

**DIOCESAN HIGH SCHOOLS**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2011**

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## Nawrocki Smith LLP

CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidating statements of financial position of the Diocesan High Schools of the Diocese of Rockville Centre (the "High Schools") as of June 30, 2011 and the related consolidating statements of activities and changes in net assets and cash flows for the year then ended. These financial statements and the statements referred to below are the responsibility of the High Schools' management. Our responsibility is to express an opinion on these financial statements and statements 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 the Diocesan High Schools of the Diocese of Rockville Centre as of June 30, 2011 and the changes in their net assets and their cash flows for the year 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 as a whole. The accompanying comparative statements of activities and changes in net assets are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements for the years ended June 30, 2011 and 2010 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

Melville, New York  
August 15, 2011

*Nawrocki Smith LLP*

**DIOCESAN HIGH SCHOOLS**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2011**

<b><u>ASSETS</u></b>	<b><u>Bishop McGann-Mercy</u></b>	<b><u>Holy Trinity</u></b>	<b><u>St. John The Baptist</u></b>	<b><u>Total</u></b>
Cash	\$ 674,968	\$ 2,525,394	\$ 6,664,226	\$ 9,864,588
Cash investments	-	2,708,850	-	2,708,850
Cash and cash equivalents	674,968	5,234,244	6,664,226	12,573,438
Cash surrender value of life insurance	-	-	2,683	2,683
Accounts receivable - students	120,179	48,020	216,985	385,184
Pledges receivable	39,395	2,000	217,387	258,782
Other accounts receivable	4,039	2,705	-	6,744
Inventories of fuel, books and food	33,123	35,313	71,118	139,554
Prepaid expenses and other assets	4,077	58,946	6,142	69,165
Property and equipment, net of accumulated depreciation and amortization	4,328,700	2,434,282	3,822,456	10,585,438
Total assets	<u>\$ 5,204,481</u>	<u>\$ 7,815,510</u>	<u>\$ 11,000,997</u>	<u>\$ 24,020,988</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>				
Liabilities:				
Loans payable	\$ 1,637,986	\$ 245,997	\$ 228,737	\$ 2,112,720
Accounts payable and accrued expenses	677,239	275,440	984,148	1,936,827
Accrued salaries and benefits	505,448	1,646,358	1,555,397	3,707,203
Accrued sick pay	361,942	1,650,414	1,442,294	3,454,650
Deferred revenue - advance tuition and student fees	152,620	439,780	1,004,201	1,596,601
Total liabilities	<u>3,335,235</u>	<u>4,257,989</u>	<u>5,214,777</u>	<u>12,808,001</u>
Net assets:				
Unrestricted:				
Plant	3,080,714	2,188,285	3,593,719	8,862,718
Designated	23,553	-	329,666	353,219
Undesignated	(1,378,557)	1,066,728	1,576,095	1,264,266
Total unrestricted net assets	1,725,710	3,255,013	5,499,480	10,480,203
Temporarily restricted	143,536	302,508	276,740	722,784
Permanently restricted	-	-	10,000	10,000
Total net assets	<u>1,869,246</u>	<u>3,557,521</u>	<u>5,786,220</u>	<u>11,212,987</u>
Total liabilities and net assets	<u>\$ 5,204,481</u>	<u>\$ 7,815,510</u>	<u>\$ 11,000,997</u>	<u>\$ 24,020,988</u>

