



**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Financial Statements

August 31, 2012 and 2011

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

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, 2012 and 2011, 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, 2012 and 2011, 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 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

January 4, 2013

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Statements of Financial Position

August 31, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 16,909,444	745,212
Investments (notes 3, 8, and 13)	34,214,569	48,152,783
Contributions receivable	804,545	1,021,471
Receivables from parishes:		
Accounts receivable, net of allowance for doubtful accounts of \$4,206,000 and \$3,188,000 in 2012 and 2011, respectively	601,121	817,332
Loans receivable, net of allowance for doubtful loans of \$2,699,000 and \$1,852,000 in 2012 and 2011, respectively (note 5)	1,368,802	3,558,797
Accounts receivable from other Diocesan entities, net of allowance for doubtful accounts of \$1,274,200 and \$247,000 in 2012 and 2011, respectively (note 9)	460,338	1,441,604
Other receivables	827,827	921,663
Prepaid expenses	390,231	395,617
Property and equipment, net (note 4)	9,183,516	10,004,518
Other assets (note 14)	2,075,155	2,284,804
Total assets	\$ 66,835,548	69,343,801
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,603,454	4,010,205
Deferred revenue	909,206	1,089,203
Due to related entities (note 13)	1,980,171	3,979,155
Loans payable (note 13)	1,359,721	2,750,000
Other liabilities (note 8)	373,033	516,955
Funds held for others	982,361	668,644
Asset retirement obligation (note 12)	20,854,920	20,247,496
Total liabilities	30,062,866	33,261,658
Net assets:		
Unrestricted:		
Undesignated	16,972,207	15,835,032
Investment in property and equipment	9,183,516	10,004,518
Total unrestricted	26,155,723	25,839,550
Temporarily restricted (notes 6 and 10)	10,071,937	9,697,571
Permanently restricted (note 10)	545,022	545,022
Total net assets	36,772,682	36,082,143
Total liabilities and net assets	\$ 66,835,548	69,343,801

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Statement of Activities
Year ended August 31, 2012

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Diocesan assessments from parishes	\$ 10,294,512	—	—	10,294,512
Non-School assessments from parishes	2,297,753	—	—	2,297,753
Contributions:				
Catholic Ministries Appeal (note 6)	—	10,635,192	—	10,635,192
Religious retirement collections (note 9)	—	1,065,076	—	1,065,076
Other special collections	—	1,915,394	—	1,915,394
Bequests and other	860,352	—	—	860,352
Catholic Cemeteries (note 9)	3,250,000	—	—	3,250,000
Net appreciation in fair value of investments	519,403	—	—	519,403
Interest and dividends, net of investment fees of \$93,122	223,839	70,412	—	294,251
Interest on loans	22,561	—	—	22,561
Program fees (note 11)	5,324,038	—	—	5,324,038
Other revenue	1,453,580	—	—	1,453,580
Contributed services	693,288	—	—	693,288
Net loss on disposal of property (note 14)	(203,917)	—	—	(203,917)
Net assets released from restrictions:				
Catholic Ministries Appeal (note 6)	10,510,743	(10,510,743)	—	—
Religious retirement collections (note 9)	1,040,526	(1,040,526)	—	—
Other	1,760,439	(1,760,439)	—	—
Total revenues	<u>38,047,117</u>	<u>374,366</u>	<u>—</u>	<u>38,421,483</u>
Expenses:				
Program services:				
Grants and subsidies (note 9):				
Non-School assessments	1,700,242	—	—	1,700,242
Elementary schools	788,000	—	—	788,000
High schools	1,041,201	—	—	1,041,201
Catholic Charities (note 6)	1,500,000	—	—	1,500,000
Seminary of the Immaculate Conception	1,703,531	—	—	1,703,531
Inter-Diocesan Partnership	49,427	—	—	49,427
Parishes (note 6)	1,963,081	—	—	1,963,081
Telecare	863,561	—	—	863,561
Tomorrow's Hope Foundation	212,000	—	—	212,000
Other program activities:				
Ministerial (note 9)	4,753,703	—	—	4,753,703
Clergy personnel	3,670,622	—	—	3,670,622
Faith formation	1,564,393	—	—	1,564,393
Education	1,980,931	—	—	1,980,931
Social services	461,534	—	—	461,534
Communications	477,396	—	—	477,396
New evangelization	1,159,736	—	—	1,159,736
Supporting services:				
Administration	7,298,682	—	—	7,298,682
Institutional advancement	1,898,280	—	—	1,898,280
Property-related expenses	1,587,435	—	—	1,587,435
Bad debt expense	3,057,189	—	—	3,057,189
Total expenses	<u>37,730,944</u>	<u>—</u>	<u>—</u>	<u>37,730,944</u>
Change in net assets	316,173	374,366	—	690,539
Net assets, beginning of year	25,839,550	9,697,571	545,022	36,082,143
Net assets, end of year	<u>\$ 26,155,723</u>	<u>10,071,937</u>	<u>545,022</u>	<u>36,772,682</u>

