

Combined Financial Statements Together With
Report of Independent Certified Public Accountants

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**

August 31, 2016 and 2015

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**

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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 financial statements of the Diocesan Central Funds of the R.C. Diocese of Brooklyn, New York (the “Diocesan Central Funds”), which comprise the combined statements of financial position as of August 31, 2016 and 2015, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these combined 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 our audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Diocesan Central Funds’ preparation and fair presentation of the combined financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material aspects, the combined financial position of the Diocesan Central Funds of the R.C. Diocese of Brooklyn, New York, as of August 31, 2016 and 2015, and the combined changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

New York, New York
May 31, 2017

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Combined Statements of Financial Position
As of August 31, 2016 and 2015

ASSETS	2016	2015
Cash and cash equivalents	\$ 2,848,725	\$ 1,583,221
Accounts, notes and other receivables, net (Note 5)	6,374,834	12,646,507
Investments, at fair value (Note 3)	15,241,207	8,029,589
Assets held in trust (Note 6)	8,004,389	7,691,693
Other assets	22,596	1,337
Property, furniture and equipment, net (Note 4)	4,416,868	4,511,059
Total assets	<u>\$ 36,908,619</u>	<u>\$ 34,463,406</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 4,198,436	\$ 3,450,384
Deferred Revenue (Note 13)	497,990	-
Total liabilities	<u>4,696,426</u>	<u>3,450,384</u>
 Contingencies (Note 10)		
NET ASSETS		
Unrestricted:		
Available for operations	10,318,418	7,867,137
Net investment in plant	4,416,868	4,511,059
Total unrestricted	14,735,286	12,378,196
Temporarily restricted (Note 9)	9,472,518	10,943,133
Permanently restricted (Note 6)	8,004,389	7,691,693
Total net assets	<u>32,212,193</u>	<u>31,013,022</u>
Total liabilities and net assets	<u>\$ 36,908,619</u>	<u>\$ 34,463,406</u>

The accompanying notes are an integral part of these combined financial statements.

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Combined Statement of Activities
For the year ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Net Diocesan assessments (Note 2)	\$ 8,202,970	\$ -	\$ -	\$ 8,202,970
Net Diocesan Annual Catholic Appeal (Note 2)	-	7,949,003	-	7,949,003
Cemetery contribution	500,000	-	-	500,000
Contributions and bequests	5,022,472	115,896	-	5,138,368
Investment return (Note 3)	81,233	-	-	81,233
Trust income (Note 6)	-	392,419	-	392,419
Service fees and rental income	3,247,130	-	-	3,247,130
Recovery of prior year's reserved receivables (Note 5)	2,230,708	-	-	2,230,708
Grants (Note 12)	4,711,909	-	-	4,711,909
Other	<u>1,822,953</u>	<u>-</u>	<u>-</u>	<u>1,822,953</u>
	25,819,375	8,457,318	-	34,276,693
Net assets released from restrictions (Note 9)	<u>9,927,933</u>	<u>(9,927,933)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>35,747,308</u>	<u>(1,470,615)</u>	<u>-</u>	<u>34,276,693</u>
EXPENSES				
Programs:				
Pastoral education and ministerial services	14,305,728	-	-	14,305,728
Diocesan assistance	3,355,525	-	-	3,355,525
Parishes' share of Annual Catholic Appeal	628,692	-	-	628,692
Supporting services - administration (Note 2)	<u>15,100,273</u>	<u>-</u>	<u>-</u>	<u>15,100,273</u>
Total expenses	<u>33,390,218</u>	<u>-</u>	<u>-</u>	<u>33,390,218</u>
Increase (decrease) in net assets before changes in trust assets	<u>2,357,090</u>	<u>(1,470,615)</u>	<u>-</u>	<u>886,475</u>
Net gains on assets held in trust	<u>-</u>	<u>-</u>	<u>312,696</u>	<u>312,696</u>
Change in net assets	2,357,090	(1,470,615)	312,696	1,199,171
Net assets, beginning of year	<u>12,378,196</u>	<u>10,943,133</u>	<u>7,691,693</u>	<u>31,013,022</u>
Net assets, end of year	<u>\$ 14,735,286</u>	<u>\$ 9,472,518</u>	<u>\$ 8,004,389</u>	<u>\$ 32,212,193</u>