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

**DIOCESAN HIGH SCHOOLS**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Bishop McGann-Mercy</b>	<b>Holy Trinity</b>	<b>St. John The Baptist</b>	<b>Total</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS:</b>				
<b>Revenues:</b>				
Tuition	\$ 3,792,005	\$ 11,394,031	\$ 13,413,116	\$ 28,599,152
Less: financial grants and scholarships	(236,520)	(160,325)	(633,189)	(1,030,034)
Net tuition	3,555,485	11,233,706	12,779,927	27,569,118
Bookstore and cafeteria sales	241,620	645,801	353,974	1,241,395
State Aid - Mandated Services	247,734	1,021,431	1,093,807	2,362,972
Donations, events, gifts and grants	414,837	615,735	993,556	2,024,128
Athletic activities	85,692	186,191	259,097	530,980
Co-curricular activities	132,886	463,011	1,009,592	1,605,489
Contributed services	-	24,052	59,715	83,767
Rental income	63,645	480,297	382,779	926,721
Fee income	209,503	788,290	1,231,776	2,229,569
Investment income	2,148	9,589	14,351	26,088
Miscellaneous	133,248	74,847	145,015	353,110
Net assets released from restrictions	191,055	138,501	58,780	388,336
<b>Total operating revenues</b>	<b>5,277,853</b>	<b>15,681,451</b>	<b>18,382,369</b>	<b>39,341,673</b>
<b>Expenses:</b>				
Instructional expenses	2,525,540	6,505,041	7,025,413	16,055,994
Employee benefits	1,123,900	2,621,481	2,808,588	6,553,969
Administrative expenses	702,679	1,263,520	1,361,672	3,327,871
Development costs	331,452	429,189	496,942	1,257,583
Rectory, convent and chapel	-	2,882	3,364	6,246
Bookstore, cafeteria and other	195,942	528,388	265,224	989,554
Athletic activities	462,184	1,121,786	1,498,801	3,082,771
Co-curricular activities	150,701	497,701	1,036,278	1,684,680
Depreciation and amortization expense	358,294	436,516	484,636	1,279,446
Operation and maintenance of plant	749,927	1,514,624	1,942,191	4,206,742
Interest expense and bad debts	339,056	54,562	297,814	691,432
<b>Total operating expenses</b>	<b>6,939,675</b>	<b>14,975,690</b>	<b>17,220,923</b>	<b>39,136,288</b>
<b>Excess (deficiency) of revenues over (under) expenses</b>	<b>(1,661,822)</b>	<b>705,761</b>	<b>1,161,446</b>	<b>205,385</b>
<b>Subsidies from Diocese of Rockville Centre:</b>				
Operating subsidy	500,000	100,000	100,000	700,000
Mortgage subsidy	362,222	-	-	362,222
<b>Total subsidies</b>	<b>862,222</b>	<b>100,000</b>	<b>100,000</b>	<b>1,062,222</b>
<b>Increase (decrease) in unrestricted net assets</b>	<b>(799,600)</b>	<b>805,761</b>	<b>1,261,446</b>	<b>1,267,607</b>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:</b>				
Revenues	331,010	143,966	101,929	576,905
Net assets released from restrictions	(191,055)	(138,501)	(58,780)	(388,336)
<b>Increase in temporarily restricted net assets</b>	<b>139,955</b>	<b>5,465</b>	<b>43,149</b>	<b>188,569</b>
<b>CHANGE IN NET ASSETS</b>	<b>(659,645)</b>	<b>811,226</b>	<b>1,304,595</b>	<b>1,456,176</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>2,528,891</b>	<b>2,746,295</b>	<b>4,481,625</b>	<b>9,756,811</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,869,246</b>	<b>\$ 3,557,521</b>	<b>\$ 5,786,220</b>	<b>\$ 11,212,987</b>

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

**DIOCESAN HIGH SCHOOLS**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Bishop McGann-Mercy</b>	<b>Holy Trinity</b>	<b>St. John The Baptist</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ (659,645)	\$ 811,226	\$ 1,304,595	\$ 1,456,176
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization expense	358,294	436,516	484,636	1,279,446
Decrease in cash surrender value of life insurance	-	-	36,056	36,056
(Increase) decrease in accounts receivable - students, net	67,052	(13,302)	(81,824)	(28,074)
Decrease in pledges receivable	33,580	2,000	165,415	200,995
Decrease in other accounts receivable	10,696	505,760	499,241	1,015,697
(Increase) decrease in inventories of fuel, books and food	191	3,337	(20,453)	(16,925)
(Increase) decrease in prepaid expenses and other assets	(2,195)	7,369	11,449	16,623
Increase in accounts payable and accrued expenses	529,752	168,447	264,663	962,862
Increase (decrease) in accrued salaries and benefits	(14,554)	67,537	(256,763)	(203,780)
Increase in accrued sick pay	50,077	11,194	133,997	195,268
Increase (decrease) in deferred revenue - advance tuition and student fees	224	(36,569)	196,957	160,612
Net cash provided by operating activities	<u>373,472</u>	<u>1,963,515</u>	<u>2,737,969</u>	<u>5,074,956</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of property and equipment, net	<u>(217,272)</u>	<u>(308,035)</u>	<u>(1,037,940)</u>	<u>(1,563,247)</u>
Net cash used by investing activities	<u>(217,272)</u>	<u>(308,035)</u>	<u>(1,037,940)</u>	<u>(1,563,247)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Increase (decrease) in loans payable, net	<u>224,461</u>	<u>(60,274)</u>	<u>(92,291)</u>	<u>71,896</u>
Net cash used by financing activities	<u>224,461</u>	<u>(60,274)</u>	<u>(92,291)</u>	<u>71,896</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>380,661</b>	<b>1,595,206</b>	<b>1,607,738</b>	<b>3,583,605</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>294,307</u></b>	<b><u>3,639,038</u></b>	<b><u>5,056,488</u></b>	<b><u>8,989,833</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 674,968</u></b>	<b><u>\$ 5,234,244</u></b>	<b><u>\$ 6,664,226</u></b>	<b><u>\$ 12,573,438</u></b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>				
Cash paid during the year for interest	<u>\$ 200,366</u>	<u>\$ 17,470</u>	<u>\$ 16,563</u>	<u>\$ 234,399</u>

