

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

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**FINANCIAL STATEMENTS**

as of and for the years ended June 30, 2010 and 2009

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

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## INDEPENDENT AUDITORS' REPORT

Most Reverend George H. Niederauer  
The Roman Catholic Archbishop of San Francisco

We have audited the accompanying statements of financial position of the Central Administrative office of the Roman Catholic Archdiocese of San Francisco (the Chancery) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Chancery'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 the Chancery'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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Office of the Roman Catholic Archdiocese of San Francisco as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Burr Pilger Mayer, Inc.*

San Francisco, California  
December 10, 2010

*Member of The Leading Edge Alliance*

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2010 and 2009

	2010	2009
<b>ASSETS</b>		
Cash	\$ 8,911,394	\$ 9,238,589
Time certificates of deposit	38,300,000	38,200,000
Investments	72,478,729	72,846,394
Receivables:		
High schools and institutions, net	3,407,371	6,304,868
Pledges receivable, net	3,507,142	3,664,108
Other receivables, net	3,300,655	2,895,535
Prepaid assets	2,167,412	2,115,282
Property, land, and equipment, net	40,536,575	39,695,707
Real estate held for sale, net	293,139	253,126
Deferred seismic retrofit costs	2,750,000	4,500,000
Beneficial interest in a perpetual trust	685,478	645,827
	\$ 176,337,895	\$ 180,359,436
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 4,446,875	\$ 4,194,732
Seismic retrofit obligation	2,750,000	4,500,000
Deferred lease revenue	2,832,986	2,980,648
Assets held for high schools and institutions	19,927,427	25,019,254
Equity of others in pooled investments	22,979,428	21,133,570
Payable to Capital Assets Support Corporation	4,733,935	7,926,461
	57,670,651	65,754,665
Net assets:		
Unrestricted:		
Undesignated	41,384,244	42,425,719
Designated	44,027,555	42,310,647
	85,411,799	84,736,366
Temporarily restricted	15,568,658	12,222,366
Permanently restricted	17,686,787	17,646,039
	118,667,244	114,604,771
Total net assets	118,667,244	114,604,771
Total liabilities and net assets	\$ 176,337,895	\$ 180,359,436

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

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**  
**STATEMENTS OF ACTIVITIES**  
for the years ended June 30, 2010 and 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>								
Gifts, bequests, and collections	\$ 1,169,236	\$ 8,150,694	\$ 1,098	\$ 9,321,028	\$ 444,833	\$ 6,953,928	\$ 50,613	\$ 7,449,374
Fees for services	4,113,182	-	-	4,113,182	4,285,857	-	-	4,285,857
Investment income (loss)	5,011,341	2,322,396	-	7,333,737	(3,716,504)	(3,605,058)	-	(7,321,562)
Change in beneficial interest	-	-	39,650	39,650	-	-	(213,022)	(213,022)
Insurance	29,772,846	-	-	29,772,846	26,277,750	-	-	26,277,750
Rental income	1,633,878	-	-	1,633,878	1,675,904	-	-	1,675,904
Other income	2,060,529	-	-	2,060,529	1,004,439	-	-	1,004,439
Gain (loss) on sale of property, land, and equipment	5,271	-	-	5,271	(31,884)	-	-	(31,884)
Net asset reimbursement (Interfund transfer)	-	-	-	-	(795,382)	795,382	-	-
Net assets released from restriction	7,126,798	(7,126,798)	-	-	7,720,893	(7,720,893)	-	-
<b>Total revenues</b>	<b>50,893,081</b>	<b>3,346,292</b>	<b>40,748</b>	<b>54,280,121</b>	<b>36,865,906</b>	<b>(3,576,641)</b>	<b>(162,409)</b>	<b>33,126,856</b>
<b>Expenses:</b>								
Compensation and benefits	8,631,724	-	-	8,631,724	8,736,965	-	-	8,736,965
Professional fees	2,071,803	-	-	2,071,803	1,673,276	-	-	1,673,276
Property costs and depreciation	2,312,661	-	-	2,312,661	2,427,299	-	-	2,427,299
Office expenses	1,076,508	-	-	1,076,508	1,445,135	-	-	1,445,135
Assessments	224,779	-	-	224,779	237,851	-	-	237,851
Other operating expenses	1,595,943	-	-	1,595,943	1,600,694	-	-	1,600,694
Insurance	27,919,840	-	-	27,919,840	23,889,723	-	-	23,889,723
Program subsidies	4,125,323	-	-	4,125,323	3,077,184	-	-	3,077,184
Priest retirement benefits	1,741,109	-	-	1,741,109	763,487	-	-	763,487
Interest paid to schools and institutions	330,415	-	-	330,415	838,366	-	-	838,366
Provision for uncollectible accounts	187,543	-	-	187,543	31,319	-	-	31,319
<b>Total expenses</b>	<b>50,217,648</b>	<b>-</b>	<b>-</b>	<b>50,217,648</b>	<b>44,721,299</b>	<b>-</b>	<b>-</b>	<b>44,721,299</b>
Change in net assets	675,433	3,346,292	40,748	4,062,473	(7,855,393)	(3,576,641)	(162,409)	(11,594,443)
Net assets, beginning of year	84,736,366	12,222,366	17,646,039	114,604,771	92,080,673	15,799,007	17,808,448	125,688,128
Net assets transferred from Shrine of St. Francis Assisi (Note 6)	-	-	-	-	2,170,190	-	-	2,170,190
Net asset transfer to Vallombrosa Center (Note 3)	-	-	-	-	(1,659,104)	-	-	(1,659,104)
<b>Net assets, end of year</b>	<b>\$ 85,411,799</b>	<b>\$ 15,568,658</b>	<b>\$ 17,686,787</b>	<b>\$ 118,667,244</b>	<b>\$ 84,736,366</b>	<b>\$ 12,222,366</b>	<b>\$ 17,646,039</b>	<b>\$ 114,604,771</b>

