



**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Financial Statements

August 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report

The Most Reverend William F. Murphy, S.T.D., L.H.D.
Bishop of the Roman Catholic Diocese of Rockville Centre:

We have audited the accompanying statements of financial position of the Diocese of Rockville Centre Administrative Offices (the Administrative Offices) as of August 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Administrative Offices' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Administrative Offices' 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 Diocese of Rockville Centre Administrative Offices as of August 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the accompanying financial statements include the activities of certain program units of the Diocese of Rockville Centre Administrative Offices and do not purport to represent the net assets, changes in net assets, and cash flows of the Diocese of Rockville Centre taken as a whole.

KPMG LLP

February 4, 2011

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Statements of Financial Position

August 31, 2010 and 2009

Assets	2010	2009
Cash and cash equivalents	\$ 5,018,047	2,534,813
Investments (notes 3, 8, and 14)	47,504,504	40,819,088
Contributions receivable	942,218	996,747
Receivables from Parishes:		
Accounts receivable, net of allowance for doubtful accounts of \$2,350,000 and \$2,627,000 in 2010 and 2009, respectively	1,351,676	1,469,257
Loans receivable, net of allowance for doubtful loans of \$1,597,000 and \$1,903,000 in 2010 and 2009, respectively (note 5)	1,574,594	1,579,557
Accounts receivable from other Diocesan entities	3,232,481	4,714,034
Loans receivable from other related entities	43,359	51,059
Prepaid expenses	274,689	400,551
Property and equipment, net (note 4)	10,808,186	11,589,173
Other assets (note 15)	2,249,645	2,466,998
Total assets	\$ 72,999,399	66,621,277
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,285,477	4,367,904
Deferred revenue	1,324,156	1,548,297
Due to related entities (note 14)	5,479,452	2,727,292
Loans payable (note 14)	4,000,000	—
Other liabilities (note 8)	585,196	581,932
Funds held for others (note 11)	691,408	609,319
Asset retirement obligation (note 12)	19,811,640	19,581,751
Total liabilities	37,177,329	29,416,495
Net assets:		
Unrestricted:		
Undesignated	15,539,786	16,255,121
Investment in property and equipment	10,808,186	11,589,173
Total unrestricted	26,347,972	27,844,294
Temporarily restricted (notes 6 and 10)	8,929,076	8,815,466
Permanently restricted (note 10)	545,022	545,022
Total net assets	35,822,070	37,204,782
Total liabilities and net assets	\$ 72,999,399	66,621,277

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Statement of Activities

Year ended August 31, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Diocesan assessments from parishes	\$ 8,203,205	—	—	8,203,205
Non-School assessments from parishes	2,177,622	—	—	2,177,622
Contributions:				
Catholic Ministries Appeal (note 6)	—	10,420,266	—	10,420,266
Religious retirement collections	—	1,417,310	—	1,417,310
Other special collections	—	3,331,107	—	3,331,107
Bequests and other	118,137	—	—	118,137
Catholic Cemeteries (note 9)	3,250,000	—	—	3,250,000
Net appreciation in fair value of investments	220,400	—	—	220,400
Interest and dividends, net of investment fees of \$49,224	227,260	1,036	—	228,296
Interest on loans	25,549	—	—	25,549
Program fees	4,917,630	—	—	4,917,630
Other revenue	1,244,018	—	—	1,244,018
Contributed services (note 2)	796,967	—	—	796,967
Gain on sale of Diocese properties (note 15)	5,780,847	—	—	5,780,847
Net assets released from restrictions:				
Catholic Ministries Appeal (note 6)	10,915,713	(10,915,713)	—	—
Religious retirement collections	1,205,227	(1,205,227)	—	—
Other	2,935,169	(2,935,169)	—	—
Total revenues	<u>42,017,744</u>	<u>113,610</u>	<u>—</u>	<u>42,131,354</u>
Expenses:				
Program services:				
Grants and subsidies (note 9):				
Non-School assessments	1,895,778	—	—	1,895,778
Elementary schools	1,000,000	—	—	1,000,000
High schools	1,540,856	—	—	1,540,856
Catholic Charities (note 6)	2,262,030	—	—	2,262,030
Seminary of the Immaculate Conception	1,644,220	—	—	1,644,220
Parishes (notes 6 and 9)	2,102,418	—	—	2,102,418
Telecare	911,680	—	—	911,680
Catholic Press Association	800,000	—	—	800,000
Tomorrow's Hope Foundation	260,431	—	—	260,431
Human development	47,597	—	—	47,597
Other program activities:				
Ministerial	6,598,439	—	—	6,598,439
Clergy personnel	4,255,470	—	—	4,255,470
Faith formation	1,341,666	—	—	1,341,666
Education	1,861,893	—	—	1,861,893
Social services	598,771	—	—	598,771
Communications	695,335	—	—	695,335
New evangelization	1,442,311	—	—	1,442,311
Supporting services:				
Administration	8,524,950	—	—	8,524,950
Institutional advancement	3,337,349	—	—	3,337,349
Property-related expenses	1,200,838	—	—	1,200,838
Bad debt expense	1,192,034	—	—	1,192,034
Total expenses	<u>43,514,066</u>	<u>—</u>	<u>—</u>	<u>43,514,066</u>
(Decrease) increase in net assets	(1,496,322)	113,610	—	(1,382,712)
Net assets, beginning of year	<u>27,844,294</u>	<u>8,815,466</u>	<u>545,022</u>	<u>37,204,782</u>
Net assets, end of year	<u>\$ 26,347,972</u>	<u>8,929,076</u>	<u>545,022</u>	<u>35,822,070</u>

