

COMBINED FINANCIAL STATEMENTS TOGETHER WITH
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, N.Y.**

August 31, 2008

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Most Reverend Nicholas DiMarzio, Ph.D., D.D.
Bishop of Brooklyn:

We have audited the accompanying combined statement of financial position of the Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y. ("Diocesan Central Funds") as of August 31, 2008, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the Diocesan Central Funds' management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by 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 Diocesan Central Funds' 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Diocesan Central Funds as of August 31, 2008, and the changes in their combined net assets and their combined cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
November 14, 2008

Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y.

COMBINED STATEMENT OF FINANCIAL POSITION

As of August 31, 2008

ASSETS

Cash and cash equivalents	\$ 1,085,630
Accounts, notes and other receivables, net (Note 5)	2,776,120
Investments, at fair value (Note 3)	25,956,099
Assets held in trust (Note 7)	8,747,211
Other assets (Note 6)	4,084,512
Land, buildings, furniture and equipment, net (Note 4)	<u>28,073,831</u>
Total assets	<u>\$ 70,723,403</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 3,868,639
Medical fund claims reserve	980,635
Conditional asset retirement obligation (Note 13)	<u>815,421</u>
Total liabilities	<u>5,664,695</u>
Net assets	
Unrestricted:	
Available for operations	17,488,317
Designated (Note 10)	<u>30,686,089</u>
Total unrestricted	48,174,406
Temporarily restricted (Note 9)	8,137,091
Permanently restricted (Note 9)	<u>8,747,211</u>
Total net assets	<u>65,058,708</u>
Total liabilities and net assets	<u>\$ 70,723,403</u>

The accompanying notes are an integral part of this combined statement.

Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y.

COMBINED STATEMENT OF ACTIVITIES

For the year ended August 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues gains and other:				
Net Diocesan assessments (Note 2)	\$ 5,327,890	\$ -	\$ -	\$ 5,327,890
Diocesan Annual Catholic Appeal (Note 2)	-	10,179,156	-	10,179,156
Cemetery contribution	4,000,000	-	-	4,000,000
Contributions and bequests	729,071	566,067	-	1,295,138
Investment income	175,571	-	-	175,571
Trust income (Note 7)	463,117	-	-	463,117
Gain on sale of property	3,838,269	-	-	3,838,269
Service fees and rental income	1,747,474	-	-	1,747,474
Recovery of prior year's receivables reserved	2,076,932	-	-	2,076,932
Grants	2,149,385	-	-	2,149,385
Other	<u>1,937,916</u>	<u>-</u>	<u>-</u>	<u>1,937,916</u>
Total	22,445,625	10,745,223	-	33,190,848
Net assets released from restrictions (Note 9)	<u>12,029,373</u>	<u>(12,029,373)</u>	<u>-</u>	<u>-</u>
Total revenues gains and other	<u>34,474,998</u>	<u>(1,284,150)</u>	<u>-</u>	<u>33,190,848</u>
Expenses:				
Programs:				
Pastoral education and ministerial services	17,961,552	-	-	17,961,552
Diocesan assistance	7,426,585	-	-	7,426,585
Parishes' share of Annual Catholic Appeal	3,061,154	-	-	3,061,154
Appeal payments to the tablet	458,333	-	-	458,333
Supporting services - administration	<u>13,189,302</u>	<u>-</u>	<u>-</u>	<u>13,189,302</u>
Total expenses	<u>42,096,926</u>	<u>-</u>	<u>-</u>	<u>42,096,926</u>
Diocesan loss	<u>(7,621,928)</u>	<u>(1,284,150)</u>	<u>-</u>	<u>(8,906,078)</u>
Medical fund results	<u>(498,441)</u>	<u>-</u>	<u>-</u>	<u>(498,441)</u>
Net loss on assets held in trust	<u>-</u>	<u>-</u>	<u>(1,078,004)</u>	<u>(1,078,004)</u>
Change in net assets before adjustment and transfers	<u>(8,120,369)</u>	<u>(1,284,150)</u>	<u>(1,078,004)</u>	<u>(10,482,523)</u>
Adjustment to Conditional Asset Retirement Obligation due to sale of properties (Note 13)	133,229	-	-	133,229
Transfer of Home Mission	(1,240,016)	-	-	(1,240,016)
Transfer of Peter Turner Insurance Company	(7,481,025)	-	-	(7,481,025)
Transfer of Medical Trust	<u>(3,000,000)</u>	<u>-</u>	<u>-</u>	<u>(3,000,000)</u>
Change in net assets	<u>(19,708,181)</u>	<u>(1,284,150)</u>	<u>(1,078,004)</u>	<u>(22,070,335)</u>
Net assets, beginning of year	<u>67,882,587</u>	<u>9,421,241</u>	<u>9,825,215</u>	<u>87,129,043</u>
Net assets, end of year	<u>\$ 48,174,406</u>	<u>\$ 8,137,091</u>	<u>\$ 8,747,211</u>	<u>\$ 65,058,708</u>

The accompanying notes are an integral part of this combined statement.

Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y.

COMBINED STATEMENT OF CASH FLOWS

For the year ended August 31, 2008

Cash flows from operating activities:	
Change in net assets	\$ (22,070,335)
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Depreciation	1,731,539
Gain on sale of fixed assets	(3,838,269)
Net (appreciation) decline in fair value of investments	1,340,069
Changes in assets and liabilities:	
Decrease in accounts, notes and other receivables, net	2,283,286
Decrease in other assets	6,490,665
Decrease in accounts payable and accrued expenses	(1,046,895)
Decrease in medical fund claims reserve	(1,019,365)
Decrease in amounts held for others	(13,368)
Decrease in conditional asset retirement obligation	<u>(101,999)</u>
Net cash used in operating activities	<u>(16,244,672)</u>
Cash flows from investing activities:	
Acquisition of fixed assets	(2,206,432)
Disposition of fixed assets	4,480,159
Proceeds from the sale of investments	11,563,087
Purchases of investments	<u>(849,146)</u>
Net cash provided by investing activities	<u>12,987,668</u>
Cash flows from financing activities	
Decrease in assets held for trust	<u>1,078,004</u>
Net decrease in cash and cash equivalents	(2,179,000)
Cash and cash equivalents, beginning of year	<u>3,264,630</u>
Cash and cash equivalents, end of year	<u>\$ 1,085,630</u>

The accompanying notes are an integral part of this combined statement.

Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y.

NOTES TO COMBINED FINANCIAL STATEMENTS

For the year ended August 31, 2008

1. ORGANIZATION

The combined financial statements of Diocesan Central Funds of the Roman Catholic Diocese of Brooklyn, New York (the "Diocesan Central Funds") include the following entities and programs:

Departments and Programs

Archivist Office	Office of the Bishop
Auxiliary Bishops	Office of the Chancellor
Bishop's Residence	Office of the Vicar General
Campus Ministry	Pastoral Communications
Catholic Migration	Permanent Diaconate Program
Cursillos Center	Presbyteral Council
Development Office	Priests' Personnel Office
Diocesan Commission of Ecumenism	Public Information Office
Diocesan Accounting Office	Real Estate
Episcopal Delegate for the Religious	Superintendent of Schools
Episcopal Vicars	Vicar for Evangelization
Faith Formation	Vicar for Senior Priests
Immaculate Conception Center Operations	Vicar General for Temporalities
Liturgical Commission	Vocation Office

The Roman Catholic Diocese of Brooklyn, N.Y., including the Central Funds, is exempt from Federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision or benefit for Federal income tax has been recorded in the accompanying combined financial statements. The Roman Catholic Diocese of Brooklyn, N.Y. has received a favorable determination letter from the Internal Revenue Service indicating that it qualifies for tax-exempt status. It is also exempt from New York income taxes under related state provisions.

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation - Revenues, expenses, gains and losses are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Diocesan Central Funds and changes therein are classified and reported as follows:

Unrestricted - includes net assets that are not subject to donor-imposed restrictions and may be expended for any purposes in performing the primary objectives of the Diocesan Central Funds.

Temporarily Restricted - includes net assets that are subject to donor-imposed restrictions that will be met either by actions of Diocesan Central Funds or the passage of time.

Permanently Restricted - includes net assets that are subject to donor-imposed restrictions that they be maintained in perpetuity by Diocesan Central Funds. Generally, the donors of these assets permit Diocesan Central Funds to use all or part of the income and gains earned on related investments for general or specific purposes.

When donor-imposed restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions. For those temporarily restricted gifts whose restrictions are met within the same fiscal year, the Diocesan Central Funds initially records them in temporarily restricted net assets and then releases them in the same year.

Cash Equivalents - For purposes of the combined statement of cash flows, Diocesan Central Funds considers all highly liquid debt instruments with an original maturity of three months or less from the date of the purchase to be cash equivalents, with the exception of cash and short-term investments managed by Diocesan Central Funds' investment managers for long-term investment purposes.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value with gains and losses included in the accompanying combined statement of activities.

Land, Buildings, Furniture and Equipment - Land and buildings are valued at cost, if acquired since January 1, 1972; otherwise, they are valued at assessed valuation for 1972 and include properties owned by the Diocese that are utilized by various Diocesan entities.

Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y.

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2008

Depreciation is computed using the straight-line method over the estimated service lives of the related assets (50 years for buildings; 25 years for building improvements; 10 years for furniture; and 5 years for equipment). Depreciation was taken on assets in the year they were acquired using the half-year convention.

Net Diocesan Assessments and Net Annual Catholic Appeal - Net assessments on parishes are reported net of allowances that total \$645,810 for the year ended August 31, 2008.

