

FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION TOGETHER WITH REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE SEMINARY OF THE IMMACULATE
CONCEPTION OF THE DIOCESE OF
ROCKVILLE CENTRE

For the years ended August 31, 2004 and 2003

Grant Thornton 

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Most Reverend William F. Murphy, S.T.D., L.H.D.
Bishop 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, 2004 and 2003, and the related statements of activities 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the Seminary's basic financial statements taken as a whole, as of and for the years ended August 31, 2004 and 2003. The supplementary information, included on pages 11 and 12, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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October 19, 2004

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The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

STATEMENTS OF FINANCIAL POSITION

As of August 31, 2004 and 2003

ASSETS	Unrestricted		Temporarily Restricted		Permanently Restricted		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Cash	\$ 80,297	\$ 290,610	\$ 43,466	\$ 58,450	\$ 1,325	\$ 30	\$ 125,088	\$ 349,090
Accounts receivable	138,100	30,444	-	-	-	-	138,100	30,444
Prepaid expenses	31,293	22,870	-	-	-	-	31,293	22,870
Investments, at fair value (Note C)	719,353	718,630	349,752	439,423	925,578	911,043	1,994,683	2,069,096
Property and equipment, net (Note D)	1,633,199	1,751,790	-	-	-	-	1,633,199	1,751,790
Total assets	<u>\$ 2,602,242</u>	<u>\$ 2,814,344</u>	<u>\$ 393,218</u>	<u>\$ 497,873</u>	<u>\$ 926,903</u>	<u>\$ 911,073</u>	<u>\$ 3,922,363</u>	<u>\$ 4,223,290</u>
LIABILITIES AND NET ASSETS								
Liabilities:								
Accounts payable and accrued expenses	\$ 112,924	\$ 86,076	\$ -	\$ -	\$ -	\$ -	\$ 112,924	\$ 86,076
Deferred revenue	36,066	192,856	-	-	-	-	36,066	192,856
Total liabilities	<u>148,990</u>	<u>278,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,990</u>	<u>278,932</u>
Net assets (Note B):								
Unrestricted:								
Operating	50,000	50,000	-	-	-	-	50,000	50,000
Auxiliary	50,700	14,992	-	-	-	-	50,700	14,992
Designated	719,353	718,630	-	-	-	-	719,353	718,630
Plant	1,633,199	1,751,790	-	-	-	-	1,633,199	1,751,790
Total unrestricted	<u>2,453,252</u>	<u>2,535,412</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,453,252</u>	<u>2,535,412</u>
Temporarily restricted	-	-	393,218	497,873	-	-	393,218	497,873
Permanently restricted	-	-	-	-	926,903	911,073	926,903	911,073
Total net assets	<u>2,453,252</u>	<u>2,535,412</u>	<u>393,218</u>	<u>497,873</u>	<u>926,903</u>	<u>911,073</u>	<u>3,773,373</u>	<u>3,944,358</u>
Total liabilities and net assets	<u>\$ 2,602,242</u>	<u>\$ 2,814,344</u>	<u>\$ 393,218</u>	<u>\$ 497,873</u>	<u>\$ 926,903</u>	<u>\$ 911,073</u>	<u>\$ 3,922,363</u>	<u>\$ 4,223,290</u>

The accompanying notes are an integral part of these statements.