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Statement of Activities

Year ended August 31, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Diocesan assessments from parishes	\$ 8,343,321	—	—	8,343,321
Non-School assessments from parishes	2,148,096	—	—	2,148,096
Contributions:				
Catholic Ministries Appeal (note 6)	—	11,252,462	—	11,252,462
Religious retirement collections	—	1,074,992	—	1,074,992
Other special collections	—	998,984	—	998,984
Bequests and other	134,497	—	—	134,497
Catholic Cemeteries (note 9)	3,000,000	—	—	3,000,000
Net depreciation in fair value of investments	(4,005,752)	(9)	(11)	(4,005,772)
Interest and dividends, net of investment fees of \$129,402	943,494	(5,413)	12,668	950,749
Interest on loans	256,246	—	—	256,246
Program fees	4,952,233	—	—	4,952,233
Other revenue	1,220,206	—	—	1,220,206
Contributed services (note 2)	774,079	—	—	774,079
Net assets released from restrictions:				
Catholic Ministries Appeal (note 6)	11,273,251	(11,273,251)	—	—
Religious retirement collections	1,729,739	(1,729,739)	—	—
Other	1,564,397	(1,564,397)	—	—
Total revenues	<u>32,333,807</u>	<u>(1,246,371)</u>	<u>12,657</u>	<u>31,100,093</u>
Expenses:				
Program services:				
Grants and subsidies (note 9):				
Non-School assessments	1,870,784	—	—	1,870,784
Elementary schools	851,494	—	—	851,494
High schools	1,934,262	—	—	1,934,262
Catholic Charities (note 6)	2,607,271	—	—	2,607,271
Seminary of the Immaculate Conception	1,774,136	—	—	1,774,136
Parishes (notes 6 and 9)	2,301,971	—	—	2,301,971
Telecare	2,179,497	—	—	2,179,497
Mission Assistance Corporation	2,000,000	—	—	2,000,000
Human development	100,550	—	—	100,550
Other program activities:				
Ministerial	6,120,301	—	—	6,120,301
Clergy personnel	4,426,158	—	—	4,426,158
Faith formation	1,289,419	—	—	1,289,419
Education	1,822,410	—	—	1,822,410
Social services	575,748	—	—	575,748
Communications	485,985	—	—	485,985
New evangelization	1,853,727	—	—	1,853,727
Supporting services:				
Administration	6,132,497	—	—	6,132,497
Institutional advancement	2,404,803	—	—	2,404,803
Property-related expenses	1,879,963	—	—	1,879,963
Bad debt expense	884,777	—	—	884,777
Total expenses	<u>43,495,753</u>	<u>—</u>	<u>—</u>	<u>43,495,753</u>
(Decrease) increase in net assets	(11,161,946)	(1,246,371)	12,657	(12,395,660)
Net assets, beginning of year	39,006,240	10,061,837	532,365	49,600,442
Net assets, end of year	<u>\$ 27,844,294</u>	<u>8,815,466</u>	<u>545,022</u>	<u>37,204,782</u>

