

NORTHEASTERN SEMINARY

**Financial Statements
as of June 30, 2010
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

September 30, 2010

To the Board of Trustees of
Northeastern Seminary:

We have audited the accompanying statement of financial position of Northeastern Seminary (a New York not-for-profit corporation) (the Seminary) as of June 30, 2010, and the related statements of activities and change 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. The prior year summarized comparative information has been derived from the Seminary's 2009 financial statements, and in our report dated September 18, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Northeastern Seminary as of June 30, 2010, and the change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010, on our consideration of the Seminary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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NORTHEASTERN SEMINARY

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 802,063	\$ 378,585
Accounts receivable, net	91,023	69,085
Pledges receivable, net	1,282,970	1,275,064
Investments	1,612,479	1,337,777
Property and equipment, net	1,326,146	1,330,593
Contribution receivable from split-interest agreements	<u>37,488</u>	<u>46,146</u>
Total assets	<u>\$ 5,152,169</u>	<u>\$ 4,437,250</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Student refunds	\$ 88,696	\$ 81,408
Accrued payroll and compensated absences	17,068	14,961
Deferred revenue and deposits	4,300	6,926
Note payable to Roberts Wesleyan College	552,500	595,000
Due to Roberts Wesleyan College	<u>675,739</u>	<u>613,179</u>
Total liabilities	<u>1,338,303</u>	<u>1,311,474</u>
NET ASSETS:		
Unrestricted	1,173,134	1,183,476
Temporarily restricted	107,759	6,957
Permanently restricted	<u>2,532,973</u>	<u>1,935,343</u>
Total net assets	<u>3,813,866</u>	<u>3,125,776</u>
Total liabilities and net assets	<u>\$ 5,152,169</u>	<u>\$ 4,437,250</u>

The accompanying notes are an integral part of these statements.

NORTHEASTERN SEMINARY

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

(With Comparative Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES:				
Tuition and fees	\$ 880,647	-	\$ -	\$ 880,647
Less: Institutional student aid	(186,254)	-	-	(186,254)
Net tuition and fees	694,393	-	-	707,881
Private gifts and contracts	242,598	111,935	-	354,533
Contribution from Roberts Wesleyan College	242,500	-	-	242,500
Investment income allocation	79,447	-	-	71,158
Other	69,222	-	-	69,205
Total operating revenues	1,328,160	111,935	-	1,440,095
Net assets released from restrictions	11,935	(11,935)	-	-
Net operating revenues	1,340,095	100,000	-	1,440,095
OPERATING EXPENSES:				
Educational and general -				
Instruction	573,928	-	-	573,928
Academic support	66,754	-	-	66,754
Student services	164,734	-	-	164,734
Institutional support	504,015	-	-	504,015
Fundraising	35,100	-	-	35,209
Total operating expenses	1,344,531	-	-	1,295,681
NET INCOME (DEFICIT) FROM OPERATING ACTIVITIES	(4,436)	100,000	-	(71,657)
NON-OPERATING ACTIVITIES:				
Private gifts and contracts	7,248	-	596,900	76,054
Investment loss, net of allocation to operating activities	(13,154)	-	-	(286,777)
Change in value of split interest agreements	-	802	730	(8,015)
INCREASE (DECREASE) FROM NON-OPERATING ACTIVITIES	(5,906)	802	597,630	(218,738)
CHANGE IN NET ASSETS	(10,342)	100,802	597,630	(290,395)
NET ASSETS - beginning of year	1,183,476	6,957	1,935,343	3,416,171
NET ASSETS - end of year	\$ 1,173,134	\$ 107,759	\$ 2,532,973	\$ 3,125,776

The accompanying notes are an integral part of these statements.