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Statement of Activities
Year ended August 31, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Diocesan assessments from parishes	\$ 9,726,564	—	—	9,726,564
Non-School assessments from parishes	2,167,159	—	—	2,167,159
Contributions:				
Catholic Ministries Appeal (note 6)	—	10,931,218	—	10,931,218
Religious retirement collections (note 9)	—	1,090,732	—	1,090,732
Other special collections	—	1,755,076	—	1,755,076
Bequests and other	1,272,662	—	—	1,272,662
Catholic Cemeteries (note 9)	3,250,000	—	—	3,250,000
Net appreciation in fair value of investments	419,876	—	—	419,876
Interest and dividends, net of investment fees of \$122,271	194,076	2,274	—	196,350
Interest on loans	27,754	—	—	27,754
Program fees (note 11)	5,017,606	—	—	5,017,606
Other revenue	1,500,948	—	—	1,500,948
Contributed services	737,905	—	—	737,905
Net assets released from restrictions:				
Catholic Ministries Appeal (note 6)	10,333,658	(10,333,658)	—	—
Religious retirement collections (note 9)	999,301	(999,301)	—	—
Other	1,677,846	(1,677,846)	—	—
Total revenues	<u>37,325,355</u>	<u>768,495</u>	<u>—</u>	<u>38,093,850</u>
Expenses:				
Program services:				
Grants and subsidies (note 9):				
Non-School assessments	1,838,557	—	—	1,838,557
Elementary schools	788,000	—	—	788,000
High schools	1,205,097	—	—	1,205,097
Catholic Charities (note 6)	2,030,625	—	—	2,030,625
Seminary of the Immaculate Conception	1,756,312	—	—	1,756,312
Parishes (note 6)	2,101,933	—	—	2,101,933
Telecare	830,298	—	—	830,298
Catholic Press Association	400,000	—	—	400,000
Tomorrow's Hope Foundation	424,000	—	—	424,000
Human development	55,397	—	—	55,397
Other program activities:				
Ministerial (note 9)	4,507,286	—	—	4,507,286
Clergy personnel	3,683,909	—	—	3,683,909
Faith formation	1,456,593	—	—	1,456,593
Education	2,040,021	—	—	2,040,021
Social services	447,328	—	—	447,328
Communications	479,059	—	—	479,059
New evangelization	1,232,538	—	—	1,232,538
Supporting services:				
Administration	7,483,686	—	—	7,483,686
Institutional advancement	2,158,390	—	—	2,158,390
Property-related expenses	1,408,834	—	—	1,408,834
Bad debt expense	1,505,914	—	—	1,505,914
Total expenses	<u>37,833,777</u>	<u>—</u>	<u>—</u>	<u>37,833,777</u>
Change in net assets	(508,422)	768,495	—	260,073
Net assets, beginning of year	26,347,972	8,929,076	545,022	35,822,070
Net assets, end of year	<u>\$ 25,839,550</u>	<u>9,697,571</u>	<u>545,022</u>	<u>36,082,143</u>

