TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE

Financial Statements

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154

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 Telecare of the Diocese of Rockville Centre (Telecare) as of August 31, 2008 and 2007, and the related statements of activities and cash flows for the years 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 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 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 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 Telecare of the Diocese of Rockville Centre as of August 31, 2008 and 2007, 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.

KPMG LLP

January 27, 2009

TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE

Statements of Financial Position

August 31, 2008 and 2007

Assets		**2008**	**2007**
Cash and cash equivalents	$	—	4,737
Investments (note 3)		187,162	—
Due from other Diocesan organizations (note 7)		137,779	115,000
Accounts receivable, net of allowance for doubtful accounts of $257,000 and $176,000, respectively		295,799	71,647
Prepaid expenses and other assets		13,053	64,783
Furniture, equipment and building improvements, net (note 4)		697,420	853,555
Total assets	$	1,331,213	1,109,722
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	301,986	219,608
Due to other Diocesan organizations (note 7)		322,282	148,696
Total liabilities		624,268	368,304
Net assets – unrestricted		706,945	741,418
Total liabilities and net assets	$	1,331,213	1,109,722

See accompanying notes to financial statements.

TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE

Statements of Activities

Years ended August 31, 2008 and 2007

		2008	2007
Revenues:			
Special events revenue, net of expenses (note 5)	$	554,843	537,209
Diocese of Rockville Centre Spectrum contribution (note 7)		1,380,000	1,380,000
Rental of transmitter facilities (note 6)		659,648	610,461
Sponsorship revenue		720,205	629,809
Contributed services (note 2)		91,707	86,389
Television services		39,312	73,518
Contributions		21,633	37,760
Bishop’s grant (note 7)		—	50,416
Insurance recovery		43,435	—
Miscellaneous		12,705	6,910
Total revenues		3,523,488	3,412,472
Expenses:			
Technical, engineering and production		2,832,875	2,823,009
General and administrative		1,135,305	911,640
Total expenses		3,968,180	3,734,649
Decrease in net assets before subsidy from the Diocese of Rockville Centre		(444,692)	(322,177)
Diocese of Rockville Centre subsidy (note 7)		410,219	349,061
(Decrease) increase in net assets		(34,473)	26,884
Net assets at beginning of year		741,418	714,534
Net assets at end of year	$	706,945	741,418

See accompanying notes to financial statements.

TELECARE
OF THE DIOCESE OF ROCKVILLE CENTRE

Statements of Cash Flows

Years ended August 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (34,473)	26,884
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	293,423	301,751
Bad debt expense	81,000	22,000
Increase in due from other Diocesan organizations	(22,779)	(115,000)
Increase in accounts receivable	(305,152)	(79,895)
Decrease (increase) in prepaid expenses and other assets	51,730	(34,327)
Increase (decrease) in accounts payable and accrued expenses	68,971	(43,499)
Decrease in deferred revenue	—	(96,177)
Net cash provided by (used in) operating activities	132,720	(18,263)
Cash flows from investing activities:		
Purchases of investments	(805,776)	—
Proceeds from sale of investments	618,614	—
Purchases of furniture, equipment and building improvements	(137,288)	(125,696)
Net cash used in investing activities	(324,450)	(125,696)
Cash flows from financing activities:		
Increase in accounts payable and accrued expenses due to bank overdraft	13,407	—
Proceeds of loan from Protected Self Insurance Plan	173,586	148,696
Net cash provided by financing activities	186,993	148,696
Net (decrease) increase in cash and cash equivalents	(4,737)	4,737
Cash and cash equivalents at beginning of year	4,737	—
Cash and cash equivalents at end of year	$ —	4,737

See accompanying notes to financial statements.

(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 financial support to fund operating losses and working capital needs. The total subsidy provided to Telecare from the Diocese for the years ended August 31, 2008 and 2007 was approximately $1,790,000 and $1,729,000, respectively, inclusive of the Spectrum contribution. Management has implemented certain restructuring plans which management believes will reduce expenses by $400,000 in 2009 principally through personnel reductions and other cost savings. The Diocese had committed to provide financial support to Telecare of $1.6 million to fund its operations through September 1, 2009 payable and to the extent deemed necessary in 2009 by Telecare. In addition, as of August 31, 2008, Telecare was obligated to the Diocese and its affiliate organizations primarily for bills that have been paid on Telecare's behalf for insurance, medical and other costs. The Diocese and its affiliated organizations have indicated that they will not require the repayment of these liabilities or any portion thereof, including interest, or any other loans/advances, including interest, that the Diocese or its affiliates may provide to Telecare during fiscal 2009, until subsequent to September 1, 2009. Given the combination of management's plans, the support commitment from the Diocese and not requiring any repayments of amounts during the year, Telecare's management anticipates cash flows will be adequate to satisfy its liquidity requirements through the 2009 fiscal year and the the accompanying financial statements have been prepared assuming that Telecare will continue its operations through September 1, 2009.