NORTHEASTERN SEMINARY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2010 (With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 688,090	\$ (290,395)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Bad debt expense	12,526	10,182
(Gain) loss on investments, net	(22,233)	257,692
Depreciation	55,682	54,255
Discount on pledge receivables	(67,906)	(63,164)
Contributions received for long-term investment	(596,900)	(75,816)
Change in the value of split-interest agreements	8,658	8,015
Forgiveness of note payable to Roberts Wesleyan College	(42,500)	(42,500)
Changes in:		
Accounts receivable, net	(34,464)	33,085
Pledges receivable, net	60,000	155,000
Student refunds	7,288	(12,701)
Accrued payroll and compensated absences	2,107	6,756
Deferred revenue and deposits	(2,626)	5,380
Due to Roberts Wesleyan College	<u>62,560</u>	<u>116,502</u>
Net cash flow from operating activities	<u>130,282</u>	<u>162,291</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,893,275)	(562,200)
Proceeds from sale of investments	2,640,806	470,000
Purchases of property and equipment	<u>(51,235)</u>	<u>(34,542)</u>
Net cash flow from investing activities	<u>(303,704)</u>	<u>(126,742)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Contributions received for long-term investment	<u>596,900</u>	<u>75,816</u>
Net cash flow from financing activities	<u>596,900</u>	<u>75,816</u>
CHANGE IN CASH AND CASH EQUIVALENTS	423,478	111,365
CASH AND CASH EQUIVALENTS - beginning of year	<u>378,585</u>	<u>267,220</u>
CASH AND CASH EQUIVALENTS - end of year	<u><u>\$ 802,063</u></u>	<u><u>\$ 378,585</u></u>

The accompanying notes are an integral part of these statements.

NORTHEASTERN SEMINARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

1. THE ORGANIZATION

Northeastern Seminary (the Seminary) is an independent, co-educational graduate school of theology whose charter was issued by the University of the State of New York on July 17, 1998. The Seminary is located on the campus of Roberts Wesleyan College (the College), but is a separate legal organization with its own self-perpetuating Board of Trustees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Seminary's financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting

The Seminary classifies its activities into the following net asset categories:

- **Unrestricted Net Assets**

Unrestricted net assets are available for use to support the operations of the Seminary and include the Seminary's net investment in property and equipment.

- **Temporarily Restricted Net Assets**

Temporarily restricted net assets are those assets whose use by the Seminary has been limited by donors to a specific time or purpose restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as unrestricted.

- **Permanently Restricted Net Assets**

Permanently restricted net assets are those assets that have been restricted by donors to be maintained by the Seminary in perpetuity.

Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand and in banks, which, at times, may exceed federally insured limits. The Seminary considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Seminary has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

Accounts Receivable

Accounts receivable represents amounts due from students related to tuition and fees. The Seminary records an allowance for doubtful accounts based on prior collection experience and a review of specific amounts outstanding. Accounts for which no payments are received for a period of time, which varies by the nature of the receivable, are considered delinquent and written-off or sent to collections, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable represent private support due to the Seminary under the terms of unconditional promises to give. These amounts are recorded as revenue upon receipt of the unconditional promise to give. Pledge payments scheduled for receipt after June 30, 2011, are recorded at their estimated net present value. The Seminary records an allowance for uncollectible pledges based on prior collection experience and a review of specific pledges outstanding.

Investments

Equity and fixed income investments are stated at fair market value based on quoted market prices. The investment in corporation is stated at cost. Unrealized gains or losses on investments result from differences between the cost and fair market value of investments on a specified valuation date.

Investment securities are exposed to various risks, such as interest rate, market, economic conditions, world affairs, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Endowment

The Seminary's endowment consists of 18 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The governing board of the Seminary has interpreted the applicable provisions of New York Not-for-Profit Corporation Law to mean that the classification of appreciation on permanently restricted endowment gifts, beyond the original gift amount, follows the donor's restrictions on the use of the related income (interest and dividends).

Fair Value Measurement - Definition and Hierarchy

The Seminary uses various valuation techniques in determining fair value. ASC Section 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Seminary. Unobservable inputs are inputs that reflect the Seminary's assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement - Definition and Hierarchy (Continued)

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Seminary has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Seminary in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Property and Equipment

Property and equipment is stated at cost or, in the case of gifts, at fair value at the date of donation. Expenditures for maintenance, repairs, and renewals of relatively minor items are not capitalized. The Seminary's policy is to capitalize purchases greater than \$10,000. Impairment losses are recognized when the carrying value of an asset exceeds its fair value. The Seminary regularly assesses all of its long-lived assets for impairment and recognizes impairment losses in the period the loss occurs. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Such assets and lives are generally as follows:

Buildings and building improvements	25 - 50 years
Furniture, fixtures, library books, and equipment	3 - 20 years

Split-Interest Agreements

The Seminary is the trustee, custodian and beneficiary of various charitable gift annuities. The Seminary's beneficial interest is valued using the present value of the Seminary's percentage of fair market value based on anticipated annuity payments, estimated mortality rates and discount rates.

