

COMBINED FINANCIAL STATEMENTS TOGETHER
WITH REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

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

August 31, 2007

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying combined statement of financial position of the Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y. ("Diocesan Central Funds") as of August 31, 2007, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the Diocesan Central Funds' management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Diocesan Central Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Diocesan Central Funds of the R.C. Diocese of Brooklyn, N.Y. as of August 31, 2007 and the changes in their combined net assets and their combined cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
December 9, 2007

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

COMBINED STATEMENT OF FINANCIAL POSITION

As of August 31, 2007

ASSETS

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 3,264,630 |
| Accounts, notes and other receivables, net (Note 5) | 5,059,406 |
| Investments, at fair value (Note 3) | 38,010,110 |
| Assets held in trust (Note 7) | 9,825,215 |
| Other assets (Note 6) | 10,575,177 |
| Land, buildings, furniture and equipment, net (Note 4) | <u>28,240,827</u> |
| Total assets | <u>\$ 94,975,365</u> |

LIABILITIES AND NET ASSETS

Liabilities

| | |
|---|------------------|
| Accounts payable and accrued expenses | \$ 4,915,534 |
| Medical fund claims reserve | 2,000,000 |
| Conditional asset retirement obligation (Note 15) | 917,420 |
| Amounts held for others (Note 8) | <u>13,368</u> |
| Total liabilities | <u>7,846,322</u> |

Net assets

Unrestricted:

| | |
|--------------------------|-------------------|
| Available for operations | 23,218,291 |
| Designated (Note 12) | <u>44,664,296</u> |
| Total unrestricted | 67,882,587 |

Temporarily restricted (Note 11)

9,421,241

Permanently restricted (Note 11)

9,825,215

Total net assets

87,129,043

Total liabilities and net assets

\$ 94,975,365

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

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

COMBINED STATEMENT OF ACTIVITIES

For the year ended August 31, 2007

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Revenues, gains and other: | | | | |
| Net Diocesan assessments (Note 2) | \$ 5,131,253 | \$ - | \$ - | \$ 5,131,253 |
| Diocesan Annual Catholic Appeal (Note 2) | - | 9,977,062 | - | 9,977,062 |
| Cemetery contribution | 4,000,000 | - | - | 4,000,000 |
| Contributions and bequests | 658,977 | 430,632 | - | 1,089,609 |
| Investment income | 2,660,847 | - | - | 2,660,847 |
| Trust income (Note 7) | 440,722 | - | - | 440,722 |
| Compostela contributions | - | 6,218,039 | - | 6,218,039 |
| Service fees and rental income | 1,605,908 | - | - | 1,605,908 |
| Dividend from Peter Turner Insurance Company | 6,000,000 | - | - | 6,000,000 |
| Recovery of prior year's receivables reserved | 2,598,942 | - | - | 2,598,942 |
| Other | <u>1,866,881</u> | <u>-</u> | <u>-</u> | <u>1,866,881</u> |
| Total | 24,963,530 | 16,625,733 | - | 41,589,263 |
| Net assets released from restrictions (Note 11) | <u>15,979,055</u> | <u>(15,979,055)</u> | <u>-</u> | <u>-</u> |
| Total revenues, gains and other | <u>40,942,585</u> | <u>646,678</u> | <u>-</u> | <u>41,589,263</u> |
| Expenses: | | | | |
| Programs: | | | | |
| Pastoral education and ministerial services | 16,298,453 | - | - | 16,298,453 |
| Diocesan assistance | 11,950,980 | - | - | 11,950,980 |
| Parishes' share of Annual Catholic Appeal | 2,914,741 | - | - | 2,914,741 |
| Contribution to Good Shepherd Charitable Trust | 4,500,000 | - | - | 4,500,000 |
| Supporting services - administration | <u>11,499,484</u> | <u>-</u> | <u>-</u> | <u>11,499,484</u> |
| Total expenses | <u>47,163,658</u> | <u>-</u> | <u>-</u> | <u>47,163,658</u> |
| Diocesan (loss) income | <u>(6,221,073)</u> | <u>646,678</u> | <u>-</u> | <u>(5,574,395)</u> |
| Other funds' results (Note 13): | | | | |
| Income on deposits managed | 162,783 | - | - | 162,783 |
| Medical fund results | <u>1,078,143</u> | <u>-</u> | <u>-</u> | <u>1,078,143</u> |
| Total other funds' results | <u>1,240,926</u> | <u>-</u> | <u>-</u> | <u>1,240,926</u> |
| Net gain on assets held in trust | <u>-</u> | <u>-</u> | 716,109 | <u>716,109</u> |
| Change in net assets before transfers | (4,980,147) | 646,678 | 716,109 | (3,617,360) |
| Transfer of Trans Video Communications net assets (Note 10) | 738,921 | - | - | 738,921 |
| Transfer of Parish Service Corporation net assets (Note 10) | <u>72,070</u> | <u>-</u> | <u>-</u> | <u>72,070</u> |
| Change in net assets | (4,169,156) | 646,678 | 716,109 | (2,806,369) |
| Net assets, beginning of year | <u>72,051,743</u> | <u>8,774,563</u> | <u>9,109,106</u> | <u>89,935,412</u> |
| Net assets, end of year | <u>\$ 67,882,587</u> | <u>\$ 9,421,241</u> | <u>\$ 9,825,215</u> | <u>\$ 87,129,043</u> |

