

THE SEMINARY OF THE IMMACULATE CONCEPTION
OF THE DIOCESE OF ROCKVILLE CENTRE
FINANCIAL STATEMENTS
AS OF AUGUST 31, 2007 AND 2006
TOGETHER WITH
AUDITORS' REPORT



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 statements of financial position of The Seminary of the Immaculate Conception of the Diocese of Rockville Centre (the "Seminary") as of August 31, 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 Seminary'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 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 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 The Seminary of the Immaculate Conception of the Diocese of Rockville Centre as of August 31, 2007 and 2006, and the results of its activities and changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Nawrocki Smith LLP

Melville, New York
December 18, 2007

THE SEMINARY OF THE IMMACULATE CONCEPTION
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2007 AND 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Cash	\$ 160,301	\$ 45,725
Investments	2,019,875	2,209,736
Accounts receivable, net of allowance for doubtful accounts of \$3,850 and \$3,892, respectively	84,862	21,946
Pledge receivable	50,000	100,000
Prepaid expenses and other assets	62,884	87,682
Property and equipment, net of accumulated depreciation and amortization of \$5,739,900 and \$5,477,984, respectively	<u>1,295,826</u>	<u>1,166,468</u>
Total assets	<u>\$ 3,673,748</u>	<u>\$ 3,631,557</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 53,315	\$ 107,931
Accrued sick pay	51,682	56,099
Deferred revenue	<u>64,571</u>	<u>28,898</u>
Total liabilities	<u>169,568</u>	<u>192,928</u>
Net assets:		
Unrestricted:		
Undesignated	107,189	(90,595)
Designated	765,916	789,107
Plant	<u>1,295,826</u>	<u>1,166,468</u>
Total unrestricted net assets	2,168,931	1,864,980
Temporarily restricted	353,900	640,622
Permanently restricted	<u>981,349</u>	<u>933,027</u>
Total net assets	<u>3,504,180</u>	<u>3,438,629</u>
Total liabilities and net assets	<u>\$ 3,673,748</u>	<u>\$ 3,631,557</u>

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

THE SEMINARY OF THE IMMACULATE CONCEPTION
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CHANGE IN UNRESTRICTED NET ASSETS:		
Revenues:		
Tuition -		
Diocese of Rockville Centre	\$ 454,250	\$ 96,250
Other tuition	356,255	343,825
Diocese of Brooklyn	276,500	243,750
Less: financial grants	<u>(5,025)</u>	<u>(15,430)</u>
Net tuition	1,081,980	668,395
Contributed services	460,046	478,746
Donations and gifts	332,404	136,129
Net assets released from restrictions	309,179	89,318
Outside activities	306,598	270,889
Special events	249,881	446,910
Rental income	169,086	150,984
Miscellaneous	31,398	17,615
Interest	29,941	61,743
Other income	<u>20,521</u>	<u>26,529</u>
Total operating revenues	<u>2,991,034</u>	<u>2,347,258</u>
Expenses:		
Program instruction	2,087,063	1,889,412
Institutional services	702,004	682,967
Student services	517,256	790,467
Academic support	425,331	669,644
Auxiliary services	<u>216,930</u>	<u>227,503</u>
Total operating expenses	<u>3,948,584</u>	<u>4,259,993</u>
Deficiency of revenues under expenses	(957,550)	(1,912,735)
Subsidies from the Diocese of Rockville Centre	1,173,661	1,404,651
Diocesan 50th Anniversary grant	<u>87,840</u>	<u>-</u>
Increase (decrease) in unrestricted net assets	<u>303,951</u>	<u>(508,084)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:		
Donations and gifts	1,995	128,667
Interest	20,462	20,475
Net assets released from restrictions	<u>(309,179)</u>	<u>(89,318)</u>
Increase (decrease) in temporarily restricted net assets	<u>(286,722)</u>	<u>59,824</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:		
Donations and gifts	<u>48,322</u>	<u>8,999</u>
Increase in permanently restricted net assets	<u>48,322</u>	<u>8,999</u>
CHANGE IN NET ASSETS	65,551	(439,261)
NET ASSETS, BEGINNING OF YEAR	<u>3,438,629</u>	<u>3,877,890</u>
NET ASSETS, END OF YEAR	<u>\$ 3,504,180</u>	<u>\$ 3,438,629</u>

