82,990</u>	<u>\$ 108,228</u>	<u>\$ 25,238</u>

NOTE: Actual operating expenses exclude depreciation and amortization expense of \$279,310 for the year ended June 30, 2003 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 temporarily restricted net assets released from restrictions.

(1) Includes \$131,727 in athletic activities, \$27,571 in instructional expenses and \$702,045 in co-curricular activities which have been released from temporarily restricted net assets.

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