

**ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2004 AND 2003**  
**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 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, 2004 and 2003, 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, 2004 and 2003, 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, 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  
August 6, 2004

*Callaghan Nawrocki*

**ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2004 AND 2003**

<b><u>ASSETS</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Cash	\$ 1,041,702	\$ 947,422
Cash investments	595,012	542,861
Cash and cash equivalents	1,636,714	1,490,283
Accounts receivable - students, net of allowance for doubtful accounts of \$170,118 and \$102,775, respectively	359,933	305,773
Inventories of fuel, books and food	71,403	81,433
Prepaid expenses and other assets	247,497	458,999
Property and equipment, net of accumulated depreciation and amortization of \$6,257,080 and \$5,981,592, respectively	1,290,476	1,471,762
 Total assets	 <u>\$ 3,606,023</u>	 <u>\$ 3,808,250</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 68,414	\$ 517,501
Accrued salaries and benefits	1,088,741	989,423
Accrued sick pay	762,454	660,511
Deferred revenue - advance tuition and registration fees	496,899	388,811
 Total liabilities	 <u>2,416,508</u>	 <u>2,556,246</u>
Commitments		
Net assets:		
Unrestricted:		
Undesignated	(539,479)	(517,925)
Plant	1,290,476	1,471,762
Total unrestricted net assets	<u>750,997</u>	<u>953,837</u>
Temporarily restricted	428,029	287,678
Permanently restricted	10,489	10,489
 Total net assets	 <u>1,189,515</u>	 <u>1,252,004</u>
 Total liabilities and net assets	 <u>\$ 3,606,023</u>	 <u>\$ 3,808,250</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, 2004  
(With Comparative Totals For 2003)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2004	2003
<b>REVENUES:</b>					
Tuition	\$ 8,181,957	\$ -	\$ -	\$ 8,181,957	\$ 7,400,909
Less: financial grants	(204,754)	-	-	(204,754)	(257,549)
Net tuition	7,977,203	-	-	7,977,203	7,143,360
<b>Sales-</b>					
Cafeteria	45,897	-	-	45,897	45,537
Bookstore	177,545	-	-	177,545	137,705
State Aid - Mandated Services	435,421	-	-	435,421	315,416
Contributed services	178,576	-	-	178,576	201,417
Co-curricular activities	253,988	-	-	253,988	209,544
Driver education fees	152,678	-	-	152,678	146,506
Donations and gifts	43,984	693,217	-	737,201	662,290
Interest	78,458	-	-	78,458	86,049
Use of facilities	161,707	-	-	161,707	139,585
Student fees	376,078	-	-	376,078	273,883
Miscellaneous	70,462	-	-	70,462	73,946
Athletic activities	101,484	173,572	-	275,056	233,102
Insurance claims	850	-	-	850	15,407
Net assets released from restrictions	726,438	(726,438)	-	-	-
<b>Total revenues</b>	<b>10,780,769</b>	<b>140,351</b>	<b>-</b>	<b>10,921,120</b>	<b>9,683,747</b>
<b>EXPENSES:</b>					
Instructional expenses	5,396,233	-	-	5,396,233	4,831,411
Employee benefits	1,561,406	-	-	1,561,406	1,326,719
Operation and maintenance of plant	1,226,773	-	-	1,226,773	1,142,099
Administrative expenses	1,147,666	-	-	1,147,666	1,166,699
Bookstore, cafeteria and other	207,465	-	-	207,465	144,784
Athletic activities	751,163	-	-	751,163	654,068
Depreciation and amortization expense	275,488	-	-	275,488	279,310
Co-curricular activities	932,000	-	-	932,000	975,770
Rectory, convent and chapel	63,626	-	-	63,626	46,437
Bad debt expense	83,211	-	-	83,211	89,224
<b>Total expenses</b>	<b>11,645,031</b>	<b>-</b>	<b>-</b>	<b>11,645,031</b>	<b>10,656,521</b>
Excess (deficiency) of revenues over (under) expenses	(864,262)	140,351	-	(723,911)	(972,774)
<b>SUBSIDIES FROM DIOCESE OF ROCKVILLE CENTRE:</b>					
Operating subsidy	450,945	-	-	450,945	540,000
Financial grants subsidy	150,000	-	-	150,000	150,000
Capital subsidy	60,477	-	-	60,477	115,000
<b>Total subsidies</b>	<b>661,422</b>	<b>-</b>	<b>-</b>	<b>661,422</b>	<b>805,000</b>
Change in net assets	(202,840)	140,351	-	(62,489)	(167,774)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>953,837</b>	<b>287,678</b>	<b>10,489</b>	<b>1,252,004</b>	<b>1,419,778</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 750,997</b>	<b>\$ 428,029</b>	<b>\$ 10,489</b>	<b>\$ 1,189,515</b>	<b>\$ 1,252,004</b>

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, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (62,489)	\$ (167,774)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	275,488	279,310
Increase in accounts receivable - students, net	(54,160)	(35,030)
Decrease in inventories of fuel, books and food	10,030	6,044
(Increase) decrease in prepaid expenses and other assets	211,502	(290,760)
Increase (decrease) in accounts payable and accrued expenses	(449,087)	152,932
Increase in accrued salaries and benefits	99,318	56,330
Increase in accrued sick pay	101,943	114,404
Increase in deferred revenue - advance tuition and registration fees	<u>108,088</u>	<u>203,391</u>
Net cash provided by operating activities	<u>240,633</u>	<u>318,847</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	<u>(94,202)</u>	<u>(115,685)</u>
Net cash used by investing activities	<u>(94,202)</u>	<u>(115,685)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	146,431	203,162
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,490,283</u>	<u>1,287,121</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,636,714</u></u>	<u><u>\$ 1,490,283</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, 2004 AND 2003**

(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, 2005.