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

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

COMBINED STATEMENT OF CASH FLOWS

For the year ended August 31, 2007

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ (2,806,369) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Depreciation | 1,915,863 |
| Net appreciation in fair value of investments | (891,757) |
| Changes in assets and liabilities: | |
| Decrease in accounts, notes and other receivables, net | 17,039,024 |
| Decrease in other assets | 534,769 |
| Decrease in accounts payable and accrued expenses | (22,211,220) |
| Decrease in medical fund claims reserve | (300,000) |
| Increase in conditional asset retirement obligation | 41,602 |
| Decrease in amounts held for others | <u>(1,546,352)</u> |
| Net cash used in operating activities | <u>(8,224,440)</u> |
| Cash flows from investing activities: | |
| Acquisition of fixed assets | (1,187,293) |
| Increase in assets held in trust | (716,109) |
| Net activity from entity transfers | 4,958,312 |
| Proceeds from the sale of investments | 7,800,000 |
| Purchases of investments | <u>(1,615,735)</u> |
| Net cash provided by investing activities | <u>9,239,175</u> |
| Net increase in cash and cash equivalents | 1,014,735 |
| Cash and cash equivalents, beginning of year | <u>2,249,895</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,264,630</u> |

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS

For the year ended August 31, 2007

1. ORGANIZATION

The combined financial statements of Diocesan Central Funds of the Roman Catholic Diocese of Brooklyn, New York (the "Diocesan Central Funds") include the following entities and programs, which make up a portion of the Administrative Offices of the Diocesan Central Funds:

Departments and Programs

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

Funds

Diocesan Medical Benefits Fund

Corporation

Peter Turner Insurance Company

As further discussed in Note 10, the net assets of Trans Video Corporation and Parish Service Corporation were transferred out of the combined financial statements as of September 1, 2006.

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

Other entities, certain of which have separate legal status and issue separate financial statements, are not included in the Diocesan Central Funds combined financial statements. They include the parishes and schools, St. John's Cemetery Corporation, Cathedral Preparatory Seminary (H.S.), Catholic Charities, Futures in Education Foundation, the Compostela Fund and The Alive in Hope Foundation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

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

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

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

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

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

Net Diocesan Assessments and Net Diocesan Annual Catholic Appeal - Assessments on parishes are reported net of allowances that total \$752,747 at August 31, 2007.

The net proceeds from the Diocesan Annual Catholic Appeal are shown as an increase to Temporarily Restricted Net Assets which will be used to fund the Diocesan Central Funds operations in fiscal 2008. The net amount shown is based on an estimate of the total pledges to be received less amounts paid or to be paid to parishes which exceed their goal. The actual and estimated future payments to parishes total \$2,914,741.

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

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

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

- *Cash and Cash Equivalents* - Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.
- *Investments* - Investments are recorded at fair value based principally upon quoted market values.
- *Medical Claims* - The fair value of the medical claims liabilities was based on estimates of historical loss experience, including IBNR losses and by discounting the expected future cash flows using quoted market interest rates.

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

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

3. INVESTMENTS

Investment as of August 31, 2007 consisted of the following:

| | |
|-----------------------------|----------------------|
| Compostela Fund: | |
| Equity securities | \$ 12,241,975 |
| Fixed income securities | 4,911,330 |
| Guaranteed rate investments | 13,938,686 |
| Other pooled funds | 2,985,146 |
| Equity securities | 3,733,243 |
| U.S. Government obligations | <u>199,730</u> |
| | <u>\$ 38,010,110</u> |

Investment return, which also includes activity from other entities, for the year ended August 31, 2007, is comprised of the following:

Investment return:

| | |
|---|---------------------|
| Operating fund: | |
| Interest and dividends | \$ 954,153 |
| Unrealized and realized appreciation | 1,402,540 |
| Investment managers' and advisors' fees | <u>(178,801)</u> |
| | <u>2,177,892</u> |
| Other funds and other entities: | |
| Interest and dividends | 254,013 |
| Unrealized and realized appreciation | 766,089 |
| Investment managers' and advisors' fees | <u>(46,072)</u> |
| | <u>974,030</u> |
| | <u>\$ 3,151,922</u> |

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

4. LAND, BUILDINGS, FURNITURE AND EQUIPMENT, NET

Fixed assets, net at August 31, 2007 consisted of the following:

| | |
|--------------------------------|----------------------|
| Land | \$ 4,415,824 |
| Buildings and improvements | 49,453,683 |
| Furniture and equipment | <u>14,477,400</u> |
| | 68,346,907 |
| Less: Accumulated depreciation | <u>(40,106,080)</u> |
| | <u>\$ 28,240,827</u> |

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

5. ACCOUNTS, NOTES AND OTHER RECEIVABLES

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

Diocesan Central Funds has accounts receivable from parishes, schools and other organizations for assessments, and medical premiums. Reserves are provided for all assessment balances and medical balances over 30 days past due.

