

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

FINANCIAL STATEMENTS

as of and for the years ended June 30, 2009 and 2008

**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 statement of financial position of the Central Administrative Office of the Roman Catholic Archdiocese of San Francisco (the Chancery) as of June 30, 2009 and the related statements of activities and cash flows for the year 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 audit. The financial statements of the Chancery as of June 30, 2008 were audited by other auditors whose report dated January 22, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Burr, Pilger & Mayer LLP

San Francisco, California
December 15, 2009

Member of The Leading Edge Alliance

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

as of June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash	\$ 9,238,589	\$ 11,541,350
Time certificates of deposit	38,200,000	48,900,000
Investments	72,846,394	88,727,090
Receivables:		
High schools and institutions, net	6,304,868	7,310,600
Pledges receivable, net	3,664,108	3,325,040
Other receivables, net	2,895,535	2,529,168
Prepaid assets	2,115,282	667,697
Property, land, and equipment, net	39,695,707	37,508,961
Real estate held for sale, net	253,126	253,126
Deferred seismic retrofit costs	4,500,000	5,000,000
Beneficial interest in a perpetual trust	645,827	858,849
Total assets	\$ 180,359,436	\$ 206,621,881
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 4,194,732	\$ 5,821,703
Seismic retrofit obligation	4,500,000	5,000,000
Deferred lease revenue	2,980,648	3,138,130
Assets held for high schools and institutions	25,019,254	33,070,185
Equity of others in pooled investments	21,133,570	23,977,274
Payable to Capital Assets Support Corporation	7,926,461	9,926,461
Total liabilities	65,754,665	80,933,753
Net assets:		
Unrestricted:		
Undesignated	42,425,719	43,583,210
Designated	42,310,647	48,497,463
Total unrestricted	84,736,366	92,080,673
Temporarily restricted	12,222,366	15,799,007
Permanently restricted	17,646,039	17,808,448
Total net assets	114,604,771	125,688,128
Total liabilities and net assets	\$ 180,359,436	\$ 206,621,881

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, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Gifts, bequests, and collections	\$ 444,833	\$ 6,953,928	\$ 50,613	\$ 7,449,374	\$ 904,134	\$ 6,572,119	\$ 106,131	\$ 7,582,384
Fees for services	4,285,857	-	-	4,285,857	5,552,210	-	-	5,552,210
Investment income (loss)	(3,716,504)	(3,605,058)	-	(7,321,562)	1,662,950	(1,160,914)	-	502,036
Change in beneficial interest	-	-	(213,022)	(213,022)	-	-	(93,168)	(93,168)
Insurance	26,277,750	-	-	26,277,750	23,337,751	-	-	23,337,751
Rental income	1,675,904	-	-	1,675,904	1,560,971	-	-	1,560,971
Other income	1,004,439	-	-	1,004,439	451,985	-	-	451,985
Gain (loss) on sale of properties	(31,884)	-	-	(31,884)	(128,121)	-	-	(128,121)
Interfund transfer	(795,382)	795,382	-	-	-	-	-	-
Net assets released from restriction	7,720,893	(7,720,893)	-	-	7,652,469	(7,652,469)	-	-
Total revenues	36,865,906	(3,576,641)	(162,409)	33,126,856	40,994,349	(2,241,264)	12,963	38,766,048
Expenses:								
Compensation and benefits	8,736,965	-	-	8,736,965	8,950,110	-	-	8,950,110
Professional fees	1,673,276	-	-	1,673,276	2,022,415	-	-	2,022,415
Property costs and depreciation	2,427,299	-	-	2,427,299	2,553,554	-	-	2,553,554
Office expenses	1,445,135	-	-	1,445,135	1,248,094	-	-	1,248,094
Assessments	237,851	-	-	237,851	236,942	-	-	236,942
Other operating expenses	1,600,694	-	-	1,600,694	1,975,092	-	-	1,975,092
Insurance	23,889,723	-	-	23,889,723	20,321,529	-	-	20,321,529
Program subsidies	3,077,184	-	-	3,077,184	2,722,406	-	-	2,722,406
Priest retirement benefits	763,487	-	-	763,487	681,433	-	-	681,433
Interest paid to schools and institutions	838,366	-	-	838,366	2,236,662	-	-	2,236,662
Provision for (recovery of) uncollectible accounts	31,319	-	-	31,319	(76,590)	-	-	(76,590)
Total expenses	44,721,299	-	-	44,721,299	42,871,647	-	-	42,871,647
Change in net assets	(7,855,393)	(3,576,641)	(162,409)	(11,594,443)	(1,877,298)	(2,241,264)	12,963	(4,105,599)
Net assets, beginning of year	92,080,673	15,799,007	17,808,448	125,688,128	95,448,044	18,040,271	17,795,485	131,283,800
Net assets transferred from Shrine of St. Francis Assisi (Note 8)	2,170,190	-	-	2,170,190	-	-	-	-
Net asset transfer to Capital Assets Support Corporation (Note 5)	-	-	-	-	(1,490,073)	-	-	(1,490,073)
Net asset transfer to Vallombrosa Center (Note 5)	(1,659,104)	-	-	(1,659,104)	-	-	-	-
Net assets, end 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