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

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**  
**STATEMENTS OF CASH FLOWS**  
for the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Increase (decrease) in cash		
Cash flows from operating activities:		
Change in net assets	\$ 4,062,473	\$ (11,594,443)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in beneficial interest	(39,651)	213,022
Net realized and unrealized (gain) loss on investments	(8,260,916)	13,537,409
Depreciation	1,059,458	1,063,569
Bad debt expense	187,543	31,319
(Gain) loss on sale of property, land, and equipment	(5,271)	31,879
Contributions restricted for long-term purpose	(1,098)	(50,613)
Change in operating assets and liabilities:		
Receivables	2,461,800	218,241
Prepaid expenses	(52,130)	(1,447,582)
Real estate held for sale	(42,118)	-
Accounts payable and accrued liabilities	(72,190)	(1,897,070)
Payable to Capital Assets Support Corporation	(3,239,223)	(2,500,000)
Deferred lease revenue	(147,662)	(157,482)
Total adjustments	<u>(8,151,458)</u>	<u>9,042,691</u>
Net cash used in operating activities	<u>(4,088,985)</u>	<u>(2,551,752)</u>
Cash flows from investing activities:		
Borrowings from the Capital Assets Support Corporation	46,697	500,000
Purchase of investments	(61,206,109)	(78,670,760)
Proceeds from sale of investments	69,834,690	81,014,050
Proceeds from sale of property, land, and equipment	128,998	-
(Increase) decrease in time certificates of deposits	(100,000)	10,700,000
Purchase of property, land, and equipment	(1,697,614)	(1,273,627)
Net cash provided by investing activities	<u>7,006,662</u>	<u>12,269,663</u>
Cash flows from financing activities:		
Cash transferred to Vallombrosa Center	-	(276,635)
(Decrease) in assets held for high schools and institutions	(5,091,827)	(8,050,931)
Increase (decrease) in equity held for others in pooled investments	1,845,858	(3,743,719)
Contributions restricted for long-term purpose	1,098	50,613
Net cash used in financing activities	<u>(3,244,871)</u>	<u>(12,020,672)</u>
Net decrease in cash	(327,194)	(2,302,761)
Cash, beginning of year	<u>9,238,589</u>	<u>11,541,350</u>
Cash, end of year	<u>\$ 8,911,395</u>	<u>\$ 9,238,589</u>
Supplemental disclosure of cash flow information—Cash paid for interest on deposits	<u>\$ 330,415</u>	<u>\$ 838,366</u>
Noncash disclosures:		
Construction in progress included in accounts payable	<u>\$ 324,333</u>	<u>\$ -</u>
Transfer of property from Shrine of St. Francis Assisi (Note 6)	<u>\$ -</u>	<u>\$ 2,170,190</u>
Transfer of investments, receivables and property, land, and equipment to Vallombrosa Center (Note 3)	<u>\$ -</u>	<u>\$ (1,382,469)</u>

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

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

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**1. The Chancery**

The Roman Catholic Archbishop of San Francisco, a California Corporation Sole (the Corporation Sole), was incorporated on February 24, 1854. The Corporation Sole operates the Central Administrative Office of the Roman Catholic Archdiocese of San Francisco (the Chancery). The Corporation Sole also operates certain parishes, schools, cemeteries and certain Catholic programs within the Archdiocese such as the Vallombrosa Center.

The accompanying financial statements include only the Chancery and those funds over which the Chancery maintains direct operational control. Such statements do not include any assets or liabilities of the other operating units of the Corporation Sole as described above. In addition, the accompanying financial statements do not include, or pertain to, separate and independent corporate entities affiliated with the Corporation Sole that are located within The Roman Catholic Archdiocese of San Francisco (the Archdiocese) such as: The Roman Catholic Seminary of San Francisco (the Seminary), Catholic Charities – CYO of the Archdiocese of San Francisco, The Archdiocese of San Francisco Parish, School and Cemetery Juridic Persons Capital Assets Support Corporation (CASC) and The Archdiocese of San Francisco Parish and School Juridic Persons Real Property Support Corporation (RPSC).

A significant portion of the Chancery’s revenues is derived from assessments obtained from and fees for services provided to parishes, schools and other Archdiocesan institutions as well as rental income from certain properties. These revenues are expended by the Chancery for the various programs, ministries, and needs of the Chancery. In addition, the Chancery administers the Archdiocesan insurance program.