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Statements of Cash Flows

Years ended August 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 690,539	260,073
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of Diocese properties	203,917	—
Depreciation expense	917,450	909,443
Accretion of asset retirement obligation	607,424	435,856
Net appreciation in fair value of investments	(519,403)	(419,876)
Bad debt expense	3,057,189	1,505,914
Changes in operating assets and liabilities:		
Contributions receivable	216,926	(79,253)
Accounts receivable	(918,638)	152,751
Prepaid expenses	5,386	(120,928)
Accounts payable and accrued expenses	(782,767)	(1,178,184)
Deferred revenue	(179,997)	(234,953)
Other liabilities	(143,922)	(68,241)
Funds held for others	313,717	(22,764)
Net cash provided by operating activities	3,467,821	1,139,838
Cash flows from investing activities:		
Purchases of investments	(42,465,270)	(59,703,812)
Proceeds from sales of investments	56,922,887	59,475,409
Purchases of property and equipment	(96,448)	(105,775)
New loans issued	(146,203)	(5,863,844)
Repayments on loans	1,494,692	3,632,734
Net cash provided by (used in) investing activities	15,709,658	(2,565,288)
Cash flows from financing activities:		
Change in accounts payable and accrued expenses due to bank overdraft	376,016	(97,088)
Repayments on loans	(1,390,279)	(1,250,000)
Change in due to related entities	(1,998,984)	(1,500,297)
Net cash used in financing activities	(3,013,247)	(2,847,385)
Net increase (decrease) in cash and cash equivalents	16,164,232	(4,272,835)
Cash and cash equivalents, beginning of year	745,212	5,018,047
Cash and cash equivalents, end of year	\$ 16,909,444	745,212

See accompanying notes to financial statements.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

(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.

The Administrative Offices is 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.

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, 2012 and 2011

(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

Investments in Unitas funds are reported at net asset value. 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.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

(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) *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.

(i) *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.

(j) *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.

(k) *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.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

(l) Income Taxes

The Administrative Offices accounts for uncertainties in income taxes recognized in its financial statements using a threshold of more likely than not of being sustained. Income generated from activities unrelated to the Administrative Offices' exempt purpose is subject to tax. The Administrative Offices did not have any material unrelated business income tax liability at August 31, 2012 and 2011.

(m) Recently Adopted Accounting Standards

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20), which significantly increases disclosures about credit quality of financing receivables and the allowance for credit losses and requires disclosures to be made at a greater level of disaggregation. The Administrative Offices adopted ASU 2010-20 in fiscal 2012, which resulted in increased disclosures related to loans receivable from parishes. (See note 5.)

(3) Investments

A portion of the Administrative Offices' investments are held in pooled investment funds of 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 funds are carried at estimated fair value based principally upon the quoted market prices of the underlying assets of each fund. A "mission fee" is deducted from the investment performance of all participants for the purpose of funding the mission component, provided the fund had a return over a stated amount. The mission fee is only charged if, net of investment and administrative fees, the return exceeds 12.5 basis points (bps) per month on the Unitas Money Market Fund and the Capital Preservation Fund or 37.5 bps per quarter the Unitas Long-Term Funds (150 bps annualized). Each month/quarter is independent of prior or future months'/quarters' performance when determining if the mission fee has met the assessment criteria. The mission fee to participants in the Unitas Money Market Fund and the Capital Preservation Fund is 0.0042% monthly (0.05% annualized); while the mission fee to participants in the Unitas Long-Term Funds is 0.125% quarterly (0.50% annualized).

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

The following tables present the fair value hierarchy of investments for the Administrative Offices as of August 31, 2012 and 2011:

	Total	Fair value measurements at August 31, 2012		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 7,742,027	7,742,027	—	—
Unitas Money Market Fund (a)	9,538,338	—	9,538,338	—
Unitas Capital Preservation Fund (b)	10,196,872	—	10,196,872	—
Unitas Balanced Fund (c)	6,737,332	—	6,737,332	—
Total	\$ 34,214,569	7,742,027	26,472,542	—

	Total	Fair value measurements at August 31, 2011		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 22,372,755	22,372,755	—	—
Unitas Money Market Fund (a)	9,554,937	—	9,554,937	—
Unitas Capital Preservation Fund (b)	10,165,603	—	10,165,603	—
Unitas Balanced Fund (c)	6,059,488	—	6,059,488	—
Total	\$ 48,152,783	22,372,755	25,780,028	—

- (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 approximately 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.