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

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Combined Statement of Activities
For the year ended August 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Net Diocesan assessments (Note 2)	\$ 9,060,467	\$ -	\$ -	\$ 9,060,467
Net Diocesan Annual Catholic Appeal (Note 2)	-	9,700,996	-	9,700,996
Cemetery contribution	1,000,000	-	-	1,000,000
Contributions and bequests	8,065,824	203,233	-	8,269,057
Investment return (Note 3)	(25,969)	-	-	(25,969)
Trust income (Note 6)	-	391,225	-	391,225
Service fees and rental income	4,143,639	-	-	4,143,639
Recovery of prior year's reserved receivables (Note 5)	733,185	-	-	733,185
Grants (Note 12)	5,342,340	-	-	5,342,340
Other	1,499,354	-	-	1,499,354
	<u>29,818,840</u>	<u>10,295,454</u>	<u>-</u>	<u>40,114,294</u>
Net assets released from restrictions (Note 9)	<u>10,470,431</u>	<u>(10,470,431)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>40,289,271</u>	<u>(174,977)</u>	<u>-</u>	<u>40,114,294</u>
EXPENSES				
Programs:				
Pastoral education and ministerial services	14,284,890	-	-	14,284,890
Diocesan assistance	8,961,616	-	-	8,961,616
Parishes' share of Annual Catholic Appeal	1,183,848	-	-	1,183,848
Grants	759,944	-	-	759,944
Supporting services - administration (Note 2)	12,800,375	-	-	12,800,375
Total expenses	<u>37,990,673</u>	<u>-</u>	<u>-</u>	<u>37,990,673</u>
Increase (decrease) in net assets before non-recurring items and changes in trust assets	<u>2,298,598</u>	<u>(174,977)</u>	<u>-</u>	<u>2,123,621</u>
Dividend from Peter Turner Insurance Co.	10,000,000	-	-	10,000,000
Receipt of property (Note 11)	38,000,000	-	-	38,000,000
Transfer of property (Note 11)	(38,000,000)	-	-	(38,000,000)
Net losses on assets held in trust	-	-	(1,049,757)	(1,049,757)
Change in net assets	12,298,598	(174,977)	(1,049,757)	11,073,864
Net assets, beginning of year	<u>79,598</u>	<u>11,118,110</u>	<u>8,741,450</u>	<u>19,939,158</u>
Net assets, end of year	<u>\$ 12,378,196</u>	<u>\$ 10,943,133</u>	<u>\$ 7,691,693</u>	<u>\$ 31,013,022</u>

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

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Combined Statements of Cash Flows
For the years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,199,171	\$ 11,073,864
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Dividend received from Peter Turner Insurance Co.	-	(10,000,000)
Depreciation	462,806	450,155
Unrealized/realized loss on investments	200,181	170,996
Change in allowance for doubtful accounts	(1,685,209)	2,608,621
(Gain) loss on assets held in trust	(312,696)	1,049,757
Changes in assets and liabilities:		
Decrease (increase) in accounts, notes and other receivables	7,956,882	(6,943,248)
Increase in other assets	(21,259)	(1,337)
Increase in accounts payable and accrued expenses	748,052	151,914
Increase in deferred revenue	497,990	-
	<u>9,045,918</u>	<u>(1,439,278)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(368,615)	(572,863)
Dividend received from Peter Turner Insurance Co.	-	10,000,000
Proceeds from the sale of investments	-	2,057,784
Purchases of investments	<u>(7,411,799)</u>	<u>(1,798,163)</u>
	<u>(7,780,414)</u>	<u>9,686,758</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loan payable	<u>-</u>	<u>(10,000,000)</u>
	<u>-</u>	<u>(10,000,000)</u>
	<u>-</u>	<u>(10,000,000)</u>
Net increase (decrease) in cash and cash equivalents	1,265,504	(1,752,520)
Cash and cash equivalents, beginning of year	<u>1,583,221</u>	<u>3,335,741</u>
Cash and cash equivalents, end of year	<u>\$ 2,848,725</u>	<u>\$ 1,583,221</u>

The accompanying notes are an integral part of these combined financial statements.