The Chancery office administers funds on behalf of certain institutions, as well as the Chancery, in an investment pool invested with fund managers in separate custodial accounts. The Chancery also administers a Deposit and Loan fund on behalf of high schools and certain institutions. Ownership by specific funds or entities in the investment pool is accounted for on a pooling method based on fair values. Assets held for high schools and institutions and equity of others in the pooled investments are reflected as liabilities in unrestricted net asset classification in the current fund.

**2. Summary of Significant Accounting Policies**

The accounting policies of the Chancery conform to accounting principles generally accepted in the United States of America applicable to not-for-profit entities. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

***Basis of Presentation***

The accounts of the Chancery are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds in accordance with specified activities or objectives. For financial statement purposes, all financial transactions are reported by class of net assets as prescribed for not-for-profit entities. The following is a description of the classes of net assets included in the financial statements.

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. Summary of Significant Accounting Policies, continued**

***Basis of Presentation***, continued

**Unrestricted**

Unrestricted net assets consist of all resources of the Chancery that have not been restricted by a donor. Certain unrestricted resources have been internally designated for specific purposes.

**Temporarily Restricted**

Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of the donated assets. Donor restrictions are stipulated by either a time restriction or a purpose restriction. Upon expiration of a time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Temporarily restricted amounts received and used during the year flow through the statement of activities as temporarily restricted.

**Permanently Restricted—Endowments**

Permanently restricted net assets consist of assets the use of which has been restricted for investment in perpetuity as donor-restricted endowments. The income from endowments is available for either general operations or specific programs as specified by the donor.

Management has interpreted the State of California's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Chancery permanently restricted net assets consist of the fair value of the original gifts as of date donated to the donor-restricted endowment. Any remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the Chancery.

***Accrual Basis***

The financial statements of the Chancery have been prepared on the accrual basis of accounting.

***Cash***

For the purposes of these financial statements, cash is considered to be cash on hand and bank deposits.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**  
**NOTES TO FINANCIAL STATEMENTS**

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**2. Summary of Significant Accounting Policies, continued**

***Concentration of Credit Risk***

Financial instruments that potentially subject the Chancery to concentrations of credit risk consist principally of cash and time certificates of deposit. Such balances with any one institution may, at times, be in excess of federally insured limits. Risks associated with cash and time certificates of deposit are mitigated by banking with creditworthy institutions. The Chancery has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

***Investments***

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with current period recognition of increases or decreases in fair value shown in the statement of activities. Investments also include cash held by investment custodians. The valuations of certain alternative investments, which are not readily marketable, are carried at fair values as provided by the investment managers or general partners. Investment income recorded on the Statement of Activities includes interest and dividend income as well as realized and unrealized gains and losses. The Chancery reviews and evaluates the values provided by the third parties and agrees with the valuation methods and assumptions used in determining the fair values of the alternative investments. Alternative investments include investments in hedge funds (see Note 16).

***Receivables***

Receivables consist of loans, notes, accounts and other non-trade receivables and assessments receivable from schools and other institutions. Credit is extended based upon the evaluation of the entity's financial condition and other factors, and generally, collateral is not required, except in certain isolated cases where property is sold involving a note receivable and then a deed of trust is obtained. Loans and notes receivable have variable maturity dates and are generally due in accordance with scheduled payments. The allowance for doubtful accounts and loan losses is determined based on a consideration of a number of factors, including the Chancery's previous loss history, the entity's previous payment history, financial condition and ability to pay, and the condition of the general economy. The Chancery writes off accounts receivable and loans and notes receivable to the allowance when they are determined to be uncollectible. Payments subsequently received on accounts, loans, and notes previously written off are credited to the bad debt provision.

Interest accrues on loans and notes receivable monthly in accordance with the applicable interest rates. Interest accruals are discontinued when it is determined that a specific allowance is required against a loan or note. Interest income is subsequently recognized on such loans or notes only to the extent cash is received.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

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**2. Summary of Significant Accounting Policies, continued**

***Property, Land, and Equipment***

Property, land, and equipment are held in the name of the Corporation Sole and are stated at cost if purchased or at fair value at the date of the gift if donated. Prior to 1996, properties related to closed parishes were recorded at assessed or insured value, whichever was less on the date of closure. Subsequent to 1995, properties related to closed parishes are recorded at book value on the date of closure. Also included are certain properties for which the Chancery canonically has oversight. If any of those properties have operations, the operations are accounted for by the responsible parties. For properties placed in service and for which the Chancery has oversight, depreciation is provided in amounts sufficient to amortize the cost of depreciable assets to operations over their estimated service lives, ranging from 5 to 70 years, using the straight-line method. For buildings placed in service effective July 1, 2009, the estimated service life will be 40 years.

***Deferred Lease Revenue***

Deferred lease revenue consists of a lease payment received from a lessee for periods subsequent to the statement of financial position date. The noncancellable minimum lease payment portion of the deferred lease revenue is recognized on a straight-line basis as rental income over the prepayment period. The inflationary component of the lease prepayment is recognized as rental income as earned.

***Assets Held for High Schools and Institutions (Liability)***

The Chancery holds deposits for high schools and institutions which are held for investment purposes and/or loaned to other schools and institutions. Deposit interest rates averaged 1.63% and 2.98% in fiscal year 2010 and fiscal year 2009, respectively.

Also, included in the assets held for high schools and institutions are proceeds from special collections administered by the United States Conference of Catholic Bishops and other special collections local to the Archdiocese and administered by the Chancery.

