

**Audited  
Financial Statements**

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

**June 30, 2007**

# Pope John XXIII High School, Inc.

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## Audited Financial Statements

June 30, 2007

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ReillyTech  
Reilly Benefits  
Reilly Small Business Group

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Pope John XXIII High School, Inc.

We have audited the accompanying statements of financial position of Pope John XXIII High School, Inc. as of June 30, 2007 and 2006, and the related statements 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, 2007 and 2006, 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*

G. T. Reilly & Company

Milton, Massachusetts  
February 27, 2008

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# Pope John XXIII High School, Inc.

## Statements of Financial Position

June 30

	<u>2007</u>	<u>2006</u>
<b><u>Assets</u></b>		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 535,780	\$ 846,259
Accounts receivable, less allowance for doubtful accounts of \$23,980 in 2007 and \$64,333 in 2006	30,637	94,242
Rent receivable (Note 6)	15,000	0
Prepaid expenses	18,123	14,655
	<u>599,540</u>	<u>955,156</u>
TOTAL CURRENT ASSETS		
	<u>599,540</u>	<u>955,156</u>
INTEREST IN THE NET ASSETS OF THE CATHOLIC FOUNDATION (Notes 2, 3, & 4)		
	<u>58,124</u>	<u>55,712</u>
PROPERTY AND EQUIPMENT (Note 2)		
Computer hardware and software	93,726	74,930
Furniture and equipment	85,296	57,455
Leasehold improvements	22,793	22,793
	<u>201,815</u>	<u>155,178</u>
Accumulated depreciation	(110,271)	(64,227)
	<u>91,544</u>	<u>90,951</u>
OTHER ASSETS		
Cash designated by board (Note 2)	<u>478,905</u>	<u>578,905</u>
	<u>\$ 1,228,113</u>	<u>\$ 1,680,724</u>
<b><u>Liabilities and Net Assets</u></b>		
CURRENT LIABILITIES		
Accounts payable	\$ 8,654	\$ 51,725
Accrued expenses	240,121	250,647
Deferred revenue (Note 2)	329,624	395,291
	<u>578,399</u>	<u>697,663</u>
TOTAL LIABILITIES		
	<u>578,399</u>	<u>697,663</u>
NET ASSETS (Note 4)		
Unrestricted:		
Undesignated surplus	62,685	339,844
Board-designated surplus	478,905	578,905
	<u>541,590</u>	<u>918,749</u>
Temporarily restricted	72,479	28,667
Permanently restricted	35,645	35,645
	<u>649,714</u>	<u>983,061</u>
	<u>\$ 1,228,113</u>	<u>\$ 1,680,724</u>

# Pope John XXIII High School, Inc.

## Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>				
Tuition and fees	\$ 2,690,163	\$ -	\$ -	\$ 2,690,163
Less financial aid	<u>(370,755)</u>			<u>(370,755)</u>
Tuition and fees, net	2,319,408			2,319,408
Contributed services and equipment (Note 2)	44,385			44,385
Gifts and donations	236,850	72,000		308,850
Catholic School Foundation	157,817			157,817
Interest income	32,649			32,649
Auxiliary activities	254,439			254,439
Rental income (Note 6)	50,260			50,260
Other program income	137,911			137,911
Other income	27,134			27,134
Interest in change in net assets of the Catholic Foundation (Notes 2 & 3)		2,412		2,412
Net assets released from restrictions (Note 4)	<u>30,600</u>	<u>(30,600)</u>		<u>-</u>
Total revenues and support	<u>3,291,453</u>	<u>43,812</u>	<u>-</u>	<u>3,335,265</u>
<b>EXPENSES</b>				
Program Services:				
Instruction and student activities	1,564,557			1,564,557
Auxiliary activities	161,477			161,477
Other programs	<u>335,297</u>			<u>335,297</u>
Total program services	<u>2,061,331</u>			<u>2,061,331</u>
Supporting Services:				
General and administrative	1,404,973			1,404,973
Development	<u>202,308</u>			<u>202,308</u>
Total supporting services	<u>1,607,281</u>			<u>1,607,281</u>
Total expenses	<u>3,668,612</u>			<u>3,668,612</u>
CHANGE IN NET ASSETS	(377,159)	43,812		(333,347)
NET ASSETS AT BEGINNING OF YEAR	<u>918,749</u>	<u>28,667</u>	<u>35,645</u>	<u>983,061</u>
NET ASSETS AT THE END OF YEAR	<u>\$ 541,590</u>	<u>\$ 72,479</u>	<u>\$ 35,645</u>	<u>\$ 649,714</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>
<b>REVENUES AND SUPPORT</b>				
Tuition and fees	\$ 3,304,884	\$ -	\$ -	\$ 3,304,884
Less financial aid	(528,200)			(528,200)
	<u>2,776,684</u>			<u>2,776,684</u>
Tuition and fees, net	2,776,684			2,776,684
Contributed services and equipment (Note 2)	43,814			43,814
Gifts and donations	228,849	33,465		262,314
Catholic School Foundation	141,550			141,550
Interest income	30,920			30,920
Auxiliary activities	338,563			338,563
Rental income (Note 6)	50,891			50,891
Other program income	91,994			91,994
Interest in change in net assets of the Catholic Foundation		1,443		1,443
Net assets released from restrictions (Note 4)	33,465	(33,465)		0
	<u>3,736,730</u>	<u>1,443</u>	<u>-</u>	<u>3,738,173</u>
Total revenues and support				
<b>EXPENSES</b>				
Program Services:				
Instruction and student activities	1,587,161			1,587,161
Auxiliary activities	211,917			211,917
Other programs	340,771			340,771
	<u>2,139,849</u>			<u>2,139,849</u>
Total program services				
Supporting Services:				
General and administrative	1,298,356			1,298,356
Development	203,562			203,562
	<u>1,501,918</u>			<u>1,501,918</u>
Total supporting services				
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 THE 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.