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Notes to Combined Financial Statements
For the years ended August 31, 2016 and 2015

1. ORGANIZATION

The combined financial statements of Diocesan Central Funds of the Roman Catholic Diocese of Brooklyn, New York (the “Diocesan Central Funds”), represent an accounting and financial reporting unit which includes the following departments and programs, none of which have separate legal status, but all of which are part of The Roman Catholic Diocese of Brooklyn, New York (the “Diocese”).

Departments and Programs

Archives	Office of the Diocesan Bishop
Accounting Office	Office of Fiscal Management
Administrative Services	Office of Human Resources
Auxiliary Bishops	Office of Safe Environment
Bishop’s Residence	Office of the Vicar General
Campus Ministry	Pastoral Institute
Clergy Personnel Office	Presbyteral Council
Jesus of Nazareth Retreat Center	Secretariat for Catholic Education and Formation
Episcopal Delegate for the Religious	Secretariat for Development
Episcopal Vicars	Secretariat for Financial Administration and the Economy
Faith Formation	Secretariat for Human and Information Resources
Immaculate Conception Center Operations	Seminary and Residence
Information Technology	Superintendent of Schools
Liturgy Office	Tribunal
Office of the Chancellor	Vocations Office
Office of Diaconate Formation	

The Diocese which includes the accounts of the Diocesan Central Funds, is exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code (“IRC”). Accordingly, no provision or benefit for federal income tax has been recorded in the accompanying combined financial statements. The Diocese 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.

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Notes to Combined Financial Statements
For the years ended August 31, 2016 and 2015

Basis of Presentation

Revenues, expenses, gains and losses are classified as unrestricted, temporarily restricted, or permanently restricted based upon 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 accomplishing 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 permanently by the Diocesan Central Funds. Generally, the donors of these assets permit the Diocesan Central Funds to use all or part of the income and gains earned on related investments for general or specific purposes (Note 6).

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

Cash Equivalents

The Diocesan Central Funds considers all highly liquid instruments with an original maturity of three months or less from the date of the purchase to be cash equivalents, with the exception of cash and short-term investments managed by the 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 income, gains and losses included in the accompanying combined statements of activities.

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, at times, may be concentrated with certain counterparties or groups of counterparties. The carrying value of accounts, notes and other receivables, and accounts payable and accrued expenses approximate fair value due to the short term maturity of these financial instruments. The following methods and assumptions were used to estimate the fair value of certain other accounts presented in the combined statements of financial position:

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Notes to Combined Financial Statements
For the years ended August 31, 2016 and 2015

- *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 and assets held in trust* - Investments, including assets held in trust are recorded at fair value based principally upon quoted market prices.

Fair Value Measurements

The Diocesan Central Funds adopted the Fair Value Measurements Standards (“Standards”) for all financial and nonfinancial instruments that are measured and reported at fair value on a recurring basis. These Standards define fair value and establish a framework for measuring fair value within a hierarchy based on inputs used to measure fair value and expand related disclosure thereof. Among other things, these Standards define fair value as the price that would be received when selling an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction at the measurement date and, categorize the inputs used to measure fair value.

The Diocesan Central Funds uses the Net Asset Value (“NAV”) per share, or its equivalent to determine the fair value as of the measurement date of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from value independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which were either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other similar securities, the parameters of which can be directly observed. Also included in Level 2 are investments measured using a NAV per share, or its equivalent, that may be redeemed at NAV at the date of the combined statement of financial position, or in the near term, which the Diocesan Central Funds has determined to be within 90 days.
- Level 3 - Inputs that had little to no pricing observability as of the measurement date. These financial instruments are measured using management’s best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Notes to Combined Financial Statements
For the years ended August 31, 2016 and 2015

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity. The Diocesan Central Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Diocesan Central Funds' perceived risk of that instrument.

Property, Furniture and Equipment

Buildings and improvements were recorded at cost and include a property owned by the Diocese that was utilized by various Diocesan entities (Note 4). Contributed property and equipment, if any, is recorded based upon the fair value at date of donation.

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; 15 years for leasehold improvements; 10 years for furniture; and 5 years for equipment). Depreciation is taken on assets in the year of acquisition, using the half-year convention.

Deferred Revenue

Deferred revenue represents funds received in advance for use in future years. Such amounts are recognized as revenue as the related expenditures are incurred.

Net Diocesan Assessments and Net Annual Catholic Appeal

Net assessments on parishes are reported net of allowances, which totaled \$536,285 and \$618,602 for the years ended August 31, 2016 and 2015, respectively.