The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

STATEMENTS OF ACTIVITIES

For the years ended August 31, 2004 and 2003

	Unrestricted						Total	
	Operating/ Auxiliary/Plant		Designated		Temporarily Restricted			Permanently Restricted
	2004	2003	2004	2003	2004	2003		
Revenues and other support:								
Diocesan support – Diocese of Rockville Centre (Note B)	\$ 1,420,616	\$ 1,459,146	\$ -	\$ -	\$ -	\$ -	\$ 1,420,616	
Seminar tuition income:								
Diocese of Brooklyn	256,500	218,500	-	-	-	-	256,500	
Diocese of Rockville Centre	101,750	75,540	-	-	-	-	101,750	
Religious orders	41,250	57,000	-	-	-	-	41,250	
Other tuition income	370,114	304,504	-	-	-	-	370,114	
Contributed services	513,473	520,051	-	-	-	-	513,473	
Donations and grants	111,050	114,135	-	37,262	16,005	16,005	158,078	
Investment income	43,316	53,351	723	845	-	-	55,776	
Rental income	117,305	79,500	-	11,737	-	-	117,305	
Other	547,020	425,568	-	-	-	-	547,020	
Auxiliary revenue	18,183	16,900	-	-	-	-	18,183	
Net assets released from restrictions	147,590	97,684	-	-	(97,684)	-	-	
Total revenues and other support	<u>3,688,167</u>	<u>3,421,879</u>	<u>723</u>	<u>(147,590)</u>	<u>(97,684)</u>	<u>15,830</u>	<u>3,600,065</u>	
Expenses:								
Instruction	1,894,855	1,736,608	-	-	-	-	1,894,855	
Academic support	554,513	497,586	-	-	-	-	554,513	
Student services	717,196	683,947	-	-	-	-	717,196	
Institutional support	426,988	426,354	-	-	-	-	426,988	
Auxiliary services	177,498	159,866	-	-	-	-	177,498	
Total expenses	<u>3,771,050</u>	<u>3,504,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,771,050</u>	
(Decrease) increase in net assets	(82,883)	(82,482)	723	(104,655)	(44,353)	15,830	(170,985)	
Net assets, beginning of year	1,816,782	1,899,264	718,630	497,873	542,226	911,073	3,944,358	
Net assets, end of year	<u>\$ 1,733,899</u>	<u>\$ 1,816,782</u>	<u>\$ 719,353</u>	<u>\$ 393,218</u>	<u>\$ 497,873</u>	<u>\$ 926,903</u>	<u>\$ 3,773,373</u>	

The accompanying notes 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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (170,985)	\$ (109,985)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	297,072	261,990
Contributions permanently restricted for endowment	(15,830)	(16,005)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(107,656)	107,767
(Increase) decrease in prepaid expenses	(8,423)	1,501
Increase (decrease) in accounts payable and accrued expenses	26,848	(174,466)
(Decrease) increase in deferred revenue	<u>(156,790)</u>	<u>115,024</u>
Net cash (used in) provided by operating activities	<u>(135,764)</u>	<u>185,826</u>
Cash flows from investing activities:		
Change in investments	74,413	33,962
Purchases of property and equipment	<u>(178,481)</u>	<u>(179,045)</u>
Net cash used in investing activities	<u>(104,068)</u>	<u>(145,083)</u>
Cash flows from financing activities:		
Contributions permanently restricted for endowment	<u>15,830</u>	<u>16,005</u>
Net cash provided by financing activities	<u>15,830</u>	<u>16,005</u>
(Decrease) increase in cash	(224,002)	56,748
Cash, beginning of year	<u>349,090</u>	<u>292,342</u>
Cash, end of year	<u>\$ 125,088</u>	<u>\$ 349,090</u>

The accompanying notes 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, 2004 and 2003

NOTE A - 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 classified as a 501(c)(3) organization and is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code and a similar provision of the New York State income tax laws.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. *Basis of Presentation*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. Accordingly, the Seminary's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions, as follows:

Unrestricted Net Assets - net assets that are not subject to donor-imposed restrictions. The Seminary's unrestricted net assets consist of the following:

Operating Net Assets - include all resources of the Seminary which are expendable for carrying out the Seminary's operations.

Auxiliary Net Assets - include funds used by the students and faculty of the Seminary to operate several extracurricular activities.

Designated Net Assets - In December 1990, a fire destroyed Rosemary Hall on the grounds of the Seminary. As a result of this fire, the Seminary received insurance proceeds of approximately \$689,000, which was net of insurance deductibles, costs of demolition and removal, and certain real estate expenses that the Diocese incurred on behalf of the Seminary. Such net proceeds were placed in a designated fund by the Most Rev. John R. McGann, Second Bishop of the Diocese of Rockville Centre and invested in the Diocesan Deposit and Loan Account (the "DLA") through May 2004, at which time the funds were transferred to the Unitas Investment Fund, Inc. ("Unitas").

The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

NOTES TO FINANCIAL STATEMENTS

August 31, 2004 and 2003

NOTE B (continued)

Based upon the established designations, one half of the principal in this fund is available for major capital needs, while the other half is available for purposes of education and formation, upon the approval of the current Ordinary of the Diocese of Rockville Centre. Income earned from such investments may be used by the Seminary for current operating expenses. Designated net assets also include other resources that have been set aside for specific purposes.

At August 31, 2004 and 2003, designated net assets consisted of the following:

	<u>2004</u>	<u>2003</u>
Fire insurance proceeds	\$ 691,853	\$ 691,853
Colbert Estate Fund	<u>27,500</u>	<u>26,777</u>
	<u>\$ 719,353</u>	<u>\$ 718,630</u>

Plant Net Assets - include the net carrying value of property and equipment owned by the Seminary.

Temporarily Restricted Net Assets – include funds that 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.

