

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



Callaghan Nawrocki LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

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

Melville, New York
November 22, 2006

Callaghan Nawrocki

THE SEMINARY OF THE IMMACULATE CONCEPTION
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2006

ASSETS

Cash	\$ 45,725
Investments	2,209,736
Accounts receivable - net of allowance for doubtful accounts of \$3,892	21,946
Pledge receivable	100,000
Prepaid expenses and other assets	87,682
Property and equipment, net of accumulated depreciation and amortization of \$5,477,984	<u>1,166,468</u>
Total assets	<u><u>\$ 3,631,557</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 107,931
Accrued vacation and sick pay	56,099
Deferred revenue	<u>28,898</u>
Total liabilities	<u>192,928</u>
Net assets:	
Unrestricted:	
Undesignated	3,784
Designated	691,853
Plant	<u>1,166,468</u>
Total unrestricted net assets	1,862,105
Temporarily restricted	640,622
Permanently restricted	<u>935,902</u>
Total net assets	<u>3,438,629</u>
Total liabilities and net assets	<u><u>\$ 3,631,557</u></u>

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

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

CHANGE IN UNRESTRICTED NET ASSETS:

Revenues:

Tuition -	
Diocese of Brooklyn	\$ 243,750
Diocese of Rockville Centre	96,250
Other tuition	343,825
Less: financial grants	<u>(15,430)</u>
Net tuition	668,395
Contributed services	478,746
Special events	446,910
Outside activities	270,889
Rental income	150,984
Donations and gifts	136,129
Interest	61,743
Other income	26,529
Miscellaneous	17,615
Net assets released from restrictions	<u>89,318</u>
Total operating revenues	<u>2,347,258</u>

Expenses:

Program instruction	1,889,412
Student services	790,467
Institutional services	682,967
Academic support	669,644
Auxiliary services	<u>227,503</u>
Total operating expenses	<u>4,259,993</u>
Deficiency of revenues under expenses	(1,912,735)

Subsidies from Diocese of Rockville Centre

1,404,651

 Decrease in unrestricted net assets

(508,084)

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:

Donations and gifts	128,667
Interest	20,475
Net assets released from restrictions	<u>(89,318)</u>
Increase in temporarily restricted net assets	<u>59,824</u>

CHANGE IN PERMANENTLY RESTRICTED NET ASSETS:

Donations and gifts	<u>8,999</u>
Increase in permanently restricted net assets	<u>8,999</u>

CHANGE IN NET ASSETS

(439,261)

NET ASSETS, BEGINNING OF YEAR

3,877,890

NET ASSETS, END OF YEAR

\$ 3,438,629

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

THE SEMINARY OF THE IMMACULATE CONCEPTION
OF THE DIOCESE OF ROCKVILLE CENTRE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (439,261)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	479,878
Contributions permanently restricted for endowment	(8,999)
Decrease in accounts receivable - net	2,840
Decrease in due from related entities	208,491
Increase in pledge receivable	(100,000)
Increase in prepaid expenses and other assets	(10,395)
Decrease in accounts payable and accrued expenses	(18,704)
Increase in accrued vacation and sick pay	11,898
Increase in deferred revenue	<u>23,348</u>
Net cash provided by operating activities	<u>149,096</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(401,605)
Sale of investments	126,598
Purchase of property and equipment	<u>(144,181)</u>
Net cash used by investing activities	<u>(419,188)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Contributions permanently restricted for endowment	<u>8,999</u>
Net cash provided by financing activities	<u>8,999</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(261,093)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>306,818</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 45,725</u>

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

THE SEMINARY OF THE IMMACULATE CONCEPTION
OF THE DIOCESE OF ROCKVILLE CENTRE
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2006

(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 \$1,404,651 for the year ended August 31, 2006. The Diocese also provides other financial support in the forms of tuition payments, rental income, program fees and special events income.

(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 year ended August, 31, 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, 2006, 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.

Recently issued accounting pronouncements -

In March 2005, the Financial Accounting Standards Board ("FASB") 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 year ended August 31, 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 ended August 31, 2006.

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 statement 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.

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.

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.

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, 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, 2006:

Unrestricted accounts	\$ 71,128
Designated account	691,853
Temporarily restricted accounts	513,728
Permanently restricted accounts	<u>933,027</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 assets as of August 31, 2006:

		Life (in years)
Land	\$ 300,000	N/A
Building and building improvements	4,611,160	10-66
Furniture and equipment	1,595,237	3-10
Art collections	<u>138,055</u>	N/A
	6,644,452	
Less: accumulated depreciation and amortization	<u>5,477,984</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 year ended August 31, 2006 was \$78,284 for the noncontributory lay pension plan and \$30,950 for the noncontributory retirement plan for clergy.

(6) **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 \$131,000 for the year ended August 31, 2006. The Seminary incurred insurance premiums to the HIP of approximately \$243,000 for the year ended August 31, 2006.

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

(7) **Commitments**

The Seminary is obligated under various operating leases for equipment. Future minimum lease payments for all non-cancellable operating leases at August 31, 2006 are as follows:

Year ending August 31,

2007	\$	41,482
2008		21,713
2009		<u>21,354</u>
	\$	<u>84,549</u>

(8) **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.