Student Refunds

Student refunds represent student tuition payments and aid received in excess of tuition billed to students.

Deferred Revenue and Deposits

Deferred revenue and deposits represent cash received in excess of revenue entitlements or in advance of service provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating and Non-Operating Investment Income

Certain private gifts and contracts and investment related income items are segregated by management as operating or non-operating revenues. Generally, gifts which support the annual scholarship activity of the Seminary are classified as operating. With regards to investment income, the Seminary annually allocates up to 5% of its endowment funds' fair market value to operations to fund scholarships. Private gifts and contracts designated for capital purposes are classified as non-operating. Endowment and other restricted investment income or loss is recorded in non-operating activity and is reported net of activity allocated to fund current operations.

Income Taxes

The Seminary is a not-for-profit corporation exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The Seminary has also been classified as an organization that is not a private foundation.

The Seminary has adopted ASC Section 740, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. ASC Section 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. The Seminary adopted the provisions of ASC Section 740 on July 1, 2009 and there was no impact on the consolidated financial statements. At the date of adoption and as of June 30, 2010, the Seminary did not have a liability for unrecognized tax benefits. The Seminary files tax returns in the U.S. federal jurisdiction. The Seminary is no longer subject to U.S. federal tax examinations by tax authorities for years through 2006.

Advertising

Advertising costs are expensed as incurred. For the years ended June 30, 2010 and 2009, advertising costs were \$63,837 and \$32,220, respectively.

Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Seminary's financial statements for the year ended June 30, 2009, from which the summarized information was obtained.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. RECEIVABLES

Accounts Receivable

The allowance for doubtful accounts related to accounts receivable was \$62,197 and \$64,525 at June 30, 2010 and 2009, respectively.

Pledges Receivable

Pledges receivable are scheduled for payment as follows for the years ending June 30:

2011	\$	250,000
2012		150,000
2013		150,000
2014		150,000
2015		150,000
Thereafter		<u>792,262</u>
		1,642,262
Less: Unamortized pledge discount		<u>(359,292)</u>
	\$	<u>1,282,970</u>

4. INVESTMENTS

The cost and fair value of investments were as follows at June 30:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 10,808	\$ 10,808	\$ 473,391	\$ 473,391
Fixed income	975,254	1,000,063	469,065	482,592
Equities	381,796	336,002	139,349	277,295
Closely held stock	<u>265,606</u>	<u>265,606</u>	<u>104,499</u>	<u>104,499</u>
	<u>\$ 1,633,464</u>	<u>\$ 1,612,479</u>	<u>\$ 1,186,304</u>	<u>\$ 1,337,777</u>

Closely held stock is stated at cost.

Investment income consisted of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 47,627	41,603
Realized losses, net	(383,328)	(282,790)
Unrealized gains, net	<u>401,994</u>	<u>25,568</u>
	66,293	(215,619)
Investment income (loss) allocated to operating activities	<u>(79,447)</u>	<u>(71,158)</u>
Investment income (loss) allocated to non-operating activities	<u>\$ (13,154)</u>	<u>\$ (286,777)</u>

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Seminary's financial instruments include cash and cash equivalents and investments.

The following are measured at fair value on a recurring basis as of June 30, 2010:

<u>Description</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Fixed Income	\$ 1,000,063	\$ -	\$ -	\$ 1,000,063
Equities	336,002	-	-	336,002
Contribution receivable from split-interest agreements	<u>-</u>	<u>-</u>	<u>37,488</u>	<u>37,488</u>
Total	<u>\$ 1,336,065</u>	<u>\$ -</u>	<u>\$ 37,488</u>	<u>\$ 1,373,553</u>

The following are measured at fair value on a recurring basis as of June 30, 2009:

<u>Description</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Fixed Income	\$ 482,592	\$ -	\$ -	\$ 482,592
Equities	277,295	-	-	277,295
Contribution receivable from split-interest agreements	<u>-</u>	<u>-</u>	<u>46,146</u>	<u>46,146</u>
Total	<u>\$ 759,887</u>	<u>\$ -</u>	<u>\$ 46,146</u>	<u>\$ 806,033</u>