At August 31, 2004 and 2003, temporarily restricted net assets consisted of the following:

	<u>2004</u>	<u>2003</u>
Student Aid Funds	\$ 215,878	\$ 240,553
Library Tech	36,669	85,050
Lilly Endowment	18,848	43,560
Other	<u>121,823</u>	<u>128,710</u>
	<u>\$ 393,218</u>	<u>\$ 497,873</u>

The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

NOTES TO FINANCIAL STATEMENTS

August 31, 2004 and 2003

NOTE B (continued)

Permanently Restricted Net Assets – include funds whereby donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these funds is generally available for expenditures according to donor-imposed restrictions, if any.

At August 31, 2004 and 2003, permanently restricted net assets consisted of the following:

	<u>2004</u>	<u>2003</u>
Seminary Endowment	\$ 597,108	\$ 584,528
Don Monti Endowment	150,000	150,000
Msgr. Denzer Endowment	169,795	166,545
Virdone Endowment	<u>10,000</u>	<u>10,000</u>
	<u>\$ 926,903</u>	<u>\$ 911,073</u>

2. *Property and Equipment, net*

Property and equipment, net is stated at cost at date of acquisition or fair market value at date of contribution, if donated. The Seminary capitalizes building improvements and furniture and equipment with a value greater than \$5,000 and \$1,000, respectively, and a useful life greater than one year. Depreciation is recorded using the straight-line method based on estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings and improvements	10 - 66
Furniture and equipment	3 - 10

The Seminary does not depreciate art collections or library books.

3. *Diocesan Support*

The Seminary's activities are supported by subsidies from the Diocese of Rockville Centre, which totaled approximately \$1,421,000 and \$1,459,000 for the years ended August 31, 2004 and 2003, respectively. At August 31, 2004 and 2003, support due from the Diocese of Rockville Centre totaled \$65,115 and \$0, respectively, and is included as accounts receivable in the accompanying statements of financial position.

The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

NOTES TO FINANCIAL STATEMENTS

August 31, 2004 and 2003

NOTE B (continued)

4. *Tuition Income*

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

For the years ended August 31, 2004 and 2003, the Diocese of Brooklyn provided student tuition of \$19,000 for each student enrolled at the Seminary.

5. *Contributed Services*

Support arising from contributed services of certain personnel has been recognized in the accompanying financial statements. The amounts recorded represent the difference between stipends and other amounts paid to or on behalf of the religious personnel and comparable compensation which would be paid to lay persons, if lay persons were to occupy these positions.

6. *Outside Activities*

The Seminary's facilities are used for outside activities by religious entities and other not-for-profit entities throughout the year. The costs of food, salaries and operational expenses in connection with these activities, along with the related revenues, are reflected as other in the accompanying statements of activities.

7. *Functional Allocation of Expenses*

The costs of providing the various programs and other activities of the Seminary have been summarized on a functional basis in the accompanying schedules of functional allocation of expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

8. *Use of 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 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 reporting period. Actual results could differ from those estimates.

The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

NOTES TO FINANCIAL STATEMENTS

August 31, 2004 and 2003

NOTE B (continued)

9. *Redassifications*

Certain 2003 balances have been reclassified to conform with the 2004 presentation.

NOTE C - INVESTMENTS, AT FAIR VALUE

At August 31, 2004 and 2003, investments were carried at fair value and consisted of short-term funds. Investments for the year ended August 31, 2003 and the first three quarters of 2004, were comprised of approximately \$2,105,000 in the DLA, which was administered by the Administrative Offices of the Diocese of Rockville Centre and earned interest at a rate of 75% of prime, adjusted quarterly. Beginning on June 2004, the Seminary transferred its balances from the DLA to Unitas. Unitas is a separately incorporated, non-regulated investment fund organized and operated exclusively for religious, charitable and educational purposes.

NOTE D - PROPERTY AND EQUIPMENT, NET

At August 31, 2004 and 2003, Property and equipment, net consisted of the following:

	<u>2004</u>	<u>2003</u>
Land	\$ 300,000	\$ 300,000
Buildings and improvements	4,707,086	4,624,337
Furniture and equipment	1,943,246	1,847,514
Art collection	138,055	138,055
Library books	<u>474,804</u>	<u>474,804</u>
	7,563,191	7,384,710
Less: Accumulated depreciation	<u>(5,929,992)</u>	<u>(5,632,920)</u>
	<u>\$ 1,633,199</u>	<u>\$ 1,751,790</u>

The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

NOTES TO FINANCIAL STATEMENTS

August 31, 2004 and 2003

NOTE E - PENSION AND RETIREMENT PLANS

The Seminary is a participant in the noncontributory lay pension plan established by the Diocese of Rockville Centre, covering employees who meet certain minimum service requirements. The Seminary also participates 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 Seminary standing alone. In addition, because the plans are considered multi-employer plans, they are only subject to certain minimum reporting requirements of Statement of Financial Accounting Standards ("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, 2004 and 2003, approximated \$64,000 and \$42,000, respectively, for the noncontributory lay pension plan, and \$25,900 and \$23,500, respectively, for the noncontributory retirement plan for clergy.