The gross proceeds from the 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 2017. The amount presented in the accompanying combined statements of activities 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. For the years ended August 31, 2016 and 2015, the future payments to parishes totaled \$628,692 and \$1,183,848, respectively.

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-adjusted 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.

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R.C. DIOCESE OF BROOKLYN, NEW YORK**
Notes to Combined Financial Statements
For the years ended August 31, 2016 and 2015

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Diocesan Central Funds have been summarized on a functional basis in the accompanying combined statements of activities and, only reflect the direct costs of the respective programs.

Fundraising expenses totaling \$702,093 and \$726,555, for the years ended August 31, 2016 and 2015, respectively, were included within supporting services in the accompanying combined statements of activities.

Concentration of Credit Risk

Financial instruments that potentially subject the Diocesan Central Funds to concentrations of credit and market risk consist principally of cash and cash equivalents and investments on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. Management does not believe that a significant risk of loss due to the failure of a financial institution the Diocesan Central Funds’ utilizes is likely.

Income Taxes

The Diocese and, therefore, the Diocesan Central Funds follow guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Diocese is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Diocese has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. The Diocesan Central Funds have determined that there are no material uncertain tax positions that require recognition or disclosure in the accompanying financial statements.

Accounting Estimates

The preparation of combined 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 more significant management estimates and assumptions relate to the determination of allowances for doubtful accounts and advances receivable, determination of fair value of investments

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R.C. DIOCESE OF BROOKLYN, NEW YORK**
Notes to Combined Financial Statements
For the years ended August 31, 2016 and 2015

without a ready market, provision for unrecorded liabilities, and useful lives of fixed assets. Actual results could differ from those estimates.

3. INVESTMENTS, AT FAIR VALUE

Investments, at fair value, as of August 31, 2016 and 2015, consisted of the following:

	2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 645,805	\$ -	\$ -	\$ 645,805
Equity securities	1,296,054	-	-	1,296,054
U.S. government obligations	883,588	-	-	883,588
Compostela Fund:				
Guaranteed rate investments	-	12,296,817	-	12,296,817
	<u>\$ 2,825,447</u>	<u>\$ 12,296,817</u>	<u>\$ -</u>	<u>\$ 15,122,264</u>
Money market funds				118,943
				<u>\$ 15,241,207</u>

	2015			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 621,895	\$ -	\$ -	\$ 621,895
Equity securities	1,496,136	-	-	1,496,136
U.S. government obligations	889,154	-	-	889,154
Compostela Fund:				
Guaranteed rate investments	-	4,900,449	-	4,900,449
	<u>\$ 3,007,185</u>	<u>\$ 4,900,449</u>	<u>\$ -</u>	<u>\$ 7,907,634</u>
Money market funds				121,955
				<u>\$ 8,029,589</u>

Investments valued at NAV or its equivalent as of August 31, 2016, consisted of the following:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Compostela Fund:				
Guaranteed rate investments	<u>\$ 12,296,817</u>	N/A	Unlimited	Liquid

**DIOCESAN CENTRAL FUNDS OF THE
R.C. DIOCESE OF BROOKLYN, NEW YORK**
Notes to Combined Financial Statements
For the years ended August 31, 2016 and 2015

Investments valued at NAV or its equivalent as of August 31, 2015, consisted of the following:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Compostela Fund:				
Guaranteed rate investments	\$ 4,900,449	N/A	Unlimited	Liquid

Investment return for the years ended August 31, 2016 and 2015 was comprised of the following:

	<u>2016</u>	<u>2015</u>
Operating Fund:		
Interest and dividends	\$ 281,414	\$ 145,027
Unrealized and realized depreciation	<u>(200,181)</u>	<u>(170,996)</u>
	<u>\$ 81,233</u>	<u>\$ (25,969)</u>

4. PROPERTY, FURNITURE AND EQUIPMENT, NET

Fixed assets at August 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 5,376,556	\$ 5,305,205
Furniture and equipment	<u>15,955,547</u>	<u>15,658,283</u>
	21,332,103	20,963,488
Less: accumulated depreciation	<u>(16,915,235)</u>	<u>(16,452,429)</u>
	<u>\$ 4,416,868</u>	<u>\$ 4,511,059</u>

Depreciation expense for the years ended August 31, 2016 and 2015 totaled \$462,806 and \$450,155, respectively.