The following is a reconciliation of the beginning and ending balances for the Seminary's assets at fair value on a recurring basis using significant unobservable inputs (Level 3):

<u>Description:</u>	<u>Contributions Receivable from Split- Interest Agreements</u>
Balance at June 30, 2008	\$ 54,161
Loss on contribution receivable from split-interest agreements, net	<u>(8,015)</u>
Balance at June 30, 2009	46,146
Loss on contribution receivable from split-interest agreements, net	<u>(8,658)</u>
Balance at June 30, 2010	<u>\$ 37,488</u>

6. ENDOWMENTS

Endowment Net Asset Composition by Type of Fund as of June 30, 2010:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 2,532,973	\$ 2,532,973
Board designated endowment funds	<u>796,805</u>	<u>-</u>	<u>796,805</u>
Total funds	<u>\$ 796,805</u>	<u>\$ 2,532,973</u>	<u>\$ 3,329,778</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2009:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 1,935,343	\$ 1,935,343
Board designated endowment funds	<u>814,173</u>	<u>-</u>	<u>814,173</u>
Total funds	<u>\$ 814,173</u>	<u>\$ 1,935,343</u>	<u>\$ 2,749,516</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at June 30, 2009	\$ 814,173	\$ 1,935,343	\$ 2,749,516
Change in value of split interest agreements	-	730	730
Net depreciation (realized and unrealized)	57,586	-	57,586
Contributions	-	596,900	596,900
Appropriation of endowment assets for expenditure	<u>(74,954)</u>	<u>-</u>	<u>(74,954)</u>
Balance at June 30, 2010	<u>\$ 796,805</u>	<u>\$ 2,532,973</u>	<u>\$ 3,329,778</u>

6. ENDOWMENTS (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at June 30, 2008	\$ 185,827	\$ 2,837,990	\$ 3,023,817
Change in value of split interest agreements	-	(2,038)	(2,038)
Net depreciation (realized and unrealized)	(218,258)	-	(218,258)
Contributions	-	75,816	75,816
Appropriation of endowment assets for expenditure	(68,718)	-	(68,718)
Release of restriction	1,000,000	(1,000,000)	-
Reclassification of net assets	<u>(84,678)</u>	<u>23,575</u>	<u>(61,103)</u>
Balance at June 30, 2009	<u>\$ 814,173</u>	<u>\$ 1,935,343</u>	<u>\$ 2,749,516</u>

During 2009, the Seminary obtained approval from the donor to release previously permanently restricted net assets into operations amounting to \$1,000,000.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by New York Not-for-Profit Corporation Law. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$4,700 as of June 30, 2010.

Return Objectives and Risk Parameters

The Seminary's primary investment objective for the endowment assets is to earn a total return (net of fees), within prudent levels of risk, which is sufficient to maintain, in real terms, the purchasing power of these assets and support the defined spending policy. The Seminary expects its endowment funds, over time, to provide an average long-term rate of return of approximately 9-10% annually. Actual returns in any given year may vary from this amount.

Interpretation of Relevant Law

The governing board of the Seminary has interpreted the applicable provisions of New York Not-for-Profit Corporation Law to mean that the classification of appreciation on permanently restricted endowment gifts, beyond the original gift amount, follows the donor's restrictions on the use of the related income (interest and dividends).

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Seminary relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Seminary targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending

The long-term objective of the spending guidelines is to maintain the purchasing power of the long-term fund with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current operations. The Board has approved an annual spending rate up to five percent (5%). The rate is based on 3-year average of the net assets in the endowment and quasi endowment portions of the long-term fund.

7. PROPERTY AND EQUIPMENT

The major classifications of property and equipment were as follows at June 30:

	<u>2010</u>	<u>2009</u>
Buildings and building improvements	\$ 1,265,909	\$ 1,265,909
Furniture, fixtures, and equipment	174,581	156,950
Library books	<u>298,428</u>	<u>264,824</u>
	1,738,918	1,687,683
Less: Accumulated depreciation	<u>(412,772)</u>	<u>(357,090)</u>
	<u>\$ 1,326,146</u>	<u>\$ 1,330,593</u>

8. FUNCTIONAL EXPENSES

Functional expenses consisted of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Program services	\$ 805,416	\$ 756,170
Management and general	504,015	504,302
Fundraising	<u>35,100</u>	<u>35,209</u>
	<u>\$ 1,344,531</u>	<u>\$ 1,295,681</u>

9. RETIREMENT PLANS

All of the Seminary's personnel are considered employees of the College for benefit purposes with related expenses charged to the Seminary. These employees are eligible to participate in a 403(b) contributory retirement plan under arrangements with the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA/CREF) and Fidelity Investments. Seminary contributions are made in an amount equal to employee contributions, but not exceeding 5% of the respective employees' annual gross income. Total expense recognized by the Seminary related to the plan was \$25,930 and \$25,668 in 2010 and 2009, respectively.