***Contributions***

The Chancery reports contributions as unrestricted revenue unless they are received with donor stipulations that limit the use of the donated assets, in which case they are recorded as temporarily or permanently restricted revenue. The Chancery recognizes all unconditional gifts and promises to give in the period notified, if deemed collectible.

***Tax Exempt Status***

The Roman Catholic Archbishop of San Francisco is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as set forth in the Roman Catholic Church's annual group ruling received from the Internal Revenue Service.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

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**2. Summary of Significant Accounting Policies, continued**

***Uncertain Income Tax Positions***

At July 1, 2009, the Chancery adopted Accounting for Uncertainty in Income Tax guidance. As the Chancery is exempt from taxation under Section 501 (c)(3) of the Internal Revenue Code as noted above, the adoption of this guidance had no impact on the Chancery's financial statements.

***Fair Value of Financial Instruments***

The carrying amount of cash, time certificates of deposit, receivables and payables approximate fair value because of the short maturity of those instruments.

***Fair Value Measurements***

The Chancery follows the fair value measurements and disclosures standards which define fair value, establishes a framework for measuring fair value to measure assets and liabilities, and expands disclosures about fair value measurements. Under the standards for fair value measurements and disclosures, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets and liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes to fair value of these financial assets and liabilities are recognized in the change in net assets when they occur. The standard applies whenever the Financial Accounting Standards Board Codification (the Codification) requires or an irrevocable option has been made to measure certain financial assets or liabilities at fair value.

***Use of Estimates***

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required 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 financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Chancery's allowances for doubtful receivables, pledges and loans, fair value of alternative investments and deferred seismic retrofit costs are particularly significant estimates. The determination of the balances in the allowance accounts is based on an analysis of the receivables, pledges and loans and reflects amounts which, in management's judgment, are adequate to provide for potential losses after giving consideration to the character of the receivables and loan portfolio, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses. The determination of the deferred seismic retrofit costs is based on management's estimate of the preliminary cost of the project less costs incurred to date.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

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**2. Summary of Significant Accounting Policies, continued**

***Conditional Asset Retirement Obligation***

In the ordinary course of business the Chancery may need to comply with certain legal obligations as part of a demolition or major renovation of a facility. The Chancery currently has no plans for demolition or major renovation, except for certain seismic retrofit improvements for which an asset retirement obligation has been recognized (see Note 7). The Chancery will continue to review for potential asset retirement obligations and record a liability when sufficient information exists to indicate that such an obligation has been incurred and to estimate the fair value of an asset retirement obligation.

***Financial Accounting Standards Board Codification***

Effective July 1, 2009, the Codification became the single source of non-governmental authoritative generally accepted accounting principles (GAAP) superseding all existing financial accounting standards. The implementation of the Codification did not have a material impact on the Chancery's financial statements.

**3. Composition of Transferred Assets**

At the request of Vallombrosa management, operating assets (excluding land and building), liabilities and net assets transferred on July 1, 2008 to Vallombrosa Center, as a separate operating division, consisted of the following:

Assets:	
Cash	\$ 276,635
Investments	900,015
Receivables:	
Other receivables	50,737
Property, improvements, and equipment, net	<u>658,677</u>
Total assets	<u>\$ 1,886,064</u>
Liabilities—Accounts payable and accrued liabilities	\$ 226,960
Equity—Net assets	<u>1,659,104</u>
Total liabilities and equity	<u>\$ 1,886,064</u>

**4. Investments**

The Chancery administers an investment pool, as an agent and through independent custodial arrangements for the benefit of various Archdiocesan entities. The funds deposited by, or on behalf of, each participant is the sole property of that participant and are processed by the investment pool service providers and the Chancery as agents and custodians for the participants.

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

**4. Investments**, continued

The Investment Pool was established for participants with long-term horizons, moderate growth and income requirements, and moderate risk objectives. The Pool invests in stocks and bonds and alternative assets. The pool is operated under the total return concept, which allocates income (loss) to each participant based upon the total return earned in invested funds, including realized and unrealized gains and losses and taking investment management fees into account.

Investments were held by the following at June 30:

	2010	2009
Investment Pool	\$ 72,238,210	\$ 72,615,018
Current Fund	240,519	231,376
Total investments	\$ 72,478,729	\$ 72,846,394

Total investment income (loss) was \$9,899,820 and \$(10,474,103) for the years ended June 30, 2010 and 2009, respectively. Of this amount, \$7,333,737 and \$(7,321,562) represents the Chancery's investment income (loss) in the Investment Pool for the years ended June 30, 2010 and 2009, respectively.