The investments in the Unitas Money Market Fund are redeemable daily with one day's notice. The investments in the Unitas Capital Preservation Fund are redeemable monthly (quarterly prior to January 1, 2012) with one day's notice and the investments in the Unitas Balanced Fund are redeemable quarterly with one day's notice.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

(4) Property and Equipment

At August 31, 2012 and 2011, property and equipment, net consisted of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 563,884	563,884
Building and improvements	22,444,915	22,444,915
Equipment and other	6,477,753	6,381,305
	<u>29,486,552</u>	<u>29,390,104</u>
Less accumulated depreciation	<u>(20,303,036)</u>	<u>(19,385,586)</u>
Total	<u>\$ 9,183,516</u>	<u>10,004,518</u>

(5) Loans Receivable

Loans to parishes generally bear interest equal to 85% of the prime rate, calculated on a quarterly basis. 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.

The Administrative Offices determine whether an allowance for uncollectible loans receivable should be provided for. Such estimates are based on management's assessment of the aged basis of the receivables, current economic conditions, subsequent cash receipts, and historical information. Receivables may be written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

	<u>2012</u>	<u>2011</u>
Gross loans receivable, beginning of year	\$ 5,410,797	3,171,618
Loans made	143,225	3,607,515
Repayments received	<u>(1,486,220)</u>	<u>(1,368,336)</u>
Gross loans receivable, end of year	<u>4,067,802</u>	<u>5,410,797</u>
Allowance for doubtful loans, beginning of year	1,852,000	1,597,000
Bad debt expense	<u>847,000</u>	<u>255,000</u>
Allowance for doubtful loans, end of year	<u>2,699,000</u>	<u>1,852,000</u>
Loans receivable, net, end of year	<u>\$ 1,368,802</u>	<u>3,558,797</u>

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

(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 2011 Appeal are time restricted to the 2012 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. Amounts related to the 2012 Appeal are included in temporarily restricted net assets as these amounts are restricted for the 2013 fiscal year.

The following reconciliation provides the changes in the Appeal's net assets (temporarily restricted) for the years ended August 31, 2012 and 2011:

Appeal restricted net assets at August 31, 2011	\$	6,962,413
Additional contributions received in fiscal 2012 related to 2011 Appeal		1,041,538
		8,003,951
Distributions from 2011 Appeal:		
Parishes		(1,021,289)
Pastoral ministries, education, and faith formation		(6,982,662)
		(8,003,951)
Contributions through August 31, 2012 for the 2012 Appeal		9,593,654
Distributions from 2012 Appeal:		
Catholic Charities		(1,500,000)
Parishes		(941,792)
Other remittances		(65,000)
		(2,506,792)
Appeal net assets at August 31, 2012	\$	7,086,862

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

Appeal restricted net assets at August 31, 2010	\$ 6,364,853
Additional contributions received in fiscal 2011 related to 2010 Appeal	1,124,504
	7,489,357
Distributions from 2010 Appeal:	
Catholic Charities	(270,625)
Parishes	(1,082,632)
Pastoral ministries, education, and faith formation	(6,136,100)
	(7,489,357)
Contributions through August 31, 2011 for the 2011 Appeal	9,806,714
Distributions from 2011 Appeal:	
Catholic Charities	(1,760,000)
Parishes	(1,019,301)
Other remittances	(65,000)
	(2,844,301)
Appeal net assets at August 31, 2011	\$ 6,962,413

(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, 2012 and 2011 totaled approximately \$935,800 and \$1,005,200, respectively, for the noncontributory lay pension plan and \$370,300 and \$358,500, 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 \$151,329 and \$293,961 at August 31, 2012 and 2011, 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 \$150,883 and \$248,398, respectively, is included in other liabilities.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

(9) Related-Entity Transactions

The entities discussed below in (a), (c), (f), (h), and (i) 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 2012 and 2011, the Administrative Offices distributed \$1,500,000 and \$2,030,625, respectively, to Catholic Charities from the Appeal.