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

THE SEMINARY OF THE IMMACULATE CONCEPTION
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 65,551	\$ (439,261)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	261,915	479,878
Contributions permanently restricted for endowment	(48,322)	(8,999)
(Increase) decrease in accounts receivable - net	(62,916)	2,840
Decrease in due from related entities	-	208,491
(Increase) decrease in pledge receivable	50,000	(100,000)
(Increase) decrease in prepaid expenses and other assets	24,798	(10,395)
Decrease in accounts payable and accrued expenses	(54,616)	(18,704)
Increase in accrued sick pay	4,417	11,898
Increase in deferred revenue	35,673	23,348
	<u>276,500</u>	<u>149,096</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(106,694)	(401,605)
Sale of investments	287,812	126,598
Purchase of property and equipment	(391,364)	(144,181)
	<u>(210,246)</u>	<u>(419,188)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions permanently restricted for endowment	48,322	8,999
	<u>48,322</u>	<u>8,999</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	114,576	(261,093)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>45,725</u>	<u>306,818</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 160,301</u>	<u>\$ 45,725</u>

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

THE SEMINARY OF THE IMMACULATE CONCEPTION
OF THE DIOCESE OF ROCKVILLE CENTRE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2007

(1) **Organization**

The Seminary of the Immaculate Conception of the Diocese of Rockville Centre (the "Seminary") is an institution of higher learning principally established for the purpose of training young men for the priesthood. The Seminary 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.

The Seminary is economically dependent on the Diocese of Rockville Centre (the "Diocese") for continued financial support. As such, the Seminary's activities were supported by subsidies from the Diocese, which totaled \$1,173,661 and \$1,404,651 for the years ended August 31, 2007 and 2006, respectively. The Diocese also provides other financial support in the forms of tuition payments, rental income, program fees and special events income. During the year ended August 31, 2007, the Seminary received a special 50th Anniversary Grant from the Diocese of Rockville Centre in the amount of \$87,840, through a reduction in certain amounts due to the Diocese for insurance expenses.

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

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

Financial statement presentation -

The Seminary 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 Seminary'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 Seminary's net assets consist of the following:

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

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

Permanently restricted - net assets of the Seminary donated with stipulations that they be invested to provide a permanent source of income based upon the invested principal which must remain intact. Income earned from these funds is generally available for expenditures according to donor-imposed restrictions, if any.

As required by SFAS No. 117, the Seminary has also presented a statement of cash flows for the years ended August, 31, 2007 and 2006.

Cash -

Cash includes cash held in operating accounts.

Investments -

The Seminary invests 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 August 31, 2007 and 2006, respectively, the cost of the Seminary's investment in Unitas approximated market value.

Pledge receivable -

The pledge has been recorded at present value. The Seminary expects to collect the pledge in the upcoming year.

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 as follows:

Land	N/A
Buildings and building improvements	10-66 years
Furniture and equipment	3-10 years
Artwork	N/A

Conditional asset retirement obligations -

The Financial Accounting Standards Board ("FASB") recently issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations. 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 Seminary.

Accounting for the impairment or disposal of long-lived assets -

The Seminary 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 Seminary's financial position, results of activities or liquidity during the years ended August 31, 2007 and 2006.

Accrued sick pay -

The Seminary is obligated to pay one half of the accumulated sick pay (maximum accumulation of 60 days) at the current salary level upon retirement of employees with 10 years or more of service in the Diocese. No reimbursement will be made to employees who have accumulated less than 60 sick days.

Revenue and expense 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 -

Tuition income is recognized as revenue during the school year to which it relates. Income received prior to year-end for subsequent semesters is recorded as deferred revenue.

Accounts receivable consists primarily of receivables for student tuition for the school year.

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.

A number of volunteers have donated significant amounts of their time in the Seminary's program services, administration and fundraising campaigns. However, since these services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America, they are not reflected in the accompanying financial statements.

Outside activities -

The Seminary's facilities are used for outside activities by religious entities and other not-for-profit entities throughout the year. The income related to such auxiliary services is included in outside activities with the related costs of food, salaries and other expenses reflected as auxiliary service expenses in the accompanying statements of activities.

Program and support services -

The following program and supporting services are included in the accompanying financial statements:

Program instruction -

Program instruction expenses are those expenses that are directly related to the instruction of the Seminary's students, including faculty payroll and benefits and educational technology. It also includes an allocation of the expenses of maintaining the physical plant and grounds of the Seminary as well as depreciation expense.

Institutional services -

Institutional services expenses are those expenses incurred in support of the rectors office, general operations and administration of the Seminary including fundraising expenses. It also includes an allocation of the expenses of maintaining the physical plant and grounds of the Seminary as well as depreciation expense.

Student services -

Student services expenses are those expenses incurred for the benefit of the students studying at the Seminary. It also includes an allocation of the expenses of maintaining the physical plant and grounds of the Seminary as well as depreciation expense.