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

**DIOCESAN HIGH SCHOOLS**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

(1) **Nature of operations**

The Diocesan High Schools of the Diocese of Rockville Centre consist of Bishop McGann-Mercy Diocesan High School, Holy Trinity Diocesan High School and St. John the Baptist Diocesan High School (collectively, the "High Schools"), which were organized for the purpose of providing Catholic education at the secondary level. Bishop McGann-Mercy Diocesan High School also provides education at the middle school level. The High Schools receive 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 Schools that their operations will continue to be subsidized by the Diocese of Rockville Centre at least through June 30, 2012.

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

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

**Financial statement presentation -**

The High Schools present their financial statements in accordance with U.S. generally accepted accounting principles which require that the High Schools' 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 Schools' net assets consist of the following:

Unrestricted - net assets of the High Schools that are not subject to donor imposed restrictions.

Temporarily restricted - net assets of the High Schools 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 Schools pursuant to those stipulations. Temporarily restricted revenue, whereby the restriction is satisfied within the same fiscal year as the receipt of funds, is recorded as unrestricted.

Permanently restricted - net assets of the High Schools which have been restricted by donors to be maintained in perpetuity by the High Schools.

As required by U.S. generally accepted accounting principles, the High Schools have also presented consolidating statements of cash flows for the year ended June 30, 2011.

**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.

The High Schools may invest in Unitas Investment Fund, Inc. ("Unitas"), a separately incorporated, non-regulated investment fund organized by the Roman Catholic Diocese of Rockville Centre and operated exclusively for religious, charitable and educational purposes. As of June 30, 2011, Holy Trinity Diocesan High School had the following investment accounts in Unitas:

Sick pay account	\$ 1,076,789
General account	<u>822,347</u>
	<u>\$ 1,899,136</u>

The cost of the High School's investment in Unitas approximated market value as of June 30, 2011.

In addition, Holy Trinity Diocesan High School has money market investments with Smith Barney for their Scholarship and Operating funds. At June 30, 2011, these investments amounted to \$809,714.

St. John the Baptist Diocesan High School has an account for sick pay. At June 30, 2011, this account balance was \$1,049,928.

Bishop McGann-Mercy Diocesan High School has a certificate of deposit for sick pay. At June 30, 2011, this account balance was \$60,000.

**Inventory -**

Inventory is stated at the lower of cost or market and consists 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 Diocese of Rockville Centre has title to certain property utilized by other entities within the Diocese, including the Diocesan High Schools. The assets and related depreciation and amortization are recorded by the entities using such assets. The following represents the major classes of fixed assets as of June 30, 2011:

	Life (in years)	Bishop McGann-Mercy	Holy Trinity	St. John the Baptist	Total
Land	N/A	\$ 887,102	\$ 320,000	\$ 197,000	\$ 1,404,102
Land improvements	15	887,440	535,976	3,157,622	4,581,038
Buildings	20-40	2,171,871	4,958,704	5,161,156	12,291,731
Building improvements	10-15	2,048,835	4,524,331	2,931,734	9,504,900
Construction-in-progress		-	88,244	-	88,244
Library books	10	-	-	78,077	78,077
Furniture and equipment	5	629,242	1,903,631	1,299,199	3,832,072
Motor vehicles	5	<u>65,581</u>	<u>135,500</u>	<u>54,873</u>	<u>255,954</u>
		6,690,071	12,466,386	12,879,661	32,036,118
Less: accumulated depreciation and amortization		<u>2,361,371</u>	<u>10,032,104</u>	<u>9,057,205</u>	<u>21,450,680</u>
		<u>\$ 4,328,700</u>	<u>\$ 2,434,282</u>	<u>\$ 3,822,456</u>	<u>\$ 10,585,438</u>

### **Conditional asset retirement obligations -**

The High Schools follow the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification on accounting for the impairment or disposal of long-lived assets. This interpretation requires entities to recognize a liability for the fair value of a legal obligation to perform an asset retirement activity, even though uncertainty exists about the timing and/or method of settlement, if and when the fair value of the liability can be reasonably estimated. The Diocese of Rockville Centre is accepting financial responsibility for any such asset retirement obligations pertaining to the High Schools.