5. ACCOUNTS, NOTES AND OTHER RECEIVABLES, NET

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

The Diocesan Central Funds also has accounts receivable from parishes, schools and other organizations for Diocesan assessments and other charges.

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Due to the circumstances and unpredictability surrounding recoveries of previously reserved receivables, such recoveries, if any, are recognized as revenue in the year that they are received.

Accounts, notes and other receivables at August 31, 2016 and 2015, consisted of the following:

	2016		
	Gross Receivables	Reserve for Doubtful Receivables	Net Receivables
Accounts receivable	\$ 3,610,364	\$ (3,260,149)	\$ 350,215
Due from Diocesan organizations	15,283,892	(14,503,409)	780,483
Due from Annual Catholic Appeal	3,956,969	-	3,956,969
Other	<u>2,288,120</u>	<u>(1,000,953)</u>	<u>1,287,167</u>
	<u>\$ 25,139,345</u>	<u>\$ (18,764,511)</u>	<u>\$ 6,374,834</u>
	2015		
	Gross Receivables	Reserve for Doubtful Receivables	Net Receivables
Accounts receivable	\$ 3,529,529	\$ (2,910,927)	\$ 618,602
Due from Diocesan organizations	17,186,458	(16,537,840)	648,618
Due from Annual Catholic Appeal	4,476,715	-	4,476,715
Grant receivable	149,263	-	149,263
Other	<u>7,754,262</u>	<u>(1,000,953)</u>	<u>6,753,309</u>
	<u>\$ 33,096,227</u>	<u>\$ (20,449,720)</u>	<u>\$ 12,646,507</u>

6. ASSETS HELD IN TRUST

The 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. The remainder is available for other religious, charitable and educational purposes. The corpus of the Connell Trust Fund is administered by JPMorgan Chase Bank, as trustee. The 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. The 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, or \$7,426,996 and \$7,126,177 at August 31, 2016 and 2015, respectively.

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The Roman Catholic Bishop of the Diocese of Brooklyn is the income beneficiary of the Arthur F. Knauth Educational Fund established under Article 6 of the will of Blanche A. Knauth, dated November 1, 1966 in the amount of \$100,000. Income from the trust, for which JPMorgan Chase 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 this trust was \$577,393 and \$565,516 at August 31, 2016 and 2015, respectively.

The aforementioned resources are reported as assets held in trust and permanently restricted net assets in the accompanying combined financial statements and, categorized as Level 3 financial instruments under the fair value hierarchy. 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 temporarily restricted support.

7. LOAN PAYABLE

Effective December 4, 2008, the Diocesan Central Funds entered into a note payable agreement with Peter Turner Insurance Company (“Peter Turner”), a related party of the Roman Catholic Diocese of Brooklyn, New York. The note was payable on demand and bore interest at the 2-Year Treasury Note rate as published in the *Wall Street Journal*, adjusted on a quarterly basis. At August 31, 2015, the interest rate was 0.690% and, interest expense for the year then ended totaled \$59,310. On August 31, 2015, the principal of \$10,000,000 plus accrued interest of \$126,779 was paid in full.

8. EMPLOYEE PENSION PLAN

Employees of the departments and programs comprising the Diocesan Central Funds participate in the Roman Catholic Diocese of Brooklyn Pension Plan (the “Plan”), a noncontributory defined benefit pension plan covering substantially lay employees. The Plan was established as a Church Plan, exempt from compliance with the Employee Retirement Income Security Act (“ERISA”) and, operates as a non-ERISA multi-employer plan that is not subject to the reporting requirements of ASC 715. The Plan is a career average plan covering eligible employees and conducts an actuarial valuation annually as of January 1st. Using an assumed rate of return of 6%, the Plan was approximately 76% funded based on the actuarial present value of the accumulated plan benefits as of January 1, 2015. For the years ended August 31, 2016 and 2015, total pension expense for the entities and programs included in the accompanying combined statements totaled \$603,430 and \$586,131, respectively. It is Diocesan policy to provide for pension costs. Because the Plan includes lay employees of various Diocesan organizations, information is not available as to the vested and non-vested earned benefits and Plan assets for only those employees of the Diocesan Central Funds.