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Statements of Cash Flows

Years ended August 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Decrease in net assets	\$ (1,382,712)	(12,395,660)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
(Gain) loss on sale or disposal of Diocese property	(5,780,847)	3,936
Depreciation expense	912,506	1,030,645
Accretion of asset retirement obligation	238,789	570,342
Removal of asbestos	(8,900)	(22,425)
Net (appreciation) depreciation in fair value of investments	(220,400)	4,005,772
Provision for bad debts	1,192,034	884,777
Changes in operating assets and liabilities:		
Contributions receivable	54,529	88,508
Accounts receivable	602,400	2,462,511
Prepaid expenses	125,862	(173,198)
Accounts payable and accrued expenses	2,719,351	516,273
Deferred revenue	(224,141)	(325,666)
Other liabilities	3,264	210,696
Funds held for others	82,089	(486,669)
Net cash used in operating activities	(1,686,176)	(3,630,158)
Cash flows from investing activities:		
Purchases of investments	(92,339,163)	(82,279,711)
Proceeds from sale of investments	85,874,147	91,939,171
Purchases of property and equipment	(131,519)	(697,658)
Proceeds from sale of Diocese property	5,898,200	—
Change in other assets	100,000	228,390
Proceeds from loans sold to Mission Assistance Corporation	63,756	28,175
Change in loans receivable	(246,393)	268,705
Net cash (used in) provided by investing activities	(780,972)	9,487,072
Cash flows from financing activities:		
Change in accounts payable and accrued expenses due to bank overdraft	(1,801,778)	2,080,706
Change in funds on deposit	—	(15,695)
Proceeds from loans	4,000,000	—
Change in due to related entities	2,752,160	(8,104,679)
Net cash provided by (used in) financing activities	4,950,382	(6,039,668)
Net increase (decrease) in cash and cash equivalents	2,483,234	(182,754)
Cash and cash equivalents, beginning of year	2,534,813	2,717,567
Cash and cash equivalents, end of year	\$ 5,018,047	2,534,813

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2010 and 2009

(1) Organization

The accompanying financial statements include certain funds and accounts of the Administrative Departments of the Roman Catholic Diocese of Rockville Centre (the Diocese) (collectively, the Administrative Offices). These funds and accounts include Chancery Operations and Plant, Diocesan Loan Account, and Catholic Ministries Appeal (Appeal).

The Administrative Offices are part of the Roman Catholic Diocese of Rockville Centre, which is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision of the New York State income tax laws. Accordingly, no provision for income taxes has been made.

The accompanying financial statements do not include the activities of any of the following funds or entities: The Health Insurance Program of the Diocese of Rockville Centre (The Program); the Protected Self-Insurance Program (PSIP); Unitas Investment Fund, Inc. (Unitas); Ecclesia Assurance Company, Inc.; Diocesan Service, Inc.; Propagation of the Faith and Mission Office; Telecare; Catholic Press Association; Seminary of the Immaculate Conception; Catholic Charities; Pension Plans; Parishes; Elementary and High Schools; Catholic Cemeteries; Tomorrow's Hope Foundation; Pontifical Mission Aid Societies; Catholic Health Services; and Cleary School for the Deaf.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles using the accrual basis of accounting. Accordingly, net assets of the Administrative Offices and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by actions of the Administrative Offices and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the principal be maintained permanently by the Administrative Offices. The Administrative Offices is permitted to use the income earned on the related investments for general or specified operating purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2010 and 2009

(b) Contributions

Contributions, including unconditional promises to give (pledges), 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. Contributions receivable are all scheduled to be collected in the next year.

(c) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement. The classification of an asset or liability in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of the asset or liability.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash and money market funds held in banks as well as temporary cash investments with original maturities of 90 days or less, excluding those amounts held for long-term investment purposes.