### **Accounting for the impairment of long-lived assets -**

The FASB Accounting Standards Codification on asset retirement and environmental obligations 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 Standard did not have a material impact on the High Schools' financial position, results of activities or liquidity during the year ended June 30, 2011.



### **Fair value of financial instruments -**

U.S. generally accepted accounting principles define the fair value of a financial instrument as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair values for such instruments are determined by reference to quoted market prices and other relevant information generated by market transactions.

### **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, 2011. Stipends for religious employees who perform instructional services are also included. Since the High Schools' 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 Schools are 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 consist primarily of receivables for student tuition for the June 30, 2010/2011 school year. Accounts receivable-students and tuition income are shown net of tuition income reductions such as employee discounts, financial grants and scholarships in the accompanying financial statements.

### **Pledges receivable**

Unconditional promises to give appear as pledges receivable and revenue of the appropriate net asset category. Pledges are recorded after recognizing a discount to reflect the net present value based on projected cash flows.

The balance of pledges receivable as of June 30, 2011 is as follows:

	<u>Bishop McGann-Mercy</u>	<u>Holy Trinity</u>	<u>St. John the Baptist</u>	<u>Total</u>
Less than one year	\$ 39,395	\$ 2,000	\$ 121,887	\$ 163,282
One to five years	-	-	102,475	102,475
Total pledges receivable	39,395	2,000	224,362	265,757
Less: discount	-	-	(6,975)	(6,975)
Present value	<u>\$ 39,395</u>	<u>\$ 2,000</u>	<u>\$ 217,387</u>	<u>\$ 258,782</u>

New pledges recorded in the 2010/2011 school year were discounted at a rate of 1.79%. Pledges receivable of \$258,782 are included in unrestricted net assets.

**State aid - mandated services -**

Mandated services revenue represents reimbursement to the High Schools from the State of New York for the costs of meeting state testing and recordkeeping requirements. The amount earned by the High Schools for the year ended June 30, 2011, represented claims filed in the 2010/2011 school year based on costs incurred in the 2009/2010 school year, as well as additional funds received related to prior periods. For the 2010/2011 school year, each of the High Schools received additional payments from the State of New York totaling \$650,829 for the costs of maintaining period-by-period attendance records as required by the State. These additional funds are not guaranteed in future years by the State.

**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.

**Tax-exempt status -**

The High Schools are nonprofit religious institutions 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.

**The use of estimates in the preparation of financial statements -**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**Reclassifications -**

Certain reclassifications of prior year balances have been made to conform to the current year presentation.

**(3) Purchase of land and building**

In January 2006, Bishop McGann-Mercy Diocesan High School acquired land and the building in which it operates from the Sisters of Mercy for a purchase price of \$3,760,000. The purchase price was satisfied by a down payment of \$500,000 and a loan payable to the Sisters of Mercy in the amount of \$3,260,000. The loan is non-interest bearing and payable over a period of nine years. Accordingly, the loan was discounted to a present value of \$2,437,140, based on an incremental borrowing rate of 6.25%. The resulting cost of the land and building was determined to be \$3,058,974, based on the down payment, present value of the loan payable and closing costs of \$121,834. Of the total cost, \$887,102 was allocated to land and \$2,171,871 was allocated to the building.

**(4) Loans payable**

**Bishop McGann-Mercy Diocesan High School**

In connection with the acquisition of its land and building, Bishop McGann-Mercy Diocesan High School incurred a loan obligation to the Sisters of Mercy with an original principal amount of \$3,260,000. The loan is non-interest bearing and payable over a period of nine years. Maturities of this loan payable, net of discount (at a rate of 6.25%) are as follows:

<u>Year ending June 30,</u>	
2012	\$ 362,222
2013	362,222
2014	362,222
2015	<u>362,222</u>
	1,448,888
Less: discount	<u>200,902</u>
Present value	<u>\$ 1,247,986</u>

During the fiscal year ended June 30, 2011, a correction was made to the loan amortization schedule for the Sisters of Mercy loan. This resulted in additional interest expense being reflected in the Statement of Activities in the current year.

During 2011, Bishop McGann-Mercy Diocesan High School received short-term loans totaling \$390,000 from three large donors for the purpose of facilitating construction payments relating to the Middle Road Pollution Abatement Project. (i.e. the Pond Project). The High School has been notified that it will be the recipient of a reimbursement grant for this project. At June 30, 2011, these funds were held in a certificate of deposit at a local banking institution. These loans are non-interest bearing and are to be paid back to the donors within one year. Due to the short-term nature of this arrangement, the loans were not discounted. All funds are due back to the donors upon receipt of grant reimbursements and completion of this project.