Academic support -

Academic support expenses are those expenses incurred in support of the academic mission of the Seminary. It includes the costs of the library, the offices of the registrar and bursar and an allocation of the expenses of maintaining the physical plant and grounds of the Seminary as well as depreciation expense.

Auxiliary services -

Auxiliary services expenses are those expenses incurred that do not directly relate to the educational mission of the Seminary. These expenses includes expenses for outside activities such as the rental of the building and grounds to outside groups. It also includes an allocation of the expenses of maintaining the physical plant and grounds of the Seminary as well as depreciation expense.

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) **Investments**

As of August 31, 2007 and 2006, the cost of the Seminary's investment in Unitas approximated market value. The Seminary had the following investments held in Unitas at August 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Unrestricted accounts	\$ 30,520	\$ 71,128
Designated account	718,538	691,853
Temporarily restricted accounts	289,468	513,728
Permanently restricted accounts	<u>981,349</u>	<u>933,027</u>
	<u>\$ 2,019,875</u>	<u>\$ 2,209,736</u>

Unrestricted and designated funds in Unitas primarily support the general operations and capital improvements of the Seminary. Temporarily restricted funds in Unitas support the capital improvements and student aid of the Seminary. Income from permanently restricted funds in Unitas primarily supports the general operations of the Seminary.

(4) **Property and equipment**

The following represents the major classes of fixed asset as of August 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land	\$ 300,000	\$ 300,000
Buildings and building improvements	4,965,313	4,611,160
Furniture and equipment	1,632,358	1,595,237
Artwork	<u>138,055</u>	<u>138,055</u>
	7,035,726	6,644,452
Less: accumulated depreciation	<u>5,739,900</u>	<u>5,477,984</u>
	<u>\$ 1,295,826</u>	<u>\$ 1,166,468</u>

(5) **Pension and retirement plans**

The Seminary is a participant in the noncontributory lay pension plan, a defined benefit plan, established by the Diocese of Rockville Centre covering employees who meet certain minimum service requirements. The Seminary also participates in a noncontributory defined benefit 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 Seminary 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 Seminary for the years ended August 31, 2007 and 2006 was \$51,681 and \$78,284 for the noncontributory lay pension plan, respectively, and \$30,433 and \$30,950 for the noncontributory retirement plan for clergy, respectively.

(6) **Temporarily and permanently restricted net assets**

Temporarily and permanently restricted net assets as of August 31, 2007 and 2006 are comprised of the following:

	<u>2007</u>	<u>2006</u>
Temporarily restricted -		
Brooklyn fund	\$ 102,826	\$ 99,009
Handicap and Capital Improvements fund	88,014	323,183
Rockville Centre fund	63,528	61,169
Chapel fund	43,038	78,153
McKenna fund	27,228	26,217
Schneider fund	11,139	10,725
Other	<u>18,127</u>	<u>42,166</u>
	<u>\$ 353,900</u>	<u>\$ 640,622</u>

Permanently restricted -		
Endowment fund	\$ 631,315	\$ 598,594
Denzer fund	182,053	173,133
Don Monti fund	155,785	150,000
Virdone fund	10,386	10,000
Jack Monahan fund	<u>1,810</u>	<u>1,300</u>
	<u>\$ 981,349</u>	<u>\$ 933,027</u>

(7) **Related party considerations**

The Seminary is insured with regard to property and casualty insurance through the Protected Self Insurance Program of the Diocese of Rockville Centre ("PSIP"), a related party. The Health Insurance Program of the Diocese of Rockville Centre ("HIP"), a related party, also exists to provide health coverage to the Seminary's employees. Insurance premiums charged by the PSIP to the Seminary totaled approximately \$113,000 and \$131,000 for the years ended August 31, 2007 and 2006, respectively. The Seminary incurred insurance premiums to the HIP of approximately \$234,000 and \$243,000, for the years ended August 31, 2007 and 2006, respectively.

The Diocese of Rockville Centre rents space from the Seminary. Rental income received from the Diocese for the years ended August 31, 2007 and 2006 was approximately \$96,000 and \$84,000, respectively.

(8) **Commitments**

The Seminary is obligated under various operating leases for equipment. Future minimum lease payments for all non-cancellable operating leases at August 31, 2007 are as follows:

	<u>Year ending August 31,</u>	
	2008	\$ 21,713
	2009	<u>21,354</u>
		<u>\$ 43,067</u>

(9) **Concentrations of credit risk**

The Seminary maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Seminary has not experienced any losses in such accounts. The Seminary believes it is not exposed to any significant credit risk on cash.