(e) Investments

In 2009, the Administrative Offices early adopted the measurement provisions of Financial Accounting Standards Board Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* (ASU No. 2009-12), with respect to investments within its scope (including the investments in *Unitas*). This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2010 and 2009

In 2010, the Administrative Offices adopted the disclosure provisions of ASU No. 2009-12 (note 3). Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Administrative Offices' interest therein, its classification in Level 2 or 3 is based on the Administrative Offices' ability to redeem its interest at or near fiscal year end. If the interest can be redeemed in the near term, the investment is classified as Level 2.

(f) Property and Equipment

Property and equipment are stated at cost at date of acquisition or fair value at date of contribution, if donated. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the related assets, as follows:

Buildings	20 years
Building improvements:	
Exterior improvements	15 years
Interior improvements	10 years
Equipment and other	3 years

(g) Assessment Revenue

Parish assessments are recorded in the year the parish is assessed by the Diocese. Such assessment revenue is used for the support of Diocesan activities.

(h) Other Assets

Included in other assets is property held for future parish sites of \$1,649,645 and \$1,866,998 as of August 31, 2010 and 2009, respectively.

(i) Contributed Services

Support arising from contributed services of religious 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 the comparable compensation that would be paid to lay persons, if lay persons were to occupy those positions.

(j) Functional Allocation of Expenses

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

(k) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2010 and 2009

(l) Risks and Uncertainties

The Administrative Offices invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. 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 statements of financial position.

(m) Income Taxes

In 2010, the Administrative Offices adopted ASU No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, in conjunction with its adoption of FASB Interpretation No. 48, *Accounting for Uncertainties in Income Taxes* (FIN 48) (now included in Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*). In accordance with FIN 48 and ASU No. 2009-06, the Administrative Offices accounts for uncertainties in income taxes recognized in the organization's financial statements using a threshold of more likely than not. The adoption of FIN 48 and ASU No. 2009-06 had no impact on the Administrative Offices' financial statements.

(n) Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

(3) Investments

A portion of the Administrative Offices' investments are in pooled investment funds held by Unitas, a separately incorporated, nonregulated investment fund organized to provide investment options to Roman Catholic organizations in the Diocese. Unitas offers investment options to participants including a money market fund, fixed income, and equity offerings. The investments in Unitas are carried at estimated fair value based principally upon the quoted market prices of the underlying assets of the fund. Through December 2009, a "mission fee" was deducted from the investment performance of all participants for the purpose of funding the mission component, provided the fund had a positive return. Effective September 1, 2010, the mission fee was reinstated. The rates ranged from 0.05% to 0.50% annually depending upon the investment options chosen.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2010 and 2009

The following tables present the fair value hierarchy of investments for the Administrative Offices as of August 31, 2010 and 2009:

	Fair value	Fair value measurements at August 31, 2010		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 22,309,326	22,309,326	—	—
Unitas Money Market Fund (a)	9,545,380	—	9,545,380	—
Unitas Capital Preservation Fund (b)	10,109,712	—	10,109,712	—
Unitas Balanced Fund (c)	5,513,490	—	5,513,490	—
Unitas Structured Debt Fund (d)	26,596	—	26,596	—
Total	<u>\$ 47,504,504</u>	<u>22,309,326</u>	<u>25,195,178</u>	<u>—</u>

	Fair value	Fair value measurements at August 31, 2009		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 16,344,695	16,344,695	—	—
Unitas Money Market Fund (a)	7,397,704	—	7,397,704	—
Unitas Balanced Fund (c)	13,893,824	—	13,893,824	—
Unitas Structured Debt Fund (d)	3,182,865	—	3,182,865	—
Total	<u>\$ 40,819,088</u>	<u>16,344,695</u>	<u>24,474,393</u>	<u>—</u>

The investments in the Unitas Money Market Fund are redeemable daily with 1 days' notice. The investments in the Unitas Capital Preservation Fund, Unitas Balanced Fund, and Unitas Structured Debt Fund are redeemable quarterly with 1 days' notice.

- a) The Unitas Money Market Fund invests in short-term debt securities and money market instruments.
- b) The Unitas Capital Preservation Fund invests in a combination of money market securities and short-term investment-grade fixed income securities.
- c) The Unitas Balanced Fund invests approximately 50% of its assets in the Unitas Total Fixed Income Fund and 50% of its assets in equity securities. The Unitas Total Fixed Income Fund invests the majority of its assets in fixed income securities, as well as mutual funds and other investment pools that invest in fixed income securities.
- d) The Unitas Structured Debt Fund is closed to new investors and invests in residential-mortgage-backed securities, credit/bank loans, and investment grade corporate debt and asset-backed securities.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2010 and 2009

(4) Property and Equipment

At August 31, 2010 and 2009, property and equipment, net, consisted of the following:

	2010	2009
Land	\$ 563,884	563,884
Building and improvements	22,444,915	22,379,402
Equipment and other	6,275,530	6,204,774
	29,284,329	29,148,060
Less accumulated depreciation	(18,476,143)	(17,558,887)
Total	\$ 10,808,186	11,589,173

(5) Loans Receivable

Loans to parishes generally bear interest equal to 85% of the prime rate, calculated on a quarterly basis, in arrears. Principal payments may be scheduled monthly, quarterly, annually, or at maturity only; such terms are negotiated on a loan-by-loan basis between the Diocese and the individual parish. Parishes retain the right to prepay their loans at any time without penalty. The Diocese retains the right to renegotiate a loan at any time prior to maturity.

(6) Catholic Ministries Appeal Contributions

The Catholic Ministries Appeal (the Appeal) is an annual fund-raising drive designed to provide ongoing support for the Diocese's most important pastoral and social service functions. Receipts from the Appeal are directed to one of five areas: Catholic Charities, parishes, pastoral ministries, education, and faith formation. All amounts raised from the Appeal are directed to these purposes, as the Diocese underwrites the costs of conducting and executing the Appeal from other unrestricted sources.

The Appeal conducts its campaign on a calendar-year basis. Amounts received for the 2009 Appeal are time restricted to the 2010 fiscal year of the Diocese and, accordingly, are recorded as temporarily restricted revenue. Some of the ministries supported by the Appeal receive their funding as it is received by the Diocese. Accordingly, amounts directed to parishes and Catholic Charities have been expensed to the extent of their entitlements, based on the cash received to that date. The amounts supporting the functions of pastoral ministries, education, and faith formation are included in temporarily restricted net assets as these amounts are restricted for the 2011 fiscal year.

**DIOCESE OF ROCKVILLE CENTRE
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Notes to Financial Statements

August 31, 2010 and 2009

The following reconciliation provides the changes in the Appeal's net assets (temporarily restricted) for the years ended August 31, 2010 and 2009:

Appeal restricted net assets at August 31, 2009	\$	6,860,300
Additional contributions received related to 2009 Appeal		1,051,370
		7,911,670
Distributions from 2009 Appeal:		
Catholic Charities		(224,134)
Parishes		(1,201,271)
Pastoral ministries, education and faith formation		(6,486,265)
		(7,911,670)
Contributions through August 31, 2010 for the 2010 Appeal		9,368,896
Distributions from 2010 Appeal:		
Catholic Charities		(2,037,896)
Parishes		(901,147)
Other remittances		(65,000)
		(3,004,043)
Appeal net assets at August 31, 2010	\$	6,364,853
Appeal net assets at August 31, 2008	\$	6,881,089
Additional contributions received related to 2008 Appeal		984,493
		7,865,582
Distributions from 2008 Appeal:		
Catholic Charities		(372,995)
Parishes		(1,128,578)
Pastoral ministries, education and faith formation		(6,364,009)
		(7,865,582)
Contributions through August 31, 2009 for the 2009 Appeal		10,267,969
Distributions from 2009 Appeal:		
Catholic Charities		(2,234,276)
Parishes		(1,173,393)
		(3,407,669)
Appeal net assets at August 31, 2009	\$	6,860,300

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(7) Pension and Retirement Plans

The Administrative Offices is a participant in the noncontributory lay pension plan, a defined benefit plan, established by the Diocese covering employees who meet certain minimum service requirements. The Administrative Offices also participates in a noncontributory retirement plan for clergy. Because the plans are considered multi-employer plans, they are only subject to certain minimum reporting requirements. Pension expense for the years ended August 31, 2010 and 2009 totaled approximately \$726,000 and \$716,900, respectively, for the noncontributory lay pension plan and \$377,900 and \$308,700, respectively, for the noncontributory retirement plan for clergy.