The College also sponsors a 457(b) deferred compensation plan for eligible employees. The Seminary does not contribute to this plan.

10. NET ASSETS

The College's net assets are comprised of the following at June 30:

Temporarily Restricted	<u>2010</u>	<u>2009</u>
Time restriction	\$ 100,000	\$ -
Annuities	<u>7,759</u>	<u>6,957</u>
Total temporarily restricted net assets	<u>\$ 107,759</u>	<u>\$ 6,957</u>
Permanently Restricted	<u>2010</u>	<u>2009</u>
Permanently restricted endowment principal	\$ 2,503,245	\$ 1,901,068
Annuities	<u>29,728</u>	<u>34,275</u>
Total permanently restricted net assets	<u>\$ 2,532,973</u>	<u>\$ 1,935,343</u>

Temporarily restricted net assets were released as follows at June 30:

	<u>2010</u>	<u>2009</u>
Operations	<u>\$ 11,935</u>	<u>\$ 29,242</u>
	<u>\$ 11,935</u>	<u>\$ 29,242</u>

11. ROBERTS WESLEYAN COLLEGE

Roberts Wesleyan College is an independent, co-educational, Christian liberal arts college. Roberts Wesleyan College is considered a related party to the Seminary as both share some common members of the Board of Trustees and members of management.

At June 30, 2010 and 2009, the Seminary had amounts due to the College of \$675,739 and \$613,179, respectively, related to operating expenses paid by the College on the Seminary's behalf.

The College and the Seminary have entered into an annually renewable lease agreement for grounds. The lease agreement requires the Seminary to pay rent of \$10,000 a year, which was subject to price index adjustments beginning in July 2004. In 2010, rent payments totaled \$11,616.

In fiscal 2003, the College and the Seminary entered into a one-year renewable operating lease for classrooms in Roberts Hall. Under the agreement, the College pays the Seminary approximately \$65,000 annually in equal monthly installments.

On February 8, 2003, the College entered into a Note Agreement (the Note) with the Seminary. The Note was entered into to reflect certain costs related to funding the Seminary's Capital Campaign and for the completion of the remodeling of the Seminary's Roberts Hall. The note bears interest at the 90 day U.S. Treasury Bill rate (.18% at June 30, 2010). The payments due in 2010 and 2009 were forgiven in the form of a contribution from the College.

11. ROBERTS WESLEYAN COLLEGE (Continued)

The note is payable by the Seminary in yearly payments noted below:

2011	\$	42,500
2012		42,500
2013		42,500
2014		42,500
2015		42,500
Thereafter		<u>340,000</u>
	\$	<u>552,500</u>

In both 2010 and 2009, the Seminary received a contribution from the College in the amount of \$200,000 for operating purposes and \$42,500 for the forgiveness of required principal and interest payments relating to the note payable to the College.

12. COMMITMENTS

Asset Retirement Obligations

Generally accepted accounting principles require that conditional asset retirement obligations meet the definition of liabilities and should be recognized when incurred if their fair values can be reasonably estimated. As of June 30, 2010, the Seminary had determined that no significant conditional asset retirement obligations existed. This determination was based on the Seminary's assessment of expected renovations to affected buildings. Because these conditional obligations have indeterminate settlement dates, the Seminary could not develop a reasonable estimate of their fair values. The Seminary will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available.

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 30, 2010, which is the date the financial statements were available to be issued.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 30, 2010

To the Board of Trustees of
Northeastern Seminary:

We have audited the financial statements of Northeastern Seminary (the Seminary) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Seminary's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Seminary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Seminary in a separate letter dated October 2010.

This report is intended solely for the information and use of the Seminary's Board of Trustees, management, others within the Seminary, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP