

**Audited
Financial Statements**

**Pope John XXIII
High School, Inc.**

June 30, 2006

Pope John XXIII High School, Inc.

Audited Financial Statements

June 30, 2006

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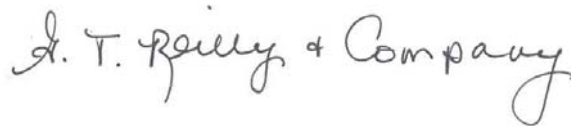
INDEPENDENT AUDITORS' REPORT

Board of Trustees
Pope John XXIII High School, Inc.

We have audited the accompanying statement of financial position of Pope John XXIII High School, Inc. as of June 30, 2006 and 2005, and the related statement of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Pope John XXIII High School, Inc. at June 30, 2006 and 2005, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



G. T. Reilly & Company

Milton, Massachusetts
August 10, 2006

Pope John XXIII High School, Inc.

Statements of Financial Position

June 30

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 & 7)	\$ 846,259	\$1,200,710
Accounts receivable, less allowance for doubtful accounts of \$64,333 in 2006 and \$21,652 in 2005 (Note 2)	94,242	0
Prepaid expenses	<u>14,655</u>	<u>0</u>
TOTAL CURRENT ASSETS	<u>955,156</u>	<u>1,200,710</u>
INTEREST IN THE NET ASSETS OF THE CATHOLIC FOUNDATION (Notes 2, 3, 4 & 5)	<u>55,712</u>	<u>54,269</u>
PROPERTY AND EQUIPMENT (Note 2)		
Computer hardware and software	74,930	53,830
Furniture and equipment	57,455	47,646
Leasehold improvements	<u>22,793</u>	<u>0</u>
	155,178	101,476
Accumulated depreciation	<u>(64,227)</u>	<u>(29,458)</u>
	<u>90,951</u>	<u>72,018</u>
OTHER ASSETS		
Cash designated by board (Note 2)	<u>578,905</u>	<u>378,905</u>
TOTAL ASSETS	<u>\$1,680,724</u>	<u>\$1,705,902</u>
<u>Liabilities and Net Assets</u>		
LIABILITIES		
Accounts payable	\$ 51,725	\$ 27,494
Accrued expenses	250,647	187,868
Deferred revenue (Note 2)	<u>395,291</u>	<u>603,885</u>
TOTAL LIABILITIES	<u>697,663</u>	<u>819,247</u>
NET ASSETS		
Unrestricted:		
Undesignated	339,844	444,881
Board-designated (Note 5)	<u>578,905</u>	<u>378,905</u>
	918,749	823,786
Temporarily restricted (Note 5)	28,667	27,224
Permanently restricted (Note 5)	<u>35,645</u>	<u>35,645</u>
	<u>983,061</u>	<u>886,655</u>
	<u>\$1,680,724</u>	<u>\$1,705,902</u>

Pope John XXIII High School, Inc.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Tuition and fees	\$3,304,884	\$	\$	\$3,304,884
Less financial aid	(528,200)			(528,200)
Tuition and fees, net	2,776,684			2,776,684
Contributed services (Note 2)	43,814			43,814
Gifts and donations	228,849	33,465		262,314
Catholic School Foundation	141,550			141,550
Investment income	30,920			30,920
Auxiliary activities	338,563			338,563
Rental income (Note 8)	50,891			50,891
Other program income	91,994			91,994
Interest in change in net assets of the Catholic Foundation (Notes 2 & 3)		1,443		1,443
Net assets released from restrictions (Note 5)	33,465	(33,465)		
Total revenues and support	<u>3,736,730</u>	<u>1,443</u>		<u>3,738,173</u>
EXPENSES				
Program Services:				
Instruction and student activities	1,587,161			1,587,161
Auxiliary activities	211,917			211,917
Other programs	340,771			340,771
Total program services	<u>2,139,849</u>			<u>2,139,849</u>
Supporting Services:				
General and administrative	1,298,356			1,298,356
Fundraising	203,562			203,562
Total supporting services	<u>1,501,918</u>			<u>1,501,918</u>
Total expenses	<u>3,641,767</u>			<u>3,641,767</u>
CHANGE IN NET ASSETS	94,963	1,443		96,406
NET ASSETS AT BEGINNING OF YEAR	<u>823,786</u>	<u>27,224</u>	<u>35,645</u>	<u>886,655</u>
NET ASSETS AT END OF YEAR	<u>\$ 918,749</u>	<u>\$ 28,667</u>	<u>\$ 35,645</u>	<u>\$ 983,061</u>

Pope John XXIII High School, Inc.

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
Tuition and fees	\$3,187,347	\$	\$	\$3,187,347
Less financial aid	(590,493)			(590,493)
Tuition and fees, net	2,596,854			2,596,854
Contributed services (Note 2)	52,142			52,142
Gifts and donations	214,572	95,425		309,997
Catholic School Foundation	203,100			203,100
Investment income	20,712			20,712
Auxiliary activities	326,192			326,192
Rental income	49,331			49,331
Other program income	135,232			135,232
Net assets released from restrictions (Note 5)	86,825	(86,825)		
Total revenues and support	<u>3,684,960</u>	<u>8,600</u>		<u>3,693,560</u>
EXPENSES				
Program Services:				
Instruction and student activities	1,514,536			1,514,536
Auxiliary activities	194,052			194,052
Other programs	273,106			273,106
Total program services	<u>1,981,694</u>			<u>1,981,694</u>
Supporting Services:				
General and administrative	1,138,399			1,138,399
Fundraising	204,783			204,783
Total supporting services	<u>1,343,182</u>			<u>1,343,182</u>
Total expenses	<u>3,324,876</u>			<u>3,324,876</u>
CHANGE IN NET ASSETS	360,084	8,600		368,684
NET ASSETS CONTRIBUTED UPON INCORPORATION (Notes 2 & 4)	<u>463,702</u>	<u>18,624</u>	<u>35,645</u>	<u>517,971</u>
NET ASSETS AT END OF YEAR	<u>\$ 823,786</u>	<u>\$ 27,224</u>	<u>\$ 35,645</u>	<u>\$ 886,655</u>

Pope John XXIII High School, Inc.

Statements of Cash Flows

For the Years Ended June 30

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 96,406	\$ 368,684
Adjustments to reconcile change in net assets to net cash provided by (applied to) operating activities:		
Depreciation	34,769	29,458
Change in interest in net assets of the Catholic Foundation	(1,443)	0
Changes in operating assets and liabilities:		
Accounts receivable, net	(94,242)	0
Prepaid expenses	(14,655)	0
Cash designated by board	(200,000)	(378,905)
Accounts payable	24,230	27,494
Accrued expenses	62,781	187,868
Deferred revenue	<u>(208,595)</u>	<u>230,351</u>
 NET CASH PROVIDED FROM (APPLIED TO) OPERATING ACTIVITIES	 <u>(300,749)</u>	 <u>464,950</u>
 CASH FLOWS APPLIED TO INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(53,702)</u>	<u>(16,679)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash contributed at incorporation	<u>0</u>	<u>752,439</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (354,451)	 1,200,710
 CASH AND CASH EQUIVALENTS AND BEGINNING OF YEAR	 <u>1,200,710</u>	 <u>0</u>
 NET CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 846,259</u>	 <u>\$1,200,710</u>

Pope John XXIII High School, Inc.

Notes to Financial Statements

June 30, 2006

Note 1 – Nature of Organization

Pope John XXIII High School, Inc. (the "School") is a private high school located in Everett, Massachusetts. The School's mission is to provide a strong academic foundation which promotes Christian faith and morals and provides a deeper understanding of Catholic religious tradition.

Until June 30, 2004, the School was a division of Archdiocesan Central High Schools, Inc. Effective July 1, 2004, the School was incorporated as an entity independent of Archdiocesan Central High Schools, Inc. and began to operate as an independent entity. At this date, the Archdiocesan Central High Schools distributed certain assets and liabilities to the corporation (See note 3).

Note 2 – Significant Accounting Policies

Basis of Presentation – The books and records of the School are prepared using the accrual method of accounting.

Accounting Estimates - 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 certain reported amounts and disclosures.