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

Notes and other receivables at August 31, 2007 consist of the following:

| | <u>Receivables</u> | <u>Reserve for Doubtful Receivables</u> | <u>Net Receivables</u> |
|---|----------------------|---|----------------------------|
| Accounts receivable | \$ 4,700,932 | \$ (3,841,746) | \$ 859,186 |
| Notes and loans receivable: | | | |
| Diocesan organizations | 19,134,807 | (17,948,928) | 1,185,879 |
| Annual Catholic Appeal | 1,735,100 | - | 1,735,100 |
| Contribution receivable - Compostela Fund | 470,000 | - | 470,000 |
| Other | <u>2,380,903</u> | <u>(1,571,662)</u> | <u>809,241</u> |
| | <u>\$ 28,421,742</u> | <u>\$ (23,362,336)</u> | <u>\$ 5,059,406</u> |

6. OTHER ASSETS

Other assets include the required deposits with the New York State Workers' Compensation Board for the Self-Insurance Program in the amount of \$4 million, and the Diocese's investment in Peter Turner Insurance Company ("PTIC"), a wholly-owned captive insurance company, in the amount of approximately \$6.5 million.

PTIC provides the Diocese with property, general liability, institutional liability and auto insurance. The Diocese was previously self-insured for these risks. At August 31, 2007, assets of PTIC totaled \$34.7 million, while claims payable loss reserves totaled \$27.0 million.

On July 1, 2007, the Good Shepherd Charitable Trust was formed to provide benefits to retired and disabled clergy which relieved Peter Turner of further obligations for the costs of disabled priests.

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

7. ASSETS HELD IN TRUST

Diocesan Central Funds is the co-beneficiary of the income from the Christopher Edward Connell Trust Fund (the "Connell Trust Fund"). Income from the Connell Trust Fund is divided equally between the Archbishopric of New York and the Roman Catholic Diocese of Brooklyn, New York. A portion of the income is to be used to maintain a limited number of scholarships and the remainder is available for other religious, charitable and educational purposes. The corpus of the Connell Trust Fund is administered by JPMorganChase Bank, as trustee. Diocesan Central Funds has the right to receive its share of income earned on the trust assets in perpetuity, but is not entitled to the assets held in trust. Diocesan Central Funds' share of the trust has been estimated to be equivalent to one-half of the fair value of the assets in the trust, approximately \$9.2 million at August 31, 2007 and is reported as assets held in trust in the permanently restricted net asset class in the accompanying combined financial statements. Changes in the fair value of the assets held in trust are reported as permanently restricted gains or losses. Annual distributions from the trust are reported as unrestricted revenue.

The Roman Catholic Bishop of the Diocese of Brooklyn is the income beneficiary of the Arthur F. Knauth Educational Fund established under article six of the will of Blanche A. Knauth, dated November 1, 1966 in the amount of \$100,000. Income from the trust, for which JPMorganChase Bank is the sole trustee, is to be expended by the Bishop to defray the cost of educating worthy young Roman Catholic American men of limited means in institutions of higher learning which shall offer a course of study designed to prepare such young men for admission after graduation from any such institution into a seminary devoted to training persons for Holy Orders. The Bishop has the right to the income earned on the trust assets in perpetuity, but is not entitled to the assets held in trust. The corpus of the trust is approximately \$618,000 at August 31, 2007.

8. AMOUNTS HELD FOR OTHERS

With the winding down of the Cash Concentration Fund, the Amounts Held for Others represent monies owed to 2 parishes which were paid in September 2007. See Note 10 for further discussion.

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

9. EMPLOYEE PENSION PLAN

Diocesan Central Funds participates in a noncontributory defined benefit pension plan of the Diocese, covering substantially all lay employees. Total pension expense for the entities and programs included in the accompanying combined statement of activities for the year ended August 31, 2007 was \$370,108. It is Diocesan policy to provide for all pension costs currently. As the pension plan includes lay employees for all Diocesan organizations, information is not available as to vested and nonvested earned benefits and plan assets for only the employees of the Diocesan Central Funds.