(b) Catholic Schools

In fiscal 2012 and 2011, the Administrative Offices provided grants to parish and regional elementary schools, which are separate and distinct 501(c)(3) corporations, of \$788,000, to assist in their respective operations. The Administrative Offices also provided Catholic high schools with grants of approximately \$1,041,000 and \$1,205,000 for the years ended August 31, 2012 and 2011, respectively.

(c) Seminary of the Immaculate Conception

In fiscal 2012 and 2011, the Administrative Offices provided the Diocesan seminary with subsidies of \$1,703,531 (comprised of general subsidy of \$1,228,138; tuition of \$329,200; and health insurance and other purposes of \$146,193) and \$1,756,312 (comprised of general subsidy of \$1,254,830; tuition of \$330,200; and health insurance and other purposes of \$171,282), respectively.

(d) Parishes

In fiscal 2012 and 2011, the Administrative Offices distributed \$1,963,081 and \$2,101,933, respectively, to various parishes from the Appeal.

(e) Catholic Cemeteries

In fiscal 2012 and 2011, the Administrative Offices received contributions of \$3,250,000 from the Catholic Cemeteries of the Diocese of Rockville Centre in order to help support the Bishop's various ministries.

(f) Telecare of the Diocese of Rockville Centre (Telecare)

The Administrative Offices provided Telecare with subsidies of approximately \$864,000 and \$830,000 in fiscal 2012 and 2011, respectively, to help support the Diocesan television station and paid certain expenses on Telecare's behalf. Gross accounts receivable from the other diocesan entities include \$742,325 and \$783,389 due from Telecare, at August 31, 2012 and 2011, respectively.

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

(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 \$144,800 and \$139,000 for the years ended August 31, 2012 and 2011, respectively. Additionally, the Administrative Offices paid health insurance premiums of approximately \$2,233,000 and \$2,193,000 to the Program for the years ended August 31, 2012 and 2011, respectively.

(h) *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 \$400,000 for the year ended August 31, 2011. No subsidy was provided for the year ended August 31, 2012.

(i) *Tomorrow's Hope Foundation*

The Administrative Offices provided Tomorrow's Hope Foundation (THF) with subsidies of \$212,000 and \$424,000 for the years ended August 31, 2012 and 2011, respectively, and paid certain expenses on THF's behalf.

(j) *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, 2012 and 2011, the Administrative Offices recorded religious retirement collections of \$1,065,076 and \$1,090,732, respectively. For the years ended August 31, 2012 and 2011, the amount granted to the Religious orders was \$1,010,225 (comprised of 799,858 granted to the various religious orders and \$210,367 transferred to the Interdiocesan Religious Retirement Fund) and \$967,467 (comprised of 743,797 granted to the various religious orders and \$223,670 transferred to the Interdiocesan Religious Retirement Fund), respectively, which is included within ministerial expenses.

(k) *Guarantee on Loans*

The Diocese maintained two lines of credit, one for \$1,500,000 and the other for \$589,000 with two financial institutions for construction and renovation projects undertaken by two different parishes. One of the two parishes fully satisfied its loan by August 31, 2011 and the line of credit for \$1,500,000 was closed. The parish with borrowings outstanding is responsible for repayment of any amounts borrowed and the Diocese is a co-signer. The total amount outstanding at August 31, 2012 and 2011 under this line of credit, which expires in 2016, was \$401,396 and \$436,595, respectively, which is not reflected in the accompanying financial statements.

In 2008 and 2010, the Diocese entered into a guaranty agreement with two financial institutions to guaranty repayment of up to \$2,730,000 in financing for construction undertaken by two different parishes. Each parish is responsible for repayment of any amounts borrowed and the Diocese is

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

guarantor. The total amount of the underlying loans outstanding at August 31, 2012 and 2011 was \$2,174,646 and \$2,639,570, respectively, which is not reflected in the accompanying financial statements.