(8) Charitable Gift Annuities

The Administrative Offices' investments include amounts subject to split-interest agreements (charitable gift annuities) of \$331,770 and \$410,700 at August 31, 2010 and 2009, respectively. Charitable gift annuities represent irrevocable gifts under which the Diocese agrees to pay a life annuity to the donor or designated beneficiary. Donors of such funds can designate the Diocese, parish, or other Catholic entity to be the ultimate recipient of the gift and have agreed that the Diocese will have the ability to redirect funds to a different Diocesan entity, if it becomes impractical to use the gift as originally intended. The contributed funds and the related liabilities immediately become part of the general assets and liabilities of the Diocese, subject to maintaining an actuarial reserve in accordance with New York State law. The actuarial liability of annuities payable of \$254,020 and \$317,500, respectively, is included in other liabilities.

(9) Related-Entity Transactions

The entities discussed below in (a), (c), (f), (h) and (j) are separate and distinct 501(c)(3) corporations for which the Bishop of the Diocese (and, in certain cases, other personnel of the Diocese) serves as a corporate member.

(a) Catholic Charities

In fiscal 2010, the Administrative Offices distributed \$2,262,030 to Catholic Charities from the Appeal, which includes \$224,134 from the 2009 Appeal and \$2,037,896 from the 2010 Appeal. In fiscal 2009, the Administrative Offices distributed \$2,607,271 to Catholic Charities from the Appeal, which includes \$372,995 from the 2008 Appeal and \$2,234,276 from the 2009 Appeal.

(b) Catholic Schools

The Administrative Offices provided grants to parish and regional elementary schools, which are separate and distinct 501(c)(3) corporations, of approximately \$1,000,000 and \$851,000 for the years ended August 31, 2010 and 2009, respectively, to assist in their respective operations. The Administrative Offices also provided Catholic high schools with grants of approximately \$1,541,000 and \$1,934,000 for the years ended August 31, 2010 and 2009, respectively.

(c) Seminary of the Immaculate Conception

For the years ended August 31, 2010 and 2009, the Administrative Offices provided the Diocesan seminary with subsidies of \$1,644,220 (comprised of general subsidy of \$1,121,153; tuition of

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\$350,500; health insurance of \$90,750; and other purposes of \$81,817) and \$1,774,136 (comprised of general subsidy of \$1,253,075; tuition of \$328,800; health insurance of \$111,812; and other purposes of \$80,449), respectively.

(d) *Parishes*

In fiscal 2010, the Administrative Offices distributed \$2,102,418 to various Parishes from the Appeal, which includes \$1,201,271 from the 2009 Appeal and \$901,147 from the 2010 Appeal. In fiscal 2009, the Administrative Offices distributed \$2,301,971 to various Parishes from the Appeal, which includes \$1,128,578 from the 2008 Appeal and \$1,173,393 from the 2009 Appeal.

(e) *Catholic Cemeteries*

In 2010 and 2009, the Administrative Offices received contributions of \$3,250,000 and \$3,000,000, respectively, from the Catholic Cemeteries of the Diocese of Rockville Centre in order to help support the Bishop's various ministries.

(f) *Telecare*

The Administrative Offices provided Telecare with subsidies of approximately \$912,000 and \$2,179,000 in fiscal 2010 and 2009, respectively, to help support the Diocesan television station.

(g) *Insurance and Benefits Departments*

The Administrative Offices, parishes, and other Diocesan entities are self-insured with regard to property and casualty insurance through PSIP. The Program also exists to provide health coverage to employees of Diocesan and parish entities. Insurance premiums charged by PSIP to the Administrative Offices totaled approximately \$138,500 and \$130,000 for the years ended August 31, 2010 and 2009, respectively. Additionally, the Administrative Offices paid health insurance premiums of approximately \$2,421,000 and \$2,278,000 to the Program for the years ended August 31, 2010 and 2009, respectively.