Net Assets Contributed at Formation – The School received certain assets and assumed certain liabilities from the Archdiocesan Central High Schools when it became an independent entity. In fiscal year 2005, the School recorded these contributions at historical book value on the date received (see note 4). These contributions are segregated from operating activities on the statement of activities and changes in net assets in order to identify the results of operations with greater ease for the year ended June 30, 2005.

Financial Statement Presentation - Under Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations", the School presents a statement of financial position and a statement of activities segregated into three classes of net assets determined by donor-imposed restrictions as follows: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (see Note 4 regarding restrictions on net assets).

Endowment funds established by donor restrictions to permanently maintain the principal, while allowing the use of income generated therefrom, are classified as permanently restricted net assets. Income derived from the investment of endowment funds is reported as unrestricted revenue or as restricted revenue depending on the terms of the donor instrument. Unrealized gains or losses on endowment fund investments are reported as increases or decreases in temporarily restricted net assets unless the donor explicitly states otherwise.

Contributions and Donor Restrictions - Under SFAS No. 116, "Accounting for Contributions Received and Contributions Made", use-restricted contributions are reported as increases to temporarily or permanently restricted net assets when received. When a donor restriction expires either by use of the funds for the specified purpose or by the expiration of a time restriction, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions (see Note 5).

Note 2 – Significant Accounting Policies (Cont.)

Cash and Equivalents – The School considers highly liquid investments with maturities of three months or less at purchase to be cash equivalents.

In accordance with laws regulating certain gaming activities in the Commonwealth of Massachusetts, the School is required to segregate and deposit funds earned from their weekly "bingo" activities into a separate bank account. As of June 30, 2006 and 2005, these bank balances totaled approximately \$22,000 and \$6,500, respectively.

Cash designated by the board consists of funds that are designated by the School's Board of Directors for future replacement, improvement or additions to property and equipment.

Accounts Receivable - Accounts receivable are stated net of an allowance for doubtful accounts, when considered necessary by management, which would be reported on the face of the School's statement of financial position. The allowance is established via a provision for bad debts charged to operations. On a periodic basis, management evaluates its accounts receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible, based on evaluations of the collectibility of individual accounts, the School's history of prior loss experience and on current economic conditions. Accounts are written off and charged against the allowance when management believes that the collectibility of the specific account is unlikely.

Interest in the Net Assets of the Catholic Foundation - The School follows the provisions of Statement of Financial Accounting Standards No. 136, "Transfer of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others" (SFAS No. 136). The statement requires the School to recognize as an asset its interest in the net assets of other related organizations who hold funds that have been donated for the benefit of the School. Additionally, the statement requires the School to adjust the interest for its share of the change in the related organization's net assets via a charge or credit to its statement of activities. The transfer of funds from the related organization is reported as a reduction to the School's recorded interest (see Note 3).

Property and equipment – Property and equipment are stated at cost. Maintenance and repairs are expensed as incurred, whereas major purchases are capitalized. Expenditures for renewals and improvements that significantly extend the useful life of an asset are capitalized.

Depreciation is calculated and provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives are between three and ten years. Depreciation expense was \$34,768 and \$29,458 for the years ended June 30, 2006 and 2005, respectively.

Deferred Revenue – Deferred revenue consists of tuition deposits received in the current fiscal year that are applicable to future fiscal years.

Tuition Revenue – Gross tuition and fees reflect the School's normal tuition rates for all students. Scholarships given on the basis of financial need and/or achievement are presented as a reduction to gross tuition and fees.

Contributed Services – Support arising from contributed services to the School has been recognized in the accompanying financial statements with an equal amount recognized as expense, if the services provided require special skills and would need to be purchased by the School if not contributed. The computation of the value of the contributed services represents the difference between stipends and other amounts paid to or on behalf of the religious personnel and the comparable compensation that would be paid to lay persons if lay persons were to occupy those positions.

Auxiliary Services Revenue – Auxiliary services revenue includes activities related to the School's operations, such as cafeteria and Bingo events. Auxiliary services revenue is recognized in the period to which it relates.

Note 2 – Significant Accounting Policies (Cont.)

Advertising Expense - The School expenses advertising and marketing costs as incurred. Total expense approximated \$38,000 and \$32,000 for the years ended June 30, 2006 and 2005, respectively.

Income Tax Status - The School is recognized as an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax.