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## Statements of Cash Flows

For the Years Ended June 30

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (333,347)	\$ 96,406
Adjustments to reconcile change in net assets to net cash applied to operating activities:		
Depreciation	46,044	34,769
Change in interest in net assets of the Catholic Foundation	(2,412)	(1,443)
Changes in operating assets and liabilities:		
Accounts receivable, net	63,605	(94,242)
Rent receivable	(15,000)	0
Prepaid expenses	(3,468)	(14,655)
Cash released (designated) by board	100,000	(200,000)
Accounts payable	(43,071)	24,230
Accrued expenses	(10,526)	62,781
Deferred revenue	(65,667)	(208,595)
	<u>(263,842)</u>	<u>(300,749)</u>
NET CASH APPLIED TO OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(46,637)</u>	<u>(53,702)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(310,479)	(354,451)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>846,259</u>	<u>1,200,710</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 535,780</u>	<u>\$ 846,259</u>

# Pope John XXIII High School, Inc.

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## Notes to Financial Statements

June 30, 2007

### Note 1 – Nature of Organization

Pope John XXIII High School, Inc. (the "School") is a non-profit private institution located in Everett, Massachusetts, which provides a secondary education covering grades nine through twelve within a Catholic environment. The School is affiliated with the Roman Catholic Archdiocese of Boston (the "Archdiocese") and is accredited by the New England Association of Schools and Colleges. The School was previously a division of the Archdiocesan Central High Schools, Inc. On July 1, 2004, Pope John XXIII High School, Inc. was formed as an independent school. Certain assets were received and liabilities assumed by the School from the Archdiocese and recorded by the School at net book value. The School is qualified as a tax-exempt organization under Internal Revenue Code Section 501(c)(3).

The School's mission is to deliver academic excellence, build community, and serve others through Catholic education. The School's primary sources of funding for its services include tuition fees, donations, and development.

### 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.

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 classifications of and restrictions on net assets).

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. Endowment funds established by donor restrictions to permanently maintain the principal, while allowing the use of income generated there from, 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 (see Note 4).

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 its weekly "bingo" activities into separate bank accounts. As of June 30, 2007 and 2006, these bank balances totaled approximately \$21,000 and \$22,000, respectively.



## **Note 2 – Significant Accounting Policies (Cont.)**

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 \$46,044 and \$34,768 for the years ended June 30, 2007 and 2006, 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.

Advertising Expense - The School expenses advertising and marketing costs as incurred. Total expense approximated \$16,000 and \$38,000 for the years ended June 30, 2007 and 2006, 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 \$58,124 at June 30, 2007 (\$55,712 at June 30, 2006). The change in the School's interest is reflected in the statement of activities as an increase in net assets of \$2,412 in 2007 (\$1,443 in 2006)

### Note 4 – Classification of Net Assets

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

	<u>2007</u>	<u>2006</u>
Interest in net assets of the Catholic Foundation	\$ 22,479	\$ 20,067
Technology	50,000	0
Marketing equipment	0	6,000
Other	0	2,600
	<u>\$ 72,479</u>	<u>\$ 28,667</u>

Permanently restricted net 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>2007</u>	<u>2006</u>
Scholarships	\$ 22,000	\$ 21,465
Technology	0	12,000
Marketing equipment	6,000	0
Other	2,600	0
	<u>\$ 30,600</u>	<u>\$ 33,465</u>

Unrestricted net assets at June 30, 2007 and 2006 include \$478,905 and \$578,905, respectively, of net assets designated by the School's Board of Directors for future replacement, improvements or additions to property and equipment.

### Note 5 – 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 \$85,700 for the year ended June 30, 2007 (\$77,000 at June 30, 2006)

## Note 5 – Pension Plan (Cont.)

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, 2007 financial statements of the Roman Catholic Archdiocese of Boston Pension Plan reflects the following:

Net assets available for benefits	\$292,973,474
Actuarial present value of accumulated plan benefits	<u>286,247,951</u>
Funded status	<u>\$ 6,725,523</u>

## Note 6 – 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 was originally agreed to expire on June 30, 2008. The lease agreement called for payments of \$18,000 per year. At June 30, 2007, \$15,000 in rent was due to the School. Subsequent to year end, it was mutually agreed to terminate the sublease. As part of this termination agreement, it was agreed that the \$15,000 due to the School would be ultimately paid in full with no additional rents due.

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

Sublease income was approximately \$50,000 and \$51,000 for the years ended June 30, 2007 and 2006, respectively.