(h) *Mission Assistance Corporation*

Mission Assistance Corporation (MAC) was established for the purpose of administering loans to parishes in need. During 2010 and 2009, the Administrative Offices sold such loans to MAC at their net realizable value of \$63,756 and \$28,175, respectively. In 2009, the Administrative Offices granted \$2,000,000 to MAC from the mission fund of the Diocesan deposit and loan account in support of its mission.

(i) *Catholic Press Association of the Diocese of Rockville Centre*

The Administrative Offices provided Catholic Press Association of the Diocese of Rockville Centre with a subsidy of \$800,000 for the year ended August 31, 2010.

(j) *Tomorrow's Hope Foundation*

The Administrative Offices provided Tomorrow's Hope Foundation (THF) with a subsidy of approximately \$260,000 for the year ended August 31, 2010.

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(k) Interdiocesan Religious Retirement Fund

The Interdiocesan Religious Retirement Fund was established as a joint effort between the Diocese and the Diocese of Brooklyn to provide for the future needs of elderly priests, brothers, and sisters who serve or have served either of the two Dioceses. For the years ended August 31, 2010 and 2009, the amount collected, net of expenses, and transferred to the Interdiocesan Religious Retirement Fund totaled \$1,122,063 and \$1,647,985, respectively.

(l) Guarantee on Loans

In 2006, the Diocese entered into line-of-credit agreements with three financial institutions to provide up to \$2,889,000 in financing for construction and renovation projects undertaken by three different parishes. One of the three parishes fully satisfied its loan by August 31, 2007 and its line of credit of \$800,000 was closed. The two parishes with borrowings outstanding are responsible for repayment of any amounts borrowed and the Diocese is a co-signer. The total amount outstanding at August 31, 2010 and 2009 under these lines of credit was \$634,870 and \$886,265, respectively, which is not reflected in the accompanying financial statements.

In 2008, the Diocese entered into a guaranty agreement with a financial institution to guaranty repayment of up to \$2,360,000 in financing for construction of a new church undertaken by one parish. The parish is responsible for repayment of any amounts borrowed, and the Diocese is guarantor. The total amount of the underlying loan outstanding at August 31, 2010 and 2009 was \$2,360,000 and \$1,771,660, respectively, which is not reflected in the accompanying financial statements.

(10) Restricted Net Assets

Temporarily restricted net assets were available for the following purposes or for future periods at August 31, 2010 and 2009:

	2010	2009
Catholic Ministries Appeal (note 6)	\$ 6,364,853	6,860,300
Special programmatic collections	1,192,281	818,191
Religious retirement	864,897	652,813
Human development	130,104	142,272
Dominican Republic	—	4,165
Retired religious and priests	182,491	132,560
Charitable gift annuities held for other Diocesan entities	21,529	27,112
Seminarians	14,034	13,951
Educational	96,519	96,296
Care for the elderly	40,000	39,473
Other	22,368	28,333
	\$ 8,929,076	8,815,466

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The income from permanently restricted net assets was available for the following purposes at August 31, 2010 and 2009:

Care for the elderly	\$	400,241
Seminarians		54,738
Educational		47,765
Seminary		42,278
		42,278
	\$	545,022

The Administrative Offices endowment consists of nine individual donor-restricted funds established for a variety of purposes. At August 31, 2009, the fair value of certain endowment funds was less than their original fair value (underwater) by a total of approximately \$3,400. At August 31, 2010, none of the funds were underwater.

The Administrative Offices has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to protect the original value of the gift.

The Administrative Offices' management and investment of donor-restricted endowment funds has been subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA), which requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Administrative Offices classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Income earned is classified and reported based on the existence or absence of donor imposed restrictions.

On September 17, 2010, the State of New York enacted its version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Applicable accounting guidance requires that entities subject to an enacted version of UPMIFA classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Management does not expect that the resulting impact, if any, in fiscal 2011 will be significant to the Administrative Offices' financial statements.