**5. Receivables**

Receivables consist of the following at June 30:

	2010	2009
Schools and institutions:		
Loans receivable	\$ 3,907,371	\$ 6,804,868
Less allowance for uncollectible loans	(500,000)	(500,000)
Total schools and institutions, net	\$ 3,407,371	\$ 6,304,868
Pledges and assessments:		
Today's Students – Tomorrows Leaders	\$ 48,478	\$ 74,478
Archbishop's Annual Appeal	4,077,292	4,160,613
	4,125,770	4,235,091
Less allowance for uncollectible pledges	(618,628)	(570,983)
Total pledges receivable, net	\$ 3,507,142	\$ 3,664,108

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

**5. Receivables, continued**

	2010	2009
Other receivables, net:		
Notes receivable Diocese of Santa Rosa	\$ 1,410,000	\$ 1,410,000
Notes receivable re: St. Brigid (church)	1,459,596	1,522,340
Note and interest receivable Marin Catholic High School	546,697	502,273
Other notes receivable	140,197	154,744
Interest receivable	26,162	87,405
Miscellaneous receivables	1,283,830	801,844
Less allowance for doubtful accounts	(1,565,827)	(1,583,071)
Total other receivables, net	\$ 3,300,655	\$ 2,895,535

The loans receivable, which are unsecured, mature at various dates through 2025 with interest at 5.5%. Notes receivable, which are unsecured, mature at various dates through 2016 with interest ranging from 5.0% to 8.0%. All pledges receivable are due within one year.

**6. Property, Land, and Equipment**

Property, land, and equipment consist of the following at June 30:

	2010	2009
Buildings and improvements	\$ 41,706,930	\$ 41,721,387
Equipment	2,142,459	2,167,812
Automobiles	89,095	89,095
	43,938,484	43,978,294
Accumulated depreciation	(13,970,469)	(12,931,928)
	29,968,015	31,046,366
Land	8,066,408	8,152,281
Construction in progress	2,502,152	497,060
Total property, land, and equipment, net	\$ 40,536,575	\$ 39,695,707

The Chancery assumes canonical responsibility for the management of closed parish sites. The Chancery's responsibilities include the management of property, land, and equipment of those sites. No parishes were closed in the current year or in the prior year. Included in property, land, and equipment, is the net book value of land, buildings and equipment of closed parishes recorded on the books of the Chancery totaling \$9,046,293 and \$9,143,104 at June 30, 2010 and 2009, respectively.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

**6. Property, Land, and Equipment, continued**

Included in property, land, and equipment, is \$1,050,912 at June 30, 2010 and 2009, which is the carrying value of one non-parish school. This amount is also reflected as a liability in assets held for high schools and institutions at June 30, 2010 and 2009.

Included in property, land, and equipment, is the gross amount of \$2,183,048 at June 30, 2010 and 2009, for donated real estate held as tenants in common interest. Of this amount, \$1,094,024 is temporarily restricted for education and \$1,089,024 is temporarily restricted for social, ethnic, and cultural services.

Included in Construction in progress is the amount of \$2,415,628 and \$497,060 at June 30, 2010 and 2009, respectively that represent the cost to date of the seismic retrofit of the National Shrine of St. Francis of Assisi.

Included in buildings and improvements is the amount of \$2,170,190 at June 30, 2009 for construction paid by the Shrine of St. Francis Assisi for the years ended June 30, 2007 through June 30, 2009 that were completed and transferred to the Chancery during 2009.

An interest in St. Vincent's Property as a tenant in common is included in Land in the amount of \$2,910,748 and \$2,996,620 at June 30, 2010 and 2009, respectively.

Depreciation expense totaled \$1,059,458 and \$1,063,569 for the year ended June 30, 2010 and 2009, respectively.

**7. Seismic Retrofit Costs**

The Chancery is obligated to make certain structural improvements to the National Shrine of St. Francis of Assisi which is designated as a historical landmark. The seismic retrofit improvement of the building was required by the local jurisdiction as a condition of future occupancy. Management's best estimate of the seismic retrofit cost remaining is \$2,750,000 at June 30, 2010. A seismic retrofit obligation and its related deferred cost are reflected on the statement of financial position.

**8. Payable to Capital Assets Support Corporation**

Payable to Capital Assets Support Corporation at June 30:

	2010	2009
5.5% uncollateralized, line of credit, authorized limit of \$5,000,000, interest payable monthly and all unpaid principal and interest due on October 31, 2012.	\$ 546,697	\$ 500,000
Uncollateralized, note payable, payable in monthly installments of \$26,129 including interest of 5.5%, maturing on December 31, 2025.	4,187,238	7,426,461
Total payable to Capital Assets Support Corporation	\$ 4,733,935	\$ 7,926,461

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**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

**8. Payable to Capital Assets Support Corporation, continued**

The future scheduled maturities of the amount payable to the Capital Assets Support Corporation are as follows:

For the year ended June 30:	
2011	\$ 85,378
2012	90,194
2013	641,979
2014	100,656
2015	106,334
Thereafter	<u>3,709,394</u>
	<u>\$ 4,733,935</u>

**9. Beneficial Interest in a Perpetual Trust**

The Corporation Sole is an income beneficiary named under a perpetual trust, which is managed by a third party. The Corporation Sole does not have rights to the trust assets. Income distributed by the trust is to be expended for religious personnel development in the form of scholarships. The Chancery has recorded the present value of the estimated future cash receipts of the trust's assets, which is best measured by the fair value of the trust's assets as of June 30, 2010 and 2009. This change in fair value is shown as a change in permanently restricted net assets.