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, 2009 and 2008

	2009	2008
Increase (decrease) in cash		
Cash flows from operating activities:		
Change in net assets	\$ (11,594,443)	\$ (4,105,599)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Loss on perpetual trust	213,022	93,168
Net realized and unrealized loss on investments	13,537,409	3,120,064
Depreciation	1,063,569	1,218,547
Bad debt expense	31,319	23,410
Loss on sale of property, land, and equipment	31,879	128,121
Contributions restricted for long-term purpose	(50,613)	(106,131)
Change in operating assets and liabilities:		
Receivables	218,241	(7,388,985)
Prepaid expenses	(1,447,582)	677,483
Accounts payable	(1,897,070)	(18,711)
Payable to Capital Assets Support Corporation	(2,500,000)	9,926,461
Deferred lease revenue	(157,482)	(167,954)
Total adjustments	9,042,691	7,505,473
Net cash (used in) provided by operating activities	(2,551,752)	3,399,874
Cash flows from investing activities:		
Cash transferred to Capital Assets Support Corporation	-	(1,574,510)
Proceeds from note payable to Capital Assets Support Corporation	500,000	-
Purchase of investments	(78,670,760)	(10,826,280)
Proceeds from sale of investments	81,014,050	12,876,441
Decrease (increase) in time certificates of deposits	10,700,000	(5,700,000)
Purchase of property, land, and equipment	(1,273,627)	(2,502,902)
Net cash provided by (used in) investing activities	12,269,663	(7,727,251)
Cash flows from financing activities:		
Cash transferred to Vallombrosa Center	(276,635)	-
(Decrease) increase in assets held for high schools and institutions	(8,050,931)	3,814,102
Decrease in equity held for others in pooled investments	(3,743,719)	(983,107)
Contributions restricted for long-term purpose	50,613	106,131
Net cash (used in) provided by financing activities	(12,020,672)	2,937,126
Net (decrease) in cash	(2,302,761)	(1,390,251)
Cash, beginning of year	11,541,350	12,931,601
Cash, end of year	\$ 9,238,589	\$ 11,541,350
Supplemental disclosure of cash flow information—Cash paid for interest on deposits	\$ 838,366	\$ 2,236,662
Noncash disclosures:		
Transfer of property from Shrine of St. Francis Assisi (Note 8)	\$ 2,170,190	\$ -
Transfer of investments, receivables and property, land, and equipment to Vallombrosa Center (Note 5)	\$ (1,382,469)	\$ -
Transfer of liability relief of assets held for parishes, schools, and institutions to Capital Assets Support Corporation (Note 5)	\$ -	\$ (84,437)

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

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, Catholic Charities – CYO of the Archdiocese of San Francisco, The Archdiocese of San Francisco Parish, School and Cemetery Juridic Persons Capital Assets Support Corporation and The Archdiocese of San Francisco Parish and School Juridic Persons Real Property Support Corporation.

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

2. **Corporate Restructure**

During fiscal year 2008, the civil corporate structure of the Archdiocese was changed; two separate and distinct corporations were formed: The Archdiocese of San Francisco Parish, School and Cemetery Juridic Persons Capital Assets Support Corporation (Capital Assets Support Corporation) and The Archdiocese of San Francisco Parish and School Juridic Persons Real Property Support Corporation (Real Property Support Corporation), collectively referred to as the “Support Corporations”. The Support Corporations are separate from the Corporation Sole and exist for the expressed purpose of owning and maintaining certain real property and liquid assets in order to bring the civil structure of asset ownership into closer conformity with Canon law and to support the mission of the parishes, schools, and cemeteries that are operated civilly by the Corporation Sole. The Support Corporations were incorporated as non-profit religious corporations and are tax exempt under section 501(c)(3), as set forth in the Roman Catholic Church’s annual group ruling received from the Internal Revenue Service and are operated exclusively to support, benefit and carry out the purposes of the Corporation Sole, within the meaning of Internal Revenue Code Section 509(a)(3)(B)(ii).