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9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2016 and 2015, were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Pastoral:		
Annual Catholic Appeal	\$ 7,320,311	\$ 8,517,148
House of Discernment	114,185	114,185
Local campaign for human development	366,644	394,236
Local communications	470,579	530,609
Catechumenium of Our Lady of Pilar	32,000	32,000
	<u>8,303,719</u>	<u>9,588,178</u>
Education	<u>1,168,799</u>	<u>1,354,955</u>
Total	<u>\$ 9,472,518</u>	<u>\$ 10,943,133</u>

Net assets released from donor restrictions during the years ended August 31, 2016 and 2015, by the passage of time or incurring expenses satisfying the restricted purposes were as follows:

	<u>2016</u>	<u>2015</u>
Pastoral:		
Education	\$ 214,727	\$ 396,654
Local campaign for human development	-	84,233
Local communications	150,000	153,000
Annual Catholic Appeal Parish credits	628,692	1,183,848
Annual Catholic Appeal	8,542,095	8,261,471
	<u>9,535,514</u>	<u>10,079,206</u>
Education	<u>392,419</u>	<u>391,225</u>
	<u>\$ 9,927,933</u>	<u>\$ 10,470,431</u>

At August 31, 2016 and 2015, permanently restricted net assets consisted of Diocesan Central Funds' share of the Connell Trust Fund and the Arthur F. Knauth Educational Fund perpetual trusts, the income of which is principally expendable to support scholarships and Diocesan Central Funds' activities (Note 6).

10. CONTINGENCIES

The Diocese is involved in various claims and legal actions arising in the ordinary course of operations, which are administered by Peter Turner. The Diocesan Central Funds is contingently liable for losses should Peter Turner or other insurance carriers be unable to cover insurable claims. The potential exposure, if any, resulting from such claims could not be reasonably estimated at August 31, 2016.

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11. REAL ESTATE

On September 1, 2014, the Roman Catholic Diocese of Brooklyn, New York assumed all rights, title, and interest in a property that reverted to it. This property had an estimated fair value of approximately \$38,000,000, as determined by an independent appraisal.

On August 15, 2015, the Diocese transferred the property to Rocklyn Ecclesiastical Corporation.

12. PUBLIC ASSISTANCE GRANTS

On October 29, 2012, Superstorm Sandy made landfall impacting various Northeast region coastal areas, including Brooklyn and other New York City Metropolitan areas. The storm surge and high winds caused significant damage to various Diocese of Brooklyn properties and other assets.

In response to the damages caused by Superstorm Sandy, President Obama signed a major disaster declaration on October 30, 2012, authorizing the Federal Emergency Management Agency (“FEMA”) to provide Public Assistance grants (“PA”) to eligible entities for response and recovery efforts. The emergency declaration supports the reimbursement of eligible emergency work (categorized as emergency protective measures and debris removal) and permanent work (categorized as restoration of building and equipment). And, on June 26, 2013, the President authorized reimbursement of eligible costs at a 90% rate.

The estimated value of damages and recovery costs as of August 31, 2016, totaled approximately \$10,200,000, which include an estimated \$7,300,000 in permanent repair/replacement of damaged facilities and \$2,900,000 for debris removal and emergency protective measures. These estimated costs will be reduced by an estimated \$3,200,000 in insurance recoveries, thereby resulting in an estimated \$7,000,000 in eligible PA costs.

As of August 31, 2016, approximately \$4,000,000 in emergency and recovery spending, including current, prior and future year’s expenditures, was obligated for reimbursement by FEMA, of which approximately \$3,000,000 will be applied to insurance recoveries. Accordingly, approximately \$1,000,000 was recorded within grants revenue in the accompanying combined statement of activities for the year ended August 31, 2016. The remainder of eligible costs will be obligated by FEMA in future fiscal years.

13. SUBSEQUENT EVENTS

The Diocesan Central Funds evaluated its August 31, 2016 combined financial statements for subsequent events through May 31, 2017, the date the accompanying combined financial statements were available to be issued. In connection therewith, the Diocese is contemplating establishing an independent reconciliation and compensation program that will seek to promote healing and bring closure by providing compensation to victim-survivors of abuse by priests or deacons of the Diocese similar to programs administered by other diocesan organizations throughout the United States.