Note 3 - Interest in the Catholic Foundation of the Archdiocese of Boston, Inc. ("Foundation")

The School is the beneficiary of restricted donations collected on its behalf by the Foundation, a related party. As discussed in Note 2, "Accounting for Assets Held by Others", the School has recorded as an asset its interest in the Foundation's net assets, which is \$55,712 at June 30, 2006 (\$54,269 at June 30, 2005). The change in the School's interest is reflected in the statement of activities as an increase in net assets of \$1,443 in 2006. No increase in net assets was recognized in 2005.

Note 4 – Net Assets Contributed at Incorporation

The School received assets and assumed liabilities from the Archdiocesan Central High Schools at its incorporation as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash and equivalents	\$752,439	\$	\$	\$752,439
Interest in net assets of the Catholic Foundation		18,624	35,645	54,269
Furniture, fixtures and equipment	84,797			84,797
Deferred revenue	(373,534)			(373,534)
	<u>\$463,702</u>	<u>\$ 18,624</u>	<u>\$ 35,645</u>	<u>\$517,971</u>

Note 5 – Classification of Net Assets

At June 30, temporarily restricted assets consist of or are to be used for the following:

	<u>2006</u>	<u>2005</u>
Interest in net assets of the Catholic Foundation	\$ 20,067	\$ 18,624
Marketing equipment	6,000	6,000
Other	2,600	2,600
	<u>\$ 28,667</u>	<u>\$ 27,224</u>

Permanently restricted assets consist of:

Interest in net assets of the Catholic Foundation	<u>\$ 35,645</u>	<u>\$ 35,645</u>
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Net assets were released from restrictions and used during the years ended June 30 for the following:

	<u>2006</u>	<u>2005</u>
Scholarships	\$ 21,465	\$ 32,950
Technology	12,000	0
Admissions grant	0	44,000
Development	0	5,000
Other	0	4,875
	<u>\$ 33,465</u>	<u>\$ 86,825</u>

Note 5 – Classification of Net Assets (Cont.)

Unrestricted net assets at June 30, 2006 include \$578,905 (\$378,905 at June 30, 2005) of net assets designated by the School's Board of Directors for future replacement, improvements or additions to property and equipment.

Note 6 – Pension Plan

The School participates with other organizations affiliated with the Archdiocese of Boston in a multiemployer noncontributory, defined-benefit pension plan covering substantially all lay employees. Benefits are provided through the Roman Catholic Archdiocese of Boston Pension Plan (the Plan). The Plan is not subject to the Employee Retirement Income Security Act of 1974 (ERISA). Pension expense approximated \$77,000 for the year ended June 30, 2006 (\$78,000 at June 30, 2005).

Accumulated plan benefit information, as provided by consulting actuaries, has not been distinguished from the benefits of the other organizations participating in the multiemployer plan and, therefore, such information is not presented herein. The June 30, 2006 financial statements of the plan (the latest report issued) reflected approximately a \$9.7 million deficit in plan benefits.

Note 7 – Financial Instruments

The School's cash and cash equivalents are placed with a high-quality financial institution. Based on bank balances at June 30, 2006, approximately \$1,350,000 of deposits were in excess of the federal insured limit.

Note 8 – Lease Commitment and Related Party Transaction

As part of the initial incorporation of the School on July 1, 2004, the School entered into an agreement with Archdiocesan Central High Schools, Inc. ("ACHS") for the lease of the School facility. The lease requires a payment of one dollar per year and expires June 30, 2008. The School is responsible for insurance, utilities and all operating costs. If the School were to lease the facility from unrelated parties, operating results would be adversely affected.

The School has the option, at any time during the lease period with 120 days notice, to purchase the School facility or a portion of the facility from ACHS. Under the purchase option, the purchase price will be determined by ACHS by applying a discount percentage to an appraised value. In addition, the School would be required to assume any indebtedness associated with the facility.

The School subleases certain space in the facility to an unrelated tenant under a lease agreement that expires on June 30, 2008. The lease calls for payments of \$18,000 per year.

The School subleases other space to an unrelated tenant under an "at will" arrangement.

Sublease income was approximately \$51,000 and \$49,000 for the years ended June 30, 2006 and 2005, respectively.