Endowment net assets consist of the following at August 31, 2010 and 2009:

	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted	\$	—	81,430	545,022
				626,452

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	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	\$ (3,356)	80,681	545,022	622,347

The following table presents the changes in the Administrative Offices' donor-restricted endowment funds for the years ended August 31, 2010 and 2009:

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at August 31, 2009	\$ (3,356)	80,681	545,022	622,347
Investment return, net	3,356	749	—	4,105
Endowment net assets at August 31, 2010	\$ —	81,430	545,022	626,452

	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at August 31, 2008	\$ (1,948)	88,040	532,365	618,457
Investment return, net	(1,408)	(7,359)	12,657	3,890
Endowment net assets at August 31, 2009	\$ (3,356)	80,681	545,022	622,347

(11) Funds Held for Others (Custodian Funds)

Custodian funds are amounts received from special collections and appeals designated to specific agencies. These funds are entrusted to the Administrative Offices only for the purpose of receiving, holding, and disbursing them according to the purpose of the collection or appeal.

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For the years ended August 31, 2010 and 2009, the activity of the custodian funds consisted of the following:

	2010	2009
Balance, beginning of year	\$ 609,319	1,095,988
National collections received	1,328,026	1,462,338
National collections remitted	(857,246)	(1,329,206)
Other disbursements	(388,691)	(619,801)
Balance, end of year	\$ 691,408	609,319

(12) Conditional Asset Retirement Obligation

Costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets are required to be accrued. The Administrative Offices identified asbestos abatement as a conditional asset retirement obligation. The Administrative Offices is accepting the financial responsibility for such asset retirement obligations for which the Diocese holds title and estimates the present value of remediation costs to be approximately \$19,812,000 and \$19,582,000 at August 31, 2010 and 2009, respectively.

(13) Voluntary Separation Program

In 2009, the Administrative Office and other Diocesan entities offered their respective employees participation in a voluntary separation program (VSP). The VSP provided a salary continuation benefit and continued medical benefits to eligible employees of the Diocese who voluntarily separated under the VSP.

(14) Loans Payable

In order to assist several parishes in meeting their short-term needs to finance the payment of the VSP, the Diocese has secured a 4-year financing facility with a bank, consisting of a 1-year revolving credit note and a 3-year term loan. The rate of interest on the revolving credit note and the term note is a variable rate of 1.00% above interest earned on collateral to secure a loan but no less than 2.25%. The entire facility is collateralized by a \$4,000,000 investment account opened at the bank. The parishes participating in the VSP loan program have signed notes in favor of the Diocese in order to access the amounts loaned by the bank to the Diocese, carrying interest of 2.50%. These parish loans have a 3-year term; prepayment is permitted.

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Currently, the funds in the collateral account, held in the name of the Diocese, consist of funds loaned to the Diocese by PSIP and recorded as due to related entities in the accompanying statement of financial position. In order for the PSIP funds to remain in the bank as collateral for the loan to the Diocese, the PSIP Board has ratified the arrangement, under the following terms:

- (a) Duration of the use of the PSIP funds as collateral will not exceed 4 years and 2 months, commencing as of August 27, 2010. The extra 2 months is to allow for release-of-collateral documents to be executed.
- (b) Interest of 1.25% on the PSIP funds in the collateral account will be credited to PSIP in exchange for use of the funds as collateral.
- (c) Interest and principal will be paid to PSIP on the maturity date of the loan from the bank to the Diocese.
- (d) There will be no penalty for any pre-maturity crediting of funds back to PSIP or for release of collateral, or any portion thereof, which may be made in increments of \$100,000.

(15) Gain on Sale of Properties

On May 24, 2010, the Administrative Offices sold land in Setauket, New York for \$5,450,000. On July 30, 2010, the Administrative Offices sold land in Stony Brook, New York for \$448,000. These sales resulted in an aggregate net gain of approximately \$5,781,000 at August 31, 2010.

(16) Subsequent Events

In connection with the preparation of the financial statements, the Administrative Offices evaluated events subsequent to the balance sheet date of August 31, 2010 through February 4, 2011, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.