**10. Temporarily Restricted Net Assets**

Temporarily restricted net assets are held for the following purposes at June 30:

	2010	2009
Archbishop's Annual Appeal	\$ 5,678,606	\$ 5,858,800
Education assistance, tuition, scholarships and grants	3,666,357	1,671,173
Social, ethnic, and cultural services	1,948,302	1,875,611
Religious personnel education and development	3,919,727	2,709,453
Pastoral programs	92,086	92,086
Priest's Retirement	124,830	-
Building improvements	<u>138,750</u>	<u>15,243</u>
Total temporarily restricted net assets	<u>\$ 15,568,658</u>	<u>\$ 12,222,366</u>

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
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**NOTES TO FINANCIAL STATEMENTS**

**11. Net Assets Released from Restriction**

Net assets were released from donor restrictions by satisfying the conditions for the following restricted purposes or passage of time during the years ended June 30:

	2010	2009
Archbishop's Annual Appeal	\$ 5,858,800	\$ 5,696,620
Education assistance, tuition, scholarships and grants	443,454	1,067,068
Social, ethnic, and cultural services	144,598	82,106
Religious personnel education and development	572,894	543,593
Pastoral programs	-	1,150
Priest's retirement	107,052	330,356
Total net assets released from restriction	\$ 7,126,798	\$ 7,720,893

**12. Donor Restricted Endowments**

Donor restricted endowments are held for the following purposes at June 30:

	2010	2009
Tuition, education assistance	\$ 16,691,474	\$ 16,690,376
Religious personnel education and development	787,656	748,006
Building improvements	206,657	206,657
Mass stipends	1,000	1,000
Total permanently restricted net assets	\$ 17,686,787	\$ 17,646,039

A reclassification between tuition, education assistance and religious building improvements has been made to the donor restricted endowments effective July 1, 2008. Net assets and changes in net assets are unchanged due to this reclassification.

***Endowment Investment and Distribution Policy***

Under Finance Council guidelines, annual distribution for scholarships cannot exceed 4% of a three-year rolling average balance of the endowment or estimated interest and dividends if the endowment is underwater. The Finance Council approved distributions of \$260,500 from anticipated dividends and interest for the year ended June 30, 2010. To achieve its distribution policy, as approved by the Finance Council, the endowment assets are invested in a balanced portfolio comprised principally of cash, equity securities, debt securities and mutual funds. The balanced portfolio is designed to achieve a long-term investment objective of moderate growth and income return with prudent risk constraints.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

**12. Donor Restricted Endowments, continued**

***Endowment Investment and Distribution Policy, continued***

Changes in endowment net assets for the years ended June 30, 2010 and 2009 follows:

	2010		2009		
	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>Tuition, education assistance</b>					
Endowment net assets, beginning of year	\$ 33,130	\$16,690,376	\$ -	\$ 3,664,401	\$16,639,763
Contributions	-	1,098	-	-	50,613
Investment income (loss)	2,258,155	-	-	(3,573,790)	-
Net asset reimbursement (Interfund transfer)	-	-	(795,382)	795,382	-
Net assets released from restriction	(260,500)	-	795,382	(852,863)	-
Endowment net assets, end of year	<u>\$ 2,030,785</u>	<u>\$16,691,474</u>	<u>\$ -</u>	<u>\$ 33,130</u>	<u>\$16,690,376</u>
<b>Religious personnel education and development</b>					
Endowment net assets, beginning of year	\$ 92,779	\$ 748,006	\$ -	\$ 109,466	\$ 961,028
Investment income (loss)	46,609	-	-	22,075	-
Change in beneficial interest in perpetual trust	-	39,650	-	-	(213,022)
Net assets released from restriction	(32,209)	-	-	(38,762)	-
Endowment net assets, end of year	<u>\$ 107,179</u>	<u>\$ 787,656</u>	<u>\$ -</u>	<u>\$ 92,779</u>	<u>\$ 748,006</u>
<b>Building improvements</b>					
Endowment net assets, beginning of year	\$ 15,243	\$ 206,657	\$ -	\$ 7,435	\$ 206,657
Investment income (loss)	30,518	-	-	7,808	-
Endowment net assets, end of year	<u>\$ 45,761</u>	<u>\$ 206,657</u>	<u>\$ -</u>	<u>\$ 15,243</u>	<u>\$ 206,657</u>
<b>Mass stipends</b>					
Endowment net assets, beginning of year	\$ -	\$ 1,000	\$ -	\$ -	\$ 1,000
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000</u>
<b>Total endowment net assets</b>					
Endowment net assets, beginning of year	\$ 141,152	\$17,646,039	\$ -	\$ 3,781,302	\$17,808,448
Contributions	-	1,098	-	-	50,613
Investment income (loss)	2,335,282	-	-	(3,543,907)	-
Change in beneficial interest in perpetual trust	-	39,650	-	-	(213,022)
Net asset reimbursement (Interfund transfer)	-	-	(795,382)	795,382	-
Net assets released from restriction	(292,709)	-	795,382	(891,625)	-
Endowment net assets, end of year	<u>\$ 2,183,725</u>	<u>\$17,686,787</u>	<u>\$ -</u>	<u>\$ 141,152</u>	<u>\$17,646,039</u>

Continued

**CENTRAL ADMINISTRATIVE OFFICE OF THE  
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**NOTES TO FINANCIAL STATEMENTS**

**13. Functional Classification**

The expenses of the Chancery are classified on a functional basis among its program and supporting services are as follows during the years ended June 30:

