



**TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE**

Financial Statements

August 31, 2006

(With Independent Auditors' Report Thereon)

**TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE**

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KPMG LLP
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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 statement of financial position of Telecare of the Diocese of Rockville Centre (Telecare) as of August 31, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Telecare's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 Telecare's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telecare of the Diocese of Rockville Centre as of August 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 13, 2007

**TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE**

Statement of Financial Position

August 31, 2006

Assets

Accounts receivable, net of allowance for doubtful accounts of \$154,000	\$ 13,752
Prepaid expenses and other assets	30,456
Furniture, equipment and building improvements, net (note 4)	<u>1,029,610</u>
Total assets	<u>\$ 1,073,818</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$ 263,107
Deferred revenue (note 6)	<u>96,177</u>
Total liabilities	359,284
Net assets – unrestricted	<u>714,534</u>
Total liabilities and net assets	<u>\$ 1,073,818</u>

See accompanying notes to financial statements.

**TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE**

Statement of Activities

Year ended August 31, 2006

Revenues:	
Special events revenue, net of expenses (note 5)	\$ 486,106
Rental of transmitter facilities (note 6)	502,118
Sponsorship revenue	653,750
Contributed services (note 2)	216,916
Television services	52,315
Contributions	18,142
Miscellaneous	9,079
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Total revenues	1,938,426
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Expenses:	
Technical, engineering and production	3,192,109
General and administrative	1,055,202
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Total expenses	4,247,311
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Decrease in net assets before subsidy from the Diocese of Rockville Centre	(2,308,885)
Diocese of Rockville Centre subsidy (note 7)	2,474,285
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Increase in net assets	165,400
Net assets at beginning of year	549,134
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Net assets at end of year	\$ 714,534
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See accompanying notes to financial statements.

**TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE**

Statement of Cash Flows

Year ended August 31, 2006

Cash flows from operating activities:	
Increase in net assets	\$ 165,400
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Forgiveness of loan from Diocesan Deposit and Loan Account	(469,269)
Depreciation	354,203
Bad debt expense	33,297
Decrease in accounts receivable	119,164
Increase in prepaid expenses and other assets	(23,994)
Increase in accounts payable and accrued expenses	58,297
Decrease in deferred revenue	<u>(33,406)</u>
Net cash provided by operating activities	<u>203,692</u>
Cash flows from investing activities:	
Purchases of furniture, equipment and building improvements	<u>(85,077)</u>
Net cash used in investing activities	<u>(85,077)</u>
Cash flows from financing activities:	
Reduction of obligations under capital lease	(558)
Repayment of loan from Diocesan Deposit and Loan Account	(252,291)
Increase in accounts payable and accrued expenses due to bank overdraft	<u>26,037</u>
Net cash used in financing activities	<u>(226,812)</u>
Net decrease in cash and cash equivalents	(108,197)
Cash and cash equivalents at beginning of year	<u>108,197</u>
Cash and cash equivalents at end of year	<u>\$ —</u>

See accompanying notes to financial statements.

**TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE**

Notes to Financial Statements

August 31, 2006

(1) Organization

Telecare of the Diocese of Rockville Centre (Telecare) operates the Diocesan television system, which broadcasts varied religious education, spiritual development and general instructional programming to schools, parishes and homes throughout the Roman Catholic Diocese of Rockville Centre (the Diocese).

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

Telecare is economically dependent on the Diocese for continued financial support. The Diocese has agreed to continue providing financial support to Telecare at least through August 31, 2007.

(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, Telecare's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets – include amounts that have not been restricted by an outside donor and are therefore available for use in carrying out the general operations of Telecare.

Temporarily restricted net assets – include amounts that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of Telecare pursuant to those stipulations.

Permanently restricted net assets – include amounts whereby donors have stipulated that the principal contributed be invested and maintained in perpetuity.

Telecare did not have any temporarily restricted or permanently restricted net assets as of and for the year ended August 31, 2006.

(b) Allowance for Doubtful Accounts

Telecare determines its allowance for doubtful accounts based upon a formula applied to aged accounts, in addition to an assessment of the respective organization's financial condition.