SUPPLEMENTARY INFORMATION

The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

SCHEDULE OF FUNCTIONAL ALLOCATION OF EXPENSES

For the year ended August 31, 2004

	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary Services	Total
Salaries, including contributed services	\$ 993,076	\$ 196,685	\$ 315,999	\$ 256,228	\$ 24,983	\$ 1,786,971
Food	105,491	17,555	13,121	14,359	42,770	193,296
Faculty and program expenses	-	25,031	37,417	22,333	-	84,781
Utilities	127,847	11,068	45,580	6,267	16,409	207,171
Telephone	509	2,467	1,819	10,554	65	15,414
Insurance	72,540	6,280	20,218	3,556	9,310	111,904
Benefits - faculty	137,973	-	-	-	-	137,973
Employee benefits - laity	45,541	39,056	53,474	28,311	5,845	172,227
Outside activities cost	-	-	-	-	27,534	27,534
Payroll taxes - laity	24,930	20,846	33,273	17,894	2,633	99,576
Pension plan contribution - laity	18,622	9,724	19,669	14,387	1,882	64,284
Repairs and maintenance	167,104	13,962	44,949	15,500	20,699	262,214
Supplies	27,240	52,213	51,272	8,569	3,079	142,373
Continuing Education Tuition	33,649	-	-	-	-	33,649
Professional fees	29,415	-	9,310	10,449	-	49,174
Postage, stationary, and printing	-	26,164	-	10,167	-	36,331
Student aid	-	-	36,779	-	-	36,779
Miscellaneous	114	2,045	1,101	-	16	3,276
Fundraising	-	-	-	1,000	-	1,000
Auxiliary expenses	-	-	-	-	8,051	8,051
Depreciation expense	110,804	131,417	33,215	7,414	14,222	297,072
	<u>\$ 1,894,855</u>	<u>\$ 554,513</u>	<u>\$ 717,196</u>	<u>\$ 426,988</u>	<u>\$ 177,498</u>	<u>\$ 3,771,050</u>

This schedule should be read in conjunction with the accompanying financial statements and notes thereto.

The Seminary of the Immaculate Conception
of the Diocese of Rockville Centre

SCHEDULE OF FUNCTIONAL ALLOCATION OF EXPENSES

For the year ended August 31, 2003

	Instruction	Academic Support	Student Services	Institutional Support	Auxiliary Services	Total
Salaries, including contributed services	\$ 977,025	\$ 186,202	\$ 335,206	\$ 265,267	\$ 26,101	\$ 1,789,801
Food	89,048	14,424	11,076	11,161	37,459	163,168
Faculty and program expenses	-	18,314	25,901	22,240	-	66,455
Utilities	144,755	12,532	47,881	7,095	18,579	230,842
Telephone	282	1,172	79	12,197	36	13,766
Insurance	61,937	5,362	17,263	3,036	7,949	95,547
Benefits - faculty	119,684	-	-	-	-	119,684
Employee benefits - laity	39,905	22,172	51,097	27,396	5,122	145,692
Outside activities costs	-	-	-	-	9,384	9,384
Payroll taxes - laity	25,655	21,177	33,207	15,557	2,628	98,224
Pension plan contribution - laity	12,446	6,552	11,391	10,179	1,322	41,890
Repairs and maintenance	137,366	11,673	37,582	15,351	17,306	219,278
Supplies	18,366	55,878	52,147	11,092	2,078	139,561
Continuing Education Tuition	55	-	-	-	-	55
Professional fees	2,850	-	8,140	12,704	-	23,694
Postage, stationery and printing	-	33,282	-	7,823	-	41,105
Student aid	-	-	20,231	-	-	20,231
Miscellaneous	607	3,279	1,861	30	78	5,855
Auxiliary expenses	-	-	-	-	18,139	18,139
Depreciation expense	106,627	105,567	30,885	5,226	13,685	261,990
	<u>\$ 1,736,608</u>	<u>\$ 497,586</u>	<u>\$ 683,947</u>	<u>\$ 426,354</u>	<u>\$ 159,866</u>	<u>\$ 3,504,361</u>

This schedule should be read in conjunction with the accompanying financial statements and notes thereto.