10. ENTITY TRANSFERS

During the year ended August 31, 2007, there were 3 changes to entities which impacted the Diocesan Central Funds combined financial statements. As of September 1, 2006, Trans Video Communications and Parish Services Corporation were taken out of the combined results for Diocesan Central Funds. At the end of October 2006, the assets, liabilities, net assets, revenues and expenses of the Self Insurance Fund were transferred to Parish Services Corporation. The Workers' Compensation deposit and investment in Peter Turner Insurance Company discussed in Note 6 remained in Diocesan Central Funds. Beginning in May 2007, the Diocese began to liquidate and distribute the Cash Concentration Fund. This was essentially completed by August 31 and the income of this fund remained in Diocesan Central Funds and is called Income on deposits managed.

11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2007 were available for the following purposes:

| | |
|---|---------------------|
| Pastoral: | |
| Annual Catholic Appeal | \$ 7,062,321 |
| Home mission | 1,196,515 |
| Local campaign for human development | 316,206 |
| Local communications | <u>278,705</u> |
| | 8,853,747 |
| Education | <u>567,494</u> |
| Total temporarily restricted net assets | <u>\$ 9,421,241</u> |

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

Net assets released from donor temporary restrictions during the year ended August 31, 2007 by incurring expenses satisfying the restricted purposes were as follows:

| | |
|---------------------------------------|---------------------|
| Pastoral: | |
| Local communications | \$ 51,696 |
| Compostela Fund | 6,218,039 |
| Annual Catholic Appeal Parish credits | 2,914,741 |
| Local campaign for human development | 118,740 |
| Annual Catholic Appeal | <u>6,624,310</u> |
| | 15,927,526 |
| Education | <u>51,529</u> |
| | <u>\$15,979,055</u> |

Permanently restricted net assets consist of the Diocesan Central Funds' share of the Connell Trust Fund and the Arthur F. Knauth Educational Fund, the income of which is expendable to support Diocesan Central Funds' activities, as further discussed in Note 7.

12. NET ASSET DESIGNATIONS

Certain assets and liabilities of the Diocesan Central Funds are segregated to maintain accountability or reflect separate legal status.

The medical fund balance represents the accumulated excess of participant contributions for medical benefits and investment earnings over insurance premiums and claims expense. The medical fund insures the lay employees and clergy of the Diocese for medical and dental expenses.

The Peter Turner Insurance balance represents the Diocese's investment in its captive insurance company. The balance represents the net assets of Peter Turner as of December 31, 2006, the last date of the last audited period.

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

Funds set aside for the acquisition of plant assets result from the Diocese agreeing to designate proceeds from the sales of certain properties for any capital additions to these properties.

Net investment in plant is an amount equal to the net book value of fixed assets.

Designated net assets at August 31, 2007 consisted of the following:

| | |
|--------------------------------|---------------------|
| Designated Net Assets: | |
| Medical fund | \$ 7,020,024 |
| Peter Turner Insurance Company | 6,481,025 |
| Future capital acquisitions | 2,922,420 |
| Net investments in plant | <u>28,240,827</u> |
| Total designated net assets | <u>\$44,664,296</u> |

13. OTHER FUNDS' AND ENTITIES' RESULTS

Other funds' and entities' activities for the year ended August 31, 2007 comprised the following:

| | |
|--------------------|-------------------|
| Deposits managed: | |
| Operating revenue | \$ 165,166 |
| Investment results | 92,962 |
| Expenses | <u>(95,345)</u> |
| Net results | <u>\$ 162,783</u> |

| | |
|-------------------------------|---------------------|
| Medical fund: | |
| Operating revenue | \$ 34,828,365 |
| Investment results | 829,179 |
| Receivable reserve adjustment | 1,125,809 |
| Expenses | <u>(35,705,210)</u> |
| Net results | <u>\$ 1,078,143</u> |

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

NOTES TO COMBINED FINANCIAL STATEMENTS (continued)

For the year ended August 31, 2007

14. LEGAL PROCEEDINGS

The Roman Catholic Diocese of Brooklyn is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based upon current facts and circumstances known by the Roman Catholic Diocese of Brooklyn, resolution of these matters should not have a material adverse effect on the Diocesan Central Funds' combined financial statements. The Diocesan Central Funds is contingently liable for losses should Peter Turner or other insurance carriers be unable to cover insurable claims.

15. CONDITIONAL ASSET RETIREMENT OBLIGATION

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"), an interpretation of Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143 includes a legal obligation associated with the retirement of a tangible long-lived asset in which the timing and/or method of settlement is conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. The Diocesan Central Funds has conditional asset retirement obligations primarily associated with its fully depreciated buildings. The Diocesan Central Funds adopted FIN 47 in fiscal 2006 and recognized a liability of \$875,818. In fiscal 2007, the Diocese accreted \$41,602 to the liability and incurred depreciation expense of \$3,006.