	2010	2009
Program:		
Pastoral	\$ 1,716,394	\$ 2,024,671
Religious personnel education and development	2,432,931	2,403,027
Education	5,075,718	5,722,974
Social, ethnic, and cultural services	807,283	894,842
Insurance and benefits	28,336,535	24,324,700
Deposit and loan interest expense	330,415	838,366
Priest retirement	1,934,503	940,718
Grant to St. Mary's Chinese Center and School	2,000,000	-
Total program	42,633,779	37,149,298
Supporting services:		
Management and general	7,198,209	7,183,711
Development	385,660	388,290
Total supporting services	7,583,869	7,572,001
Total expenses	\$ 50,217,648	\$ 44,721,299

**14. Pension Plans – Priests**

Archdiocesan priests are covered by a defined benefit pension agreement (which operates as a multiemployer plan) the benefits of which were modified effective July 1, 2002 and a qualified pension trust was established to hold the pension assets. At July 1, 2010 (latest valuation date) and 2009, the present value of future benefits was approximately \$21,380,000 and \$21,041,000, respectively, using an assumed long-term rate of return of 7%. At July 1, 2010 (latest valuation date) and 2009, the market value of assets available for plan benefits was approximately \$12,855,000 and \$12,045,000, respectively. No amounts were contributed by the Chancery to fund the qualified plan in 2010 and 2009. This plan is not subject to Employee Retirement Income Security Act (ERISA) funding requirements.

Effective July 1, 2002, the Chancery established a supplemental defined benefit priest retirement plan (which operates as a multiemployer non-qualified plan). At July 1, 2010 (latest valuation date) and 2009, the present value of future benefits was approximately \$11,784,000 and \$12,420,000, respectively, using an assumed long-term rate of return of 7%. At July 1, 2010 (latest valuation date) and 2009, the market value of assets available for plan benefits was approximately \$4,642,058 and \$5,172,000, respectively. Amounts contributed by the Chancery to the plan plus gifts, bequests and collections were \$1,059,334 and \$860,258 in 2010 and 2009, respectively. This plan is not subject to ERISA funding requirements.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

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**15. Pension Plans – Lay Employees**

All full-time, nonpriest employees of the Archdiocesan entities, such as parishes, schools and the Seminary, are enrolled in Archdiocese of San Francisco Parochial Pension Plan (the Plan), which is a cash balance type plan (which operates as a multiemployer plan). The Plan is noncontributory for employees, and employer contributions are 7% of each participant's annual earnings and 7% interest credited to beginning-of-year account balances. This Plan is not subject to ERISA funding requirements.

At January 1, 2010 (latest valuation date) and January 1, 2009, the present values of all accrued benefits were \$80,020,000 and \$73,911,000, respectively, using an assumed long-term rate of return of 7.5% in 2010 and 2009. At January 1, 2010 and 2009, the market values of assets were \$66,639,000 and \$51,376,000, respectively. Amounts charged to pension cost in these financial statements during 2010 and 2009 were \$457,984 and \$409,927, respectively.

**16. Fair Value Measurements**

The Chancery uses valuation techniques used to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions. There have been no changes in valuation techniques for the year ended June 30, 2010.

The Chancery's financial assets and liabilities measured at fair value on a recurring basis are categorized according to the fair value hierarchy consisting of the following three levels:

*Level 1*—Valuation inputs are obtained from real-time quotes for transactions in active exchange markets involving identical assets and liabilities.

*Level 2*—Valuation inputs are obtained from readily-available pricing sources for comparable instruments.

*Level 3*—Valuation inputs are obtained without observable market value and require a high level of judgment to determine the fair value.

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**NOTES TO FINANCIAL STATEMENTS**

**16. Fair Value Measurements, continued**

The following table presents the Chancery's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and June 30, 2009:

	2010	Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Investments</b>				
Cash and cash equivalents	\$ 2,558,346	\$ 2,558,346	\$ -	\$ -
Corporate stocks	35,802,245	35,802,245	-	-
Corporate bonds	7,640,472	7,640,472	-	-
U.S. bonds and notes	6,444,671	6,444,671	-	-
U.S. government securities	7,535,385	7,535,385	-	-
Mutual funds	10,630,793	10,630,793	-	-
Hedge funds	1,866,817	-	1,866,817	-
Total investments	<u>\$ 72,478,729</u>	<u>\$ 70,611,912</u>	<u>\$ 1,866,817</u>	<u>\$ -</u>
<b>Seismic retrofit obligation</b>	<u>\$ 2,750,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,750,000</u>
	2009	Quoted Prices in Active Markets of Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Investments</b>				
Cash and cash equivalents	\$ 2,882,282	\$ 2,882,282	\$ -	\$ -
Corporate stocks	33,725,224	33,725,224	-	-
Corporate bonds	9,578,791	9,578,791	-	-
U.S. bonds and notes	4,146,562	4,146,562	-	-
U.S. government securities	10,639,794	10,639,794	-	-
Mutual funds	10,194,508	10,194,508	-	-
Hedge funds	1,679,233	-	-	1,679,233
Total investments	<u>\$ 72,846,394</u>	<u>\$ 71,167,161</u>	<u>\$ -</u>	<u>\$ 1,679,233</u>
<b>Seismic retrofit obligation</b>	<u>\$ 4,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,500,000</u>

On September 30, 2009, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) for Fair Value Measurements for Investments in Certain Entities that Calculate Net Assets Value per share which offers investors a practical expedient for measuring fair value of investment alternatives in certain entities that calculate net asset value per share. Due to the updated guidance, the Chancery's investment in hedge funds was transferred from Level 3 to Level 2 at June 30, 2010.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO FINANCIAL STATEMENTS**

**16. Fair Value Measurements, continued**

The seismic retrofit obligation is a Level 3 input. The fair value was determined by Management without observable market value and represents Management's estimate of the preliminary cost of the project less costs incurred to date.