(10) Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at August 31, 2012 and 2011:

	2012	2011
Catholic Ministries Appeal (note 6)	\$ 7,086,862	6,962,413
Special programmatic collections	1,547,491	1,302,077
Religious retirement	980,878	956,328
Human development	160,268	115,568
Retired religious and priests	39,989	182,667
Seminarians	11,417	14,190
Educational	243,659	120,143
Care for the elderly	791	40,425
Other	582	3,760
	\$ 10,071,937	9,697,571

The income from permanently restricted net assets was available for the following purposes at August 31, 2012 and 2011:

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

The Administrative Offices' endowment consists of nine individual donor-restricted funds established for a variety of purposes. At August 31, 2012 and 2011, none of the funds' fair value was less than their original fair value (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 has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing it to appropriate for expenditure or accumulate so much of an endowment fund as is determined prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets of a donor-restricted endowment fund shall be donor-restricted assets until appropriated by the organization. The Administrative Offices classifies the original value of gifts donated

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

to the permanent endowment as permanently restricted net assets. The remaining portion of a donor-restricted endowment fund is classified as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. Endowment net assets consist of the following at August 31, 2012 and 2011:

		2012			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	\$	—	42,592	545,022	587,614

		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted	\$	—	82,033	545,022	627,055

The following tables present the changes in the Administrative Offices' donor-restricted endowment funds for the years ended August 31, 2012 and 2011:

		2012			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at August 31, 2011	\$	—	82,033	545,022	627,055
Investment return, net		—	607	—	607
Appropriation of net assets		—	(40,048)	—	(40,048)
Endowment net assets at August 31, 2012	\$	—	42,592	545,022	587,614

		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at August 31, 2010	\$	—	81,430	545,022	626,452
Investment return, net		—	603	—	603
Endowment net assets at August 31, 2011	\$	—	82,033	545,022	627,055

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

(11) Lease

In 2006, the Administrative Offices entered into an agreement with an outside wireless cable company so that the wireless company could lease and use specified channels for communication services. Under this agreement, the wireless company made an up-front payment to the Administrative Offices in the amount of \$2,500,000, which is recognized on a straight-line basis over the lease term of 10 years. In addition, the wireless company agreed to pay the Administrative Offices a monthly fee of \$150,000 over the lease term. For the years ended August 31, 2012 and 2011, total lease income was \$2,050,000 and is included within program fees.

(12) 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.

(13) Loans Payable

In order to assist several parishes in meeting their short-term needs to finance the payment of the Voluntary Separation Program (VSP), offered by the Administrative Offices and other Diocesan entities, the Diocese secured a four-year financing facility with a bank, consisting of a one-year revolving credit note and a three-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 was collateralized by a \$4,000,000 investment account opened at the bank. In fiscal 2012, the collateral account was reduced by \$2,000,000. 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 three-year term and prepayment is permitted.

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 statements 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:

**DIOCESE OF ROCKVILLE CENTRE
ADMINISTRATIVE OFFICES**

Notes to Financial Statements

August 31, 2012 and 2011

- (a) Duration of the use of the PSIP funds as collateral will not exceed four years and two months, commencing as of August 27, 2010. The extra two 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 prematurity crediting of funds back to PSIP or for release of collateral, or any portion thereof, which may be made in increments of \$100,000.

In fiscal 2012, the Diocese repaid \$2,000,000 to PSIP.

(14) Loss on Disposal of Properties

The Administrative Offices owns properties not currently used in its operations that are held for future parish sites. The book value of these properties total \$1,445,728 and \$1,649,645 as of August 31, 2012 and 2011, respectively, which is included within other assets. In fiscal 2012, one of these properties was disposed of resulting in an aggregate net loss of approximately \$204,000.

(15) Subsequent Events

In connection with the preparation of the financial statements, the Administrative Offices evaluated events subsequent to August 31, 2012 through January 4, 2013, which was the date the financial statements were available to be issued, and concluded that no additional disclosures were required.