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Notes to Financial Statements

August 31, 2006

(c) Furniture, Equipment and Building Improvements

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

Building improvements:	
Exterior improvements	15 years
Interior improvements	10 years
Leasehold improvements	Based on lease term, but not greater than 15 years
Automobiles	5 years
Furniture and equipment	3 years
Computer hardware and software	3 years

The land, buildings and towers utilized by Telecare are owned by the Diocese. Effective in fiscal 2002, Telecare began to pay the Diocese annual rent of \$208,426 for the use of the property. For the year ended August 31, 2006, rent increased to \$292,698.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. This interpretation requires entities to recognize a liability for the fair value of a legal obligation to perform an asset retirement activity, even though uncertainty exists about the timing and/or method of settlement, if and when the fair value of the liability can be reasonably estimated. The Diocese has recorded the asset retirement obligation pertaining to the building utilized by Telecare.

(d) 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, which would be paid to lay persons, if lay persons were to occupy these positions.

(e) Functional Allocation of Expenses

The costs of providing the various programs and other activities of Telecare have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated between the programmatic activities of technical, engineering and production and general and administrative expenses.

(f) 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.

**TELECARE
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Notes to Financial Statements

August 31, 2006

(3) Loan from Deposit and Loan Account

In 2005, Telecare borrowed funds from the Deposit and Loan Account (DLA) of the Diocese of Rockville Centre Administrative Office, which were used for general operations. During 2006, the \$469,269 balance owed to the DLA was forgiven and reflected as part of the subsidy from the Diocese.

(4) Furniture, Equipment and Building Improvements

At August 31, 2006, furniture, equipment and building improvements, net, consisted of the following:

Studio and other technical equipment	\$ 2,785,895
Building improvements	1,802,093
Studio furniture and fixtures	70,012
Office furniture, fixtures and equipment	311,151
Automobiles	<u>77,074</u>
Total furniture, equipment and building improvements	5,046,225
Less accumulated depreciation	<u>(4,016,615)</u>
Furniture, equipment and building improvements, net	<u>\$ 1,029,610</u>

(5) Special Events

For the year ended August 31, 2006, special events revenue and expenses arose from the following:

	Proceeds	Expenses	Net Revenue
Annual Golf Classic	\$ 163,010	(93,286)	69,724
Annual Telethon	233,979	(15,679)	218,300
Award Luncheon	<u>235,604</u>	<u>(37,522)</u>	<u>198,082</u>
	<u>\$ 632,593</u>	<u>(146,487)</u>	<u>486,106</u>

(6) Rental of Transmitter Facilities

Telecare leases the use of its transmitter facilities under various operating leases. Rental income in fiscal 2006 was \$502,118 and, under the terms of the leases, is expected to be received as follows:

Fiscal year	Amount
2007	\$ 439,684
2008	364,577
2009	278,612
2010	129,955
2011	134,317
Thereafter	<u>219,791</u>
Total	<u>\$ 1,566,936</u>

**TELECARE
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Notes to Financial Statements

August 31, 2006

In fiscal 2002, two cellular telephone companies paid to Telecare a one-time aggregate amount of \$350,000 in connection with five-year lease agreements. These payments have been deferred and are being recognized as revenue over the five-year lives of the agreements. The amount deferred as of August 31, 2006 was \$96,177.

(7) Related Party Transactions

(a) Pension and Retirement Plans

Telecare 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. Telecare 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 of Statement of Financial Accounting Standards (SFAS) No. 87, *Employers' Accounting for Pensions*, as amended by SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. As of December 31, 2005 (the most current audited plan year), the lay pension plan was fully funded. Pension expense approximated \$117,200 for the lay pension plan and \$4,700 for the clergy retirement plan for the year ended August 31, 2006.

(b) Insurance and Benefits

Telecare has obtained its property and casualty insurance through the Protected Self Insurance Program (PSIP). Telecare's employees obtain their health insurance through the Health Insurance Program of the Diocese of Rockville Centre (Health Insurance Program). Insurance premiums charged by PSIP to Telecare totaled approximately \$49,700 for the year ended August 31, 2006. Additionally, Telecare's expense under the Health Insurance Program was approximately \$210,000 for the year ended August 31, 2006.

(c) Operating Subsidy

Telecare is economically dependent on the Diocese for continued financial support. The total subsidy provided to Telecare from the Diocese for the year ended August 31, 2006 was approximately \$2,474,000.

In 2006, the Diocese 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 contract, the company agreed to pay the Diocese a monthly fee of \$150,000. In order to help subsidize Telecare, the Diocese is using a portion of the monthly lease payment to assist Telecare with its monthly operations.