The following table shows the reconciliation of the hedge funds and seismic retrofit obligation for the years ended June 30, 2010 and 2009:

	June 30, 2009	Purchases/ Deferred Costs	Sales/ Improvements	Net Unrealized Gain	Transfers out of Level 3	June 30, 2010
Hedge funds	\$ 1,679,233	\$ -	\$ -	\$ 187,584	\$ (1,866,817)	\$ -
Seismic retrofit obligation	\$ 4,500,000	\$ -	\$ (1,750,000)	\$ -	\$ -	\$ 2,750,000

  

	June 30, 2008	Purchases/ Deferred Costs	Sales/ Improvements	Net Unrealized Loss	Transfers out of Level 3	June 30, 2009
Hedge funds	\$ 2,013,771	\$ -	\$ -	\$ (334,538)	\$ -	\$ 1,679,233
Seismic retrofit obligation	\$ 5,000,000	\$ -	\$ (500,000)	\$ -	\$ -	\$ 4,500,000

**17. Risk Retention Group**

The Corporation Sole receives its general liability coverage through its participation with other archdioceses and dioceses in several western states in a state regulated risk retention group.

**18. Letters of Credit**

The Chancery has two collateralized standby letters of credit in the amounts of \$601,271 and \$498,135 at June 30, 2010 and had three collateralized standby letters of credit in the amounts of \$548,135, \$467,743, and \$442,025 at June 30, 2009 for worker's compensation insurance with a bank. The letters of credit at June 30, 2010 expire in December 2010 and January 2011. There were no outstanding borrowings under these agreements at June 30, 2010 or 2009.

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**CENTRAL ADMINISTRATIVE OFFICE OF THE  
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**NOTES TO FINANCIAL STATEMENTS**

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**19. Contingency**

In connection with the 2008 transfer of all Archdiocesan school real property located within the City and County of San Francisco (the City) from The Roman Catholic Welfare Corporation of San Francisco (now dissolved) to the Corporation Sole, and the proposed transfer of that property, as well as all parish church property located within the City, to The Archdiocese of San Francisco Parish and School Juridic Persons Real Property Support Corporation (RPSC), a dispute arose with the San Francisco Recorder as to whether a transfer tax is owed on the transfers in San Francisco. The City claims that several million dollars of transfer tax should be paid on the transfers. In 2009, the Corporation Sole filed an administrative appeal with the San Francisco Transfer Tax Review Board and that Board found in favor of the Recorder as to whether a tax was owed, but did not decide the issue of the amount. The Corporation Sole then appealed the matter to the San Francisco Superior Court. A trial is scheduled for February 8, 2011. While the outcome of litigation is never certain, the Corporation Sole believes it will prevail. Following the San Francisco Tax Review Board's decision, the County of San Mateo sent notice that a property tax of several hundred thousand should be paid for the transfer of property from the Corporation Sole to the RPSC in San Mateo County. However, the parties agreed to put the matter on hold pending the outcome of the lawsuit in San Francisco. Consequently, no amount has been recognized in the accompanying financial statements for these matters.

**20. Litigation**

The Corporation Sole is a party to various actions in the ordinary course of business. In the opinion of management, the outcome of these matters, individually or in the aggregate, would not have a material effect on the Chancery's financial statements.

**21. Future Minimum Rentals**

The Chancery leases various properties. During the years ended June 30, 2010 and 2009, the Chancery recorded \$1,633,878 and \$1,675,904, respectively, in rental income, primarily from leases on its rental properties. The Chancery has received a prepayment for one of the leases, which is shown as deferred rental income on the statements of financial position and not included in the table below. As a result of these leases, the following are future minimum rentals from long-term non-cancelable operating leases as of June 30, 2010:

2011	\$ 1,089,279
2012	608,273
2013	536,300
2014	536,300
2015	63,750
Thereafter	<u>5,700,000</u>
Total	<u>\$ 8,533,902</u>

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**CENTRAL ADMINISTRATIVE OFFICE OF THE  
ROMAN CATHOLIC ARCHDIOCESE OF SAN FRANCISCO**  
**NOTES TO FINANCIAL STATEMENTS**

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**22. Subsequent Events**

The Chancery evaluated subsequent events for recognition and disclosure through December 10, 2010, the date which these financial statements were available to be issued. Management concluded the following material subsequent events have occurred since June 30, 2010, that required recognition or disclosure in such financial statements.

On September 14, 2010, the Chancery finalized the sale of St. Joseph's property for approximately \$4,200,000. The real estate was held for sale at June 30, 2010 and the gain on the sale of the property will be reported in the statement of activities for the year ending June 30, 2011.