(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, 2004 and 2003.

### **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 or funds invested in the Diocesan administered investment vehicle.

On May 31, 2004, the High School transferred balances in its general and sick pay account to Unitas Investment Fund, Inc. ("Unitas") of the Roman Catholic Diocese of Rockville Centre. Unitas is a separately incorporated, non-regulated investment fund organized and operated exclusively for religious, charitable and educational purposes.

As of June 30, 2004, the cost of the High School's investment in Unitas as well as the cost of its investment in the Diocesan Deposit and Loan Account ("DLA") at June 30, 2003 approximated market value. The High School had the following two investment accounts in Unitas at June 30, 2004 and in the DLA at June 30, 2003:

	<u>2004</u>	<u>2003</u>
General account	\$ 195,173	\$ 153,869
Sick pay account	<u>399,839</u>	<u>388,992</u>
	<u>\$ 595,012</u>	<u>\$ 542,861</u>

### **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, 2004 and 2003:

	<u>2004</u>	<u>2003</u>	<u>Life (in years)</u>
Land	\$ 197,000	\$ 197,000	N/A
Building	5,161,156	5,161,156	40
Building improvements	1,375,283	1,309,873	15
Library books	78,077	78,077	10
Furniture and equipment	<u>736,040</u>	<u>707,248</u>	5
	7,547,556	7,453,354	
Less: accumulated depreciation and amortization	<u>6,257,080</u>	<u>5,981,592</u>	
	<u>\$ 1,290,476</u>	<u>\$ 1,471,762</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, 2004 and 2003.

### **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 and 2003. 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 and 2002/2003 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, 2004, represented claims filed in the 2003/2004 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, 2003, represented claims filed in the 2002/2003 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, 2004 and 2003 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 \$63,228 and \$54,988 for the years ended June 30, 2004 and 2003, respectively.

(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, 2004 and 2003 was \$203,146 and \$168,783, respectively, for the noncontributory lay pension plan and \$3,483 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, 2004 are as follows:

2005	\$ 21,792
2006	21,792
2007	13,382
2008	1,608
2009	<u>402</u>
	<u>\$ 58,976</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, 2004**

	<u>Budget</u> <u>(Unaudited)</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<b>OPERATING REVENUES:</b>			
Tuition	\$ 8,181,690	\$ 8,181,957	\$ 267
Less: financial grants	(200,000)	(204,754)	(4,754)
Net tuition	<u>7,981,690</u>	<u>7,977,203</u>	<u>(4,487)</u>
Sales-			
Cafeteria	30,500	45,897	15,397
Bookstore	135,000	177,545	42,545
State Aid - Mandated Services	315,000	435,421	120,421
Contributed services	211,991	178,576	(33,415)
Co-curricular activities	197,050	253,988	56,938
Driver education fees	135,000	152,678	17,678
Donations and gifts	59,100	43,984	(15,116)
Interest	23,200	78,458	55,258
Use of facilities	145,750	161,707	15,957
Student fees	345,950	376,078	30,128
Miscellaneous	94,725	70,462	(24,263)
Athletic activities	87,510	101,484	13,974
Insurance claims	800	850	50
Net assets released from restrictions	<u>801,500</u>	<u>726,438 (1)</u>	<u>(75,062)</u>
 Total operating revenues	 <u>\$10,564,766</u>	 <u>\$10,780,769</u>	 <u>\$ 216,003</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, 2004**  
**(Continued)**

	<u>Budget</u> <u>(Unaudited)</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<b>OPERATING EXPENSES:</b>			
Instructional expenses	\$ 5,182,472	\$ 5,396,233 (1)	\$ (213,761)
Employee benefits	1,637,229	1,561,406	75,823
Operation and maintenance of plant	1,197,475	1,226,773	(29,298)
Administrative expenses	1,139,961	1,147,666	(7,705)
Bookstore, cafeteria and other	139,050	207,465	(68,415)
Athletic activities	776,586	751,163 (1)	25,423
Co-curricular activities	910,699	932,000 (1)	(21,301)
Rectory, convent and chapel	49,249	63,626	(14,377)
Bad debt expense	50,000	83,211	(33,211)
<b>Total operating expenses</b>	<u>11,082,721</u>	<u>11,369,543</u>	<u>(286,822)</u>
<b>Decrease in unrestricted net assets before subsidies and excluding depreciation and amortization expense</b>	<b>(517,955)</b>	<b>(588,774)</b>	<b>(70,819)</b>
<b>OPERATING AND FINANCIAL GRANTS SUBSIDIES FROM DIOCESE OF ROCKVILLE CENTRE</b>			
	<u>600,945</u>	<u>600,945</u>	<u>-</u>
<b>Increase in unrestricted net assets, excluding depreciation and amortization expense</b>	<u>82,990</u>	<u>12,171</u>	<u>(70,819)</u>
<b>CAPITAL EXPENDITURES</b>	<u>60,477</u>	<u>94,202</u>	<u>(33,725)</u>
<b>CAPITAL SUBSIDY FROM DIOCESE OF ROCKVILLE CENTRE</b>	<u>60,477</u>	<u>60,477</u>	<u>-</u>
<b>Capital expenditures in excess of capital subsidy</b>	<u>-</u>	<u>(33,725)</u>	<u>(33,725)</u>
<b>Increase (decrease) in unrestricted net assets after capital expenditures and excluding depreciation and amortization expense</b>	<u>\$ 82,990</u>	<u>\$ (21,554)</u>	<u>\$ (104,544)</u>

NOTE: Actual operating expenses exclude depreciation and amortization expense of \$275,488 for the year 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 temporarily restricted net assets released from restrictions.

(1) Includes \$142,804 in athletic activities, \$38,875 in instructional expenses and \$544,759 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.