In May 2007, Bishop McGann-Mercy Diocesan High School entered into a loan obligation for a school bus with an original principal amount of \$43,646. This loan was fully satisfied during the fiscal year ended June 30, 2011.

Holy Trinity Diocesan High School

In October 2008, Holy Trinity Diocesan High School purchased four buses under a financing arrangement with a principal amount of \$66,636. This loan was fully satisfied during the fiscal year ended June 30, 2011.

In connection with the renovation of its athletic field, Holy Trinity Diocesan High School incurred a loan obligation on November 1, 2008 to the Knights of Columbus with an original principal amount of \$235,000. The loan is payable over a period of five years and bears interest at a rate of 4.55% per annum. Maturities of this loan payable are as follows:

<u>Year ending June 30,</u>	
2012	\$ 48,345
2013	50,591
2014	<u>17,381</u>
	<u>\$ 116,317</u>

St. John the Baptist Diocesan High School

In connection with the renovation of its athletic field, St. John the Baptist Diocesan High School incurred a loan obligation in August 2005 to a company with an original principal amount of \$975,000. The loan is payable over a period of eight years and bears interest at a rate of 8.285% per annum. In September 2008, this loan was refinanced with a bank for five years with a principal amount of \$470,000 at a rate of 5.85%. Maturities of this loan payable are as follows:

<u>Year ending June 30,</u>	
2012	\$ 97,889
2013	103,883
2014	<u>26,965</u>
	<u>\$ 228,737</u>

In addition to the loan refinancing, St. John the Baptist Diocesan High School has been approved for a revolving line of credit in the amount of \$500,000 at this same banking institution. As of June 30, 2011, this line has not been accessed.

**(5) Capital lease obligations**

Holy Trinity Diocesan High School

In July 2008, Holy Trinity Diocesan High School entered into a loan obligation for computers with a principal amount of \$158,368. The loan is payable over a period of four years and bears interest at a rate of 8.69%. Maturities of \$44,875 are payable in the upcoming year.

In August 2009, Holy Trinity Diocesan High School entered into a loan obligation for computers with a principal amount of \$59,604. The loan is payable over a period of four years and bears interest at a rate of 9.18%. Maturities of this loan payable are as follows:

<u>Year ending June 30,</u>	
2012	\$ 15,282
2013	16,746
2014	<u>2,943</u>
	<u>\$ 34,971</u>

In September 2010, Holy Trinity Diocesan High School entered into a loan obligation for computers with a principal amount of \$53,005. The loan is payable over a period of four years and bears interest at a rate of 11.44%. Maturities of this loan payable are as follows:

<u>Year ending June 30,</u>	
2012	\$ 14,760
2013	16,540
2014	<u>18,534</u>
	<u>\$ 49,834</u>

**(6) Classification of net assets**

In accordance with U.S. generally accepted accounting principles, the High Schools have presented net assets in the accompanying financial statements according to the type of donor restriction or absence thereof. Temporarily restricted net assets as of June 30, 2011 are invested in cash and cash equivalents.

St. John the Baptist Diocesan High School has \$10,000 in permanently restricted net assets that generate a source of income to provide scholarships to certain students.

The Schools have temporarily restricted net assets for the following purposes and amounts:

	<u>Bishop McGann-Mercy</u>	<u>Holy Trinity</u>	<u>St. John the Baptist</u>	<u>Total</u>
Scholarships	\$ 83,536	\$ 254,400	\$ 259,171	\$ 597,107
Educational programs	10,000	-	17,569	27,569
Capital projects	<u>50,000</u>	<u>48,108</u>	<u>-</u>	<u>98,108</u>
	<u>\$ 143,536</u>	<u>\$ 302,508</u>	<u>\$ 276,740</u>	<u>\$ 722,784</u>

During the year ended June 30, 2011, \$308,481 in scholarships and \$79,855 in capital projects were released from temporarily restricted net assets collectively from the three Diocesan High Schools.

(7) **Unrestricted net assets - designated**

The High Schools have designated net assets for the following purposes and amounts:

	<u>Bishop McGann-Mercy</u>	<u>Holy Trinity</u>	<u>St. John the Baptist</u>	<u>Total</u>
Athletics and co-curricular	\$ 23,553	\$ -	\$ 329,666	\$ 353,219

(8) **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 (up to \$75,000) payable over a three year period beginning January following the year of retirement. One teacher and one administrator elected the retirement incentive effective June 30, 2011. During the fiscal year ended June 30, 2011, \$103,344 was paid in retirement incentives.

During the fiscal year ended June 30, 2010, the Diocese of Rockville Centre offered a Voluntary Separation Payment ("VSP") to non-instructional lay employees. Five eligible employees elected to accept VSP. The cost of this incentive amounted to \$125,337 and was paid out during the fiscal year ended June 30, 2011.

(9) **Lease agreement with Catholic Charities**

In August 1992, Holy Trinity Diocesan High School ("Holy Trinity") entered into an agreement with Catholic Charities of the Diocese of Rockville Centre ("Catholic Charities") to lease a portion of its facilities to Catholic Charities for a five-year period which commenced in September 1992 and terminated in August 1997. At the option of Catholic Charities, the lease has a provision to extend beyond the original term for up to fifteen years, in five-year increments, and is subject to various other conditions which must be met by each party. This agreement expired on August 31, 2007. In December 2007, this agreement was renegotiated and extended for a five-year term retroactive to September 2007 and ending in August 2012. At the option of Catholic Charities, the lease has a provision for an additional five-year extension through August 2017. Rental income was \$249,143 for the year ended June 30, 2011.

(10) **Pension and retirement plans**

The High Schools are participants in the noncontributory lay pension plan established by the Diocese of Rockville Centre covering employees who meet certain minimum service requirements. The High Schools also participate 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 Schools on a stand-alone basis.

In addition, because the plans are considered multi-employer plans, they are not subject to the reporting requirements of the FASB Accounting Standards Codification. Pension expense allocated to the High Schools for the year ended June 30, 2011 was \$1,632,997 for the noncontributory lay pension plan and \$20,436 for the noncontributory retirement plan for clergy.

**(11) Commitments and contingencies**

The High Schools are obligated under various operating leases for equipment. Future minimum lease payments for all non-cancellable operating leases at June 30, 2011 are as follows:

<u>Year ending June 30,</u>	<u>Bishop McGann-Mercy</u>	<u>Holy Trinity</u>	<u>St. John the Baptist</u>	<u>Total</u>
2012	\$ 30,889	\$ 59,171	\$ 54,610	\$ 144,670
2013	30,297	50,808	44,165	125,270
2014	18,907	8,406	8,834	36,147
2015	10,716	-	-	10,716
2016	1,786	-	-	1,786
	<u>\$ 92,595</u>	<u>\$ 118,385</u>	<u>\$ 107,609</u>	<u>\$ 318,589</u>

**(12) Cash surrender value of life insurance**

St. John the Baptist Diocesan High School received planned giving donations of whole-life insurance policies. Through fiscal year ended June 30, 2010, the donors continued to pay the premiums on the policies and have named St. John the Baptist as the sole beneficiary on the policies. During fiscal year ended June 30, 2011, one of these donors informed management of St. John the Baptist that he will no longer be able to pay the premiums. This donor asked for the policy to be liquidated and the proceeds to be used toward the baseball field renovation project. This request was fulfilled during the fiscal year ended June 30, 2011. There are two remaining whole-life policies. At June 30, 2011, the cash surrender value of these life insurance policies was \$2,683.

**(13) Concentration of credit risk**

During the fiscal year ended June 30, 2011, the Diocesan High Schools of the Diocese of Rockville Centre have maintained cash balances in excess of \$250,000 in their respective banking institutions. Management believes that the High Schools have no significant risk of loss on these accounts relating to the failure of the banking institutions and believe they mitigate their risk by investing in or through major financial institutions.

**(14) Functional classification**

The following table presents expenses on a functional basis:

	Bishop McGann-Mercy	Holy Trinity	St. John the Baptist	Total
Instructional	\$ 4,062,682	\$9,932,156	\$ 11,058,781	\$ 25,053,619
Athletic	642,440	1,417,761	1,830,372	3,890,573
Co-curricular	177,385	621,047	1,206,272	2,004,704
Ancillary	<u>251,729</u>	<u>622,096</u>	<u>286,454</u>	<u>1,160,279</u>
Total programs	5,134,236	12,593,060	14,381,879	32,109,175
General and administrative	1,372,572	1,873,555	2,195,719	5,441,846
Development	<u>432,867</u>	<u>509,075</u>	<u>643,325</u>	<u>1,585,267</u>
Total expenses	<u>\$ 6,939,675</u>	<u>\$14,975,690</u>	<u>\$ 17,220,923</u>	<u>\$ 39,136,288</u>

**(15) Scholarship endowment**

During the fiscal year ended June 30, 2009, Bishop McGann-Mercy Diocesan High School was informed that it was the beneficiary of an estate whereby a permanently restricted scholarship fund was to be set up for the benefit of graduating seniors. Upon receipt of the official documentation, legal counsel advised management that the funds were required to be held and administered by the Diocese of Rockville Centre. Under the terms of the will, funds for this scholarship have been deposited in a local bank in Riverhead, New York in the name of the Diocese of Rockville Centre for the benefit of Bishop McGann-Mercy Diocesan High School graduates. The principal of this bequest is to remain restricted for a period of twenty years from the date of death of the donor, September 14, 2008. Interest is to be distributed on an annual basis as a scholarship to a graduating senior who will be attending college. The principal will be released from restriction and made available for general school operations effective on September 14, 2028.

In June 2011, \$562 was received from the Diocese and was paid out as a scholarship to a graduating senior as per the terms of the bequest.

**(16) Special grant**

On April 22, 2011, New York State Environmental Facilities Corporation, as part of their Green Innovation Grant Program (GIGP) notified Bishop McGann-Mercy Diocesan High School that it has been awarded a grant for the Middle Road Pollution Abatement Project. GIGP funds will support the restoration of a wetland by the High School's property. The High School will develop 1.7 acres of wetland and restore an additional 2.3 acres of poorly functional wetland with the goal of improving the water quality that feeds into the Peconic Estuary. This storm water project will also serve as a demonstration project and educational program to students from both private and public schools throughout Suffolk County. The finalization of the grant award amount and timing of this project is pending the final approval of the construction plan and contracts. It is anticipated that the project will be carried out during the fiscal year ending June 30, 2012. Grant awards will be made on a reimbursement basis.

**(17) Subsequent events**

The High Schools have evaluated subsequent events through August 15, 2011, which is the date these financial statements were available to be issued.



**BISHOP MCGANN-MERCY DIOCESAN HIGH SCHOOL**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS:</b>		
Revenues:		
Tuition	\$ 3,792,005	\$ 3,545,871
Less: financial grants and scholarships	(236,520)	(205,553)
Net tuition	3,555,485	3,340,318
Bookstore and cafeteria sales	241,620	207,725
State Aid - Mandated Services	247,734	257,820
Donations, events, gifts and grants	414,837	497,547
Athletic activities	85,692	81,766
Co-curricular activities	132,886	104,260
Rental income	63,645	68,501
Fee income	209,503	212,239
Investment income	2,148	731
Miscellaneous	133,248	11,806
Net assets released from restrictions	191,055	664,369
Total operating revenues	<u>5,277,853</u>	<u>5,447,082</u>
Expenses:		
Instructional expenses	2,525,540	2,352,301
Employee benefits	1,123,900	954,925
Administrative expenses	702,679	683,464
Development costs	331,452	299,516
Rectory, convent and chapel	-	33,444
Bookstore, cafeteria and other	195,942	158,817
Athletic activities	462,184	414,381
Co-curricular activities	150,701	127,043
Depreciation and amortization expense	358,294	378,334
Operation and maintenance of plant	749,927	636,538
Interest expense and bad debts	339,056	193,426
Total operating expenses	<u>6,939,675</u>	<u>6,232,189</u>
Deficiency of revenues under expenses	<u>(1,661,822)</u>	<u>(785,107)</u>
Subsidies from Diocese of Rockville Centre:		
Operating subsidy	500,000	550,000
Mortgage subsidy	362,222	362,222
Total subsidies	<u>862,222</u>	<u>912,222</u>
Increase (decrease) in unrestricted net assets	<u>(799,600)</u>	<u>127,115</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Revenues	331,010	277,263
Net assets released from restrictions	(191,055)	(664,369)
Increase (decrease) in temporarily restricted net assets	<u>139,955</u>	<u>(387,106)</u>
<b>CHANGE IN NET ASSETS</b>	<b>(659,645)</b>	<b>(259,991)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b><u>2,528,891</u></b>	<b><u>2,788,882</u></b>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 1,869,246</u></b>	<b><u>\$ 2,528,891</u></b>

The accompanying notes to consolidating financial statements  
should be read in conjunction with these statements.

**HOLY TRINITY DIOCESAN HIGH SCHOOL**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CHANGE IN UNRESTRICTED NET ASSETS:		
Revenues:		
Tuition	\$ 11,394,031	\$ 10,790,849
Less: financial grants and scholarships	<u>(160,325)</u>	<u>(135,955)</u>
Net tuition	11,233,706	10,654,894
Bookstore and cafeteria sales	645,801	640,056
State Aid - Mandated Services	1,021,431	799,175
Donations, events, gifts and grants	615,735	486,549
Athletic activities	186,191	190,068
Co-curricular activities	463,011	533,362
Contributed services	24,052	33,782
Rental income	480,297	478,602
Fee income	788,290	673,450
Investment income	9,589	10,527
Miscellaneous	74,847	75,657
Net assets released from restrictions	<u>138,501</u>	<u>107,175</u>
Total operating revenues	<u>15,681,451</u>	<u>14,683,297</u>
Expenses:		
Instructional expenses	6,505,041	6,444,490
Employee benefits	2,621,481	2,770,987
Administrative expenses	1,263,520	1,099,942
Development costs	429,189	324,909
Rectory, convent and chapel	2,882	19,034
Bookstore, cafeteria and other	528,388	478,360
Athletic activities	1,121,786	1,064,739
Co-curricular activities	497,701	566,130
Depreciation and amortization expense	436,516	387,044
Operation and maintenance of plant	1,514,624	1,452,356
Interest expense and bad debts	<u>54,562</u>	<u>63,436</u>
Total operating expenses	<u>14,975,690</u>	<u>14,671,427</u>
Excess of revenues over expenses	<u>705,761</u>	<u>11,870</u>
Subsidies from Diocese of Rockville Centre:		
Operating subsidy	<u>100,000</u>	<u>250,000</u>
Total subsidies	<u>100,000</u>	<u>250,000</u>
Increase in unrestricted net assets	<u>805,761</u>	<u>261,870</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Revenues	143,966	103,292
Net assets released from restrictions	<u>(138,501)</u>	<u>(107,175)</u>
Increase (decrease) in temporarily restricted net assets	<u>5,465</u>	<u>(3,883)</u>
CHANGE IN NET ASSETS	811,226	257,987
NET ASSETS, BEGINNING OF YEAR	<u>2,746,295</u>	<u>2,488,308</u>
NET ASSETS, END OF YEAR	<u>\$ 3,557,521</u>	<u>\$ 2,746,295</u>

The accompanying notes to consolidating financial statements  
should be read in conjunction with these statements.

**ST. JOHN THE BAPTIST DIOCESAN HIGH SCHOOL**  
**OF THE DIOCESE OF ROCKVILLE CENTRE**  
**COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CHANGE IN UNRESTRICTED NET ASSETS:		
Revenues:		
Tuition	\$ 13,413,116	\$ 13,115,168
Less: financial grants and scholarships	(633,189)	(621,031)
Net tuition	12,779,927	12,494,137
Bookstore and cafeteria sales	353,974	290,476
State Aid - Mandated Services	1,093,807	796,915
Donations, events, gifts and grants	993,556	815,571
Athletic activities	259,097	246,392
Co-curricular activities	1,009,592	1,052,805
Contributed services	59,715	61,131
Rental income	382,779	395,281
Fee income	1,231,776	1,172,298
Investment income	14,351	34,174
Miscellaneous	145,015	25,764
Net assets released from restrictions	58,780	206,889
Total operating revenues	<u>18,382,369</u>	<u>17,591,833</u>
Expenses:		
Instructional expenses	7,025,413	7,296,701
Employee benefits	2,808,588	2,903,890
Administrative expenses	1,361,672	1,256,963
Development costs	496,942	445,615
Rectory, convent and chapel	3,364	18,680
Bookstore, cafeteria and other	265,224	233,441
Athletic activities	1,498,801	1,385,058
Co-curricular activities	1,036,278	1,001,826
Depreciation and amortization expense	484,636	584,113
Operation and maintenance of plant	1,942,191	2,059,045
Interest expense and bad debts	297,814	134,629
Total operating expenses	<u>17,220,923</u>	<u>17,319,961</u>
Excess of revenues over expenses	<u>1,161,446</u>	<u>271,872</u>
Subsidies from Diocese of Rockville Centre:		
Operating subsidy	100,000	250,000
Total subsidies	<u>100,000</u>	<u>250,000</u>
Increase in unrestricted net assets	<u>1,261,446</u>	<u>521,872</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Revenues	101,929	245,125
Net assets released from restrictions	(58,780)	(206,889)
Increase in temporarily restricted net assets	<u>43,149</u>	<u>38,236</u>
CHANGE IN NET ASSETS	1,304,595	560,108
NET ASSETS, BEGINNING OF YEAR	<u>4,481,625</u>	<u>3,921,517</u>
NET ASSETS, END OF YEAR	<u>\$ 5,786,220</u>	<u>\$ 4,481,625</u>

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