(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 years ended August 31, 2008 and 2007.

(b) Investments

Investments are recorded at fair value (note 3).

(c) 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.

(d) 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 the straight-line basis over the estimated useful lives of the related assets, as follows:

Building improvements:	
Exterior improvements	15 years
Interior improvements	10 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. For the years ended August 31, 2008 and 2007, rental expense was $305,424 and $299,061, respectively.

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.

(e) 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.

(f) 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.

(g) 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.

(h) Risks and Uncertainties

Telecare 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 statement of financial position.

(i) New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires expanded disclosures about fair value measurements. SFAS 157 is effective for reporting periods beginning after November 15, 2007. Telecare is currently evaluating the impact of SFAS 157 on its financial statements; however, the adoption of SFAS 157 will require additional disclosures regarding the inputs used to develop the fair value measurements and the impacts of certain measurements on the statement of activities.

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements. FIN 48 requires entities to determine whether it is more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 is currently effective for Telecare’s August 31, 2010 financial statements. The adoption of FIN 48 is not expected to have a significant impact on Telecare’s financial statements.

(j) Reclassifications

Certain reclassifications have been made to the 2007 financial statement presentation to conform to the 2008 presentation.

(3) Investments

Telecare's investments at August 31, 2008 consist of a U.S. Treasury money market investment.

(4) Furniture, Equipment and Building Improvements

At August 31, 2008 and 2007, furniture, equipment and building improvements, net, consisted of the following:

	2008	2007
Studio and other technical equipment	$ 2,922,960	2,883,274
Building improvements	1,897,161	1,824,321
Studio furniture and fixtures	70,012	70,012
Office furniture, fixtures and equipment	317,240	317,240
Automobiles	77,074	77,074
Total furniture, equipment and building improvements	5,284,447	5,171,921
Less accumulated depreciation	(4,587,027)	(4,318,366)
Furniture, equipment and building improvements, net	$ 697,420	853,555

(5) Special Events

For the years ended August 31, 2008 and 2007, special events revenue and expenses arose from the following:

	2008		
	Proceeds	**Expenses**	**Net revenue**
Annual Golf Classic	$ 244,836	(96,409)	148,427
Annual Telethon	282,811	(13,100)	269,711
Award Luncheon	168,681	(31,976)	136,705
	$ 696,328	(141,485)	554,843

	2007		
	Proceeds	**Expenses**	**Net revenue**
Annual Golf Classic	$ 253,312	(116,837)	136,475
Annual Telethon	252,928	(1,402)	251,526
Award Luncheon	181,793	(32,585)	149,208
	$ 688,033	(150,824)	537,209

(Continued)

(6) Rental of Transmitter Facilities

Telecare leases the use of its transmitter facilities under various operating leases. Rental income in fiscal years 2008 and 2007 was $659,648 and $610,461, respectively. Under the terms of the leases, rental revenue is expected to be received as follows:

		Amount
Fiscal year:		
2009	$	562,566
2010		518,718
2011		539,369
2012		560,907
2013		583,372
Thereafter		1,985,669
Total	$	4,750,601

In fiscal year 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 were deferred and were recognized as revenue over the terms of the agreements.

(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 SFAS No. 87, *Employers' Accounting for Pensions*, as amended by SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. Pension expense approximated $114,000 and $116,750 for the lay pension plan and $11,200 and $6,900 for the clergy retirement plan for the years ended August 31, 2008 and 2007, respectively.

(b) Insurance and Benefits

Telecare has obtained its property and casualty insurance through the Protected Self Insurance Program of the Diocese of Rockville Centre (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 $56,000 and $52,700 for the years ended August 31, 2008 and 2007, respectively. Additionally, Telecare's expense under the Health Insurance Program was approximately $200,000 and $180,000 for the years ended August 31, 2008 and 2007, respectively.

(c) Operating Subsidy

In 2006, the Diocese entered into an agreement with an outside wireless cable company (Spectrum) 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. In 2008 and 2007, the Diocese contributed $1,380,000 of these lease payments to Telecare.

(d) Due to Other Diocesan Organizations

As of August 31, 2008, Telecare was obligated to the Diocese and its affiliate organizations primarily for bills that have been paid by the Insurance Division of the Diocese of Rockville Centre on Telecare's behalf for insurance, medical and other costs. The Diocese and its affiliated organizations have indicated that they will not require the repayment of these liabilities or any portion thereof, including interest, or any other loans/advances, including interest, that the Diocese or its affiliates may provide to Telecare during fiscal 2009, until subsequent to September 1, 2009.

(e) Bishop's Grant

During 2007, the Bishop of the Diocese authorized a grant to all Diocesan entities in an amount equal to three months of the entity's (employer's) share of medical insurance premiums. Telecare's grant totaled $50,416 for the year ended August 31, 2007.