The net proceeds from the Annual Catholic Appeal are shown as an increase to Temporarily Restricted Net Assets which will be used to fund Diocesan Central Funds operations in the fiscal 2009. The net amount shown is based on an estimate of the total pledges to be received less amounts paid or to be paid to parishes which exceed their goal and payments made from the Appeal to The Tablet Publishing Company to offset payments usually made by parishes. The actual and estimated future payments to parishes total \$3,061,154 and payments to The Tablet were \$458,333.

Contributions - Contributions, which include unconditional promises to give, are recognized as revenues in the period received at the net present value of the amounts expected to be collected. Unconditional promises to give that are expected to be received after one year are discounted using a risk-free rate applicable to the years in which the promises were received. Amortization of the discount is recorded as contribution revenue. Conditional promises to give are recognized as revenue when the conditions are substantially met.

Revenues from legacies and bequests are recognized when such gifts become unconditional promises to give. This occurs upon the completion of probate and approval of the court having jurisdiction over the estate.

Fair Value of Financial Instruments - The estimated fair value of financial instruments has been determined by the Diocesan Central Funds using available market information and appropriate methodologies; however, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates presented herein may not necessarily be indicative of the amounts that the Diocesan Central Funds will realize in a market exchange. Certain of these financial instruments expose the Diocesan Central Funds to market and credit risk and may at times be concentrated with certain counterparties or groups of counterparties. The following methods and assumptions were used to estimate the fair market value of certain items appearing on the combined statement of financial position for which it is practicable to estimate that value:

- *Cash and Cash Equivalents* - Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.

Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y.

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2008

- *Investments* - Investments are recorded at fair value based principally upon quoted market values.
- *Medical Claims* - The medical claims' reserve is an estimate of potential claims payments under the Diocesan PPO Medical Plan for the Plan Year ended August 31, 2007.

Functional Allocation of Expenses - The costs of providing the various programs and other activities of Diocesan Central Funds have been summarized on a functional basis in the accompanying combined statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the judgment of management.

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts for accounts and loans receivable; provision for unrecorded liabilities; useful lives of fixed assets; conditional asset retirement obligations; and the reported fair value of certain of the Diocesan Central Fund's assets and liabilities. Actual results could differ from those estimates.

3. **INVESTMENTS**

Investments as of August 31, 2008, consist of the following:

Compostela Fund:	
Equity securities	\$ 10,885,331
Fixed income securities	1,230,936
Guaranteed rate investments	10,589,288
Money market funds - cash equivalents	633,249
Equity securities	1,722,576
U.S. Government obligations	894,719
	<u>\$ 25,956,099</u>

Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y.

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2008

Investment return, which also includes activity from other entities, for the year ended August 31, 2008, is comprised of the following:

Investment return:

Operating fund:

Interest and dividends	\$ 668,994
Unrealized and realized appreciation	(721,474)
Investment managers' and advisors' fees	<u>(176,610)</u>
	<u>(229,090)</u>

Medical fund:

Interest and dividend	106,328
Unrealized and realized appreciation	(644,070)
Investment managers' and advisors' fees	<u>(32,487)</u>
	<u>(570,229)</u>
	<u>\$ (799,319)</u>

4. LAND, BUILDINGS, FURNITURE AND EQUIPMENT

Fixed assets at August 31, 2008, consist of the following:

Land	\$ 4,419,773
Buildings and improvements	50,690,004
Furniture and equipment	<u>13,748,945</u>
	68,858,722
Less: accumulated depreciation	<u>(40,784,891)</u>
	<u>\$ 28,073,831</u>

Diocesan Central Funds has conveyed certain Diocesan high school properties to non-Diocesan interests. Diocesan Central Funds has a reversionary interest in each of the premises in the event that such properties cease to be maintained and operated for the specified purpose stated in the conveyance.

Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y.

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2008

5. ACCOUNTS, NOTES AND OTHER RECEIVABLES

Diocesan Central Funds provides loans to parishes and other Diocesan organizations that are in financial need. The loans do not have specific repayment terms, but management expects repayment when the parish or other Diocesan organization has financial resources available. Because of the uncertainty surrounding collection, management provides a reserve for doubtful accounts generally equal to the amount loaned.

Diocesan Central Funds has accounts receivable from parishes, schools and other organizations for assessments and medical premiums. Reserves are provided for 100% of outstanding assessment balances.

Notes and other receivables at August 31, 2008, consist of the following:

	<u>Receivables</u>	<u>Reserve for Doubtful Receivables</u>	<u>Net Receivables</u>
Accounts receivable	\$ 4,486,753	\$ (4,025,060)	\$ 461,693
Notes and loans receivable:			
Diocesan organizations	16,866,077	(16,481,883)	384,194
Annual Catholic Appeal	1,470,513	-	1,470,513
Other	<u>2,321,084</u>	<u>(1,861,364)</u>	<u>459,720</u>
	<u>\$ 25,144,427</u>	<u>\$ (22,368,307)</u>	<u>\$ 2,776,120</u>

6. OTHER ASSETS

Other assets include the required deposits with the New York State Workers' Compensation Board for the Workers' Compensation Program in the amount of \$4 million.