Continued

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

3. **Assignment of Capital Assets**

Effective April 1, 2008 (the Transfer Date), the Corporation Sole irrevocably and unconditionally assigned, transferred and conveyed rights, title and interest to the Capital Assets Support Corporation certain assets, including the investments (see Note 5) of the parishes, high schools and cemeteries. The Capital Assets Support Corporation assumed any and all civil and canonical obligations concerning the use of the transferred assets, including any terms or conditions set forth in any “Endowments” or “Restricted Funds”. The assignment also relates to any future transfer of assets of this nature as defined by the assignment.

Assets transferred to the Capital Assets Support Corporation were treated as an equity transfer in accordance with Statement of Financial Accounting Standard No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (SFAS 136).

4. **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 organizations. 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 organizations. The following is a description of the classes of net assets included in the financial statements.

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.

Continued

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

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

Basis of Presentation, continued

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.

During the year ended June 30, 2009, the Chancery adopted Financial Accounting Standards Board (FASB) Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowments subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of California enacted UPMIFA effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. FSP FAS 117-1 also requires additional disclosures about endowment funds. The adoption of FSP FAS 117-1 had no effect on the accounting of the Chancery's endowments.

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 appropriated for expenditure by the Chancery as part of its formal budget process.

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 in bank.

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

Continued

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

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

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 estimated fair values as provided by the investment managers or general partners. 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 18).

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 organization'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 organization'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.

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.

Continued

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

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

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 varied from 2.75% to 3.3% in fiscal year 2009 and 3.3% to 4% in fiscal year 2008.

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 collectible.

Tax Exempt Status

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

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.

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

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

Fair Value Measurements

On July 1, 2008, the Chancery adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value to measure assets and liabilities, and expands disclosures about fair value measurements. Fair value is defined under SFAS 157 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 or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized in the change in net assets when they occur. SFAS 157 applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS 157 was effective for fiscal years beginning after November 15, 2007, except for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, for which application has been deferred for one year by the issuance of FASB Staff Position 15-2.

On July 1, 2008, the Chancery also adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which provided an irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities under and instrument-by-instrument election. The Chancery has not elected fair value as an irrevocable option for any of its financial assets or liabilities.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting and disclosures of events that occur after the statement of financial position date but before financial statements are issued or are available to be issued. SFAS 165 requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 was effective for fiscal periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material impact on the Chancery's disclosures.

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.

Continued

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

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

Use of Estimates, continued

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.

Contingencies

The Chancery accounts for contingency losses, including those arising from claims, in accordance with SFAS No. 5, *Accounting for Contingencies* (SFAS 5). Under SFAS 5, loss contingency provisions are recorded for probable losses at management's reasonable estimate of a loss, or if the reasonable amount is a range the minimum amount of the range is recorded.

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 9). 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.

New Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The cumulative effect of applying FIN 48 will be reported as an adjustment to net assets at the beginning of the period in which it is adopted. In February 2008, the FASB issued FASB Staff Position (FSP) 48-02, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. FSP 48-2 delays the effective date of FIN 48 for annual financial statements for fiscal years beginning after December 15, 2008, but earlier adoption is permitted. The Chancery has elected to defer the application of FIN 48-2 in accordance with FASB Staff Position FIN 48-3. The Chancery is in the process of reviewing the provisions of FIN 48 to determine the impact on its financial statements. As the Corporation Sole is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code as a religious organization and is generally not subject to federal or state income taxes, the adoption of FIN 48 is not expected to have a material impact on the Chancery's financial statements.

Continued

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

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

New Accounting Pronouncements, continued

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168), a replacement of FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 168 establishes the *FASB Accounting Standards Codification* (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 is effective for financial statements issued for annual periods ending after September 15, 2009. The Codification is not intended to change GAAP and will have no impact on the Chancery's financial statements. However, since the Codification completely supersedes existing accounting standards, it will affect the way authoritative accounting pronouncements are referenced in future financial statements.

5. **Composition of Transferred Assets**

At the request of Vallombrosa management, operating assets, liabilities and net assets were transferred to Vallombrosa Center during the 2009 fiscal year 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><u>\$1,886,064</u></u>
Liabilities—Accounts payable and accrued liabilities	\$ 226,960
Equity—Net assets	<u>1,659,104</u>
Total liabilities and equity	<u><u>\$1,886,064</u></u>

Continued

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

5. **Composition of Transferred Assets**, continued

Assets, liabilities, and net assets assigned to the Capital Assets Support Corporation (see Note 3) during the 2008 fiscal year consisted of the following:

Assets:	
Cash	\$ 1,574,510
Time certificates of deposits	41,500,000
Investments	147,921,398
Receivables:	
Parishes, schools, and institutions, net	6,970,403
Other receivables	<u>10,995,220</u>
Total assets	<u>\$208,961,531</u>
Liabilities:	
Assets held for parishes, schools, and institutions	\$ 59,550,060
Equity of others in pooled investments	147,921,398
Equity—Net assets	<u>1,490,073</u>
Total liabilities and equity	<u>\$208,961,531</u>

6. **Investments**

The Chancery administers an investment pool in trust, 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, custodians and trustees for the participants. In conjunction with the Corporate restructuring (see Notes 2, 3, and 5), the majority of the investment pool was transferred to the Capital Assets Support Corporation during 2008 fiscal year

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.

Continued

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

6. **Investments**, continued

Investments were held by the following at June 30:

	2009	2008
Investment Pool	\$72,615,018	\$88,023,118
Current Fund	231,376	703,972
Total investments	\$72,846,394	\$88,727,090

Total investment income (loss) inclusive of all funds (investment pools, funds held for others), but excluding interest on loans to schools, with the exception of one school, and other Archdiocesan entities, was \$(10,474,103) and \$5,982,235 for the years ended June 30, 2009 and 2008, respectively.

7. **Receivables**

Receivables consist of the following at June 30:

	2009	2008
Schools and institutions:		
Loans receivable	\$ 6,804,868	\$ 7,860,600
Less allowance for uncollectible loans	(500,000)	(550,000)
Total schools and institutions, net	\$ 6,304,868	\$ 7,310,600
Pledges and assessments:		
Today's Students – Tomorrows Leaders	\$ 3,155,239	\$ 3,181,238
Archbishop's Annual Appeal	4,160,613	3,791,959
	7,315,852	6,973,197
Less allowance for uncollectible pledges	(3,651,744)	(3,648,157)
Total pledges receivable, net	\$ 3,664,108	\$ 3,325,040

Continued

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

7. **Receivables**, continued

Other receivables consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Other receivables, net:		
Notes receivable Diocese of Santa Rosa	\$ 1,410,000	\$ 1,410,000
Notes receivable re: St. Brigid (church)	1,522,340	1,582,030
Note and interest receivable Marin Catholic High School	502,273	-
Other notes receivable	154,744	295,144
Interest receivable	87,405	215,714
Miscellaneous receivables	801,844	599,989
Less allowance for doubtful accounts	<u>(1,583,071)</u>	<u>(1,573,709)</u>
Total other receivables, net	<u>\$ 2,895,535</u>	<u>\$ 2,529,168</u>

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

8. **Property, Land, and Equipment**

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

	<u>2009</u>	<u>2008</u>
Buildings and improvements	\$ 41,721,387	\$ 38,964,088
Equipment	2,167,812	2,480,734
Automobiles	89,095	89,095
	43,978,294	41,533,917
Accumulated depreciation	<u>(12,931,928)</u>	<u>(12,498,774)</u>
	31,046,366	29,035,143
Land	8,152,281	7,455,660
Construction in progress	<u>497,060</u>	<u>1,018,158</u>
Total property, land, and equipment, net	<u>\$ 39,695,707</u>	<u>\$ 37,508,961</u>

Continued

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

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

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 \$5,251,857 and \$5,296,019 at June 30, 2009 and 2008, respectively.

Included in property, land, and equipment, is \$1,050,912 at June 30, 2009 and 2008, 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, 2009 and 2008.

Included in property, land, and equipment, is the gross amount of \$2,183,048 at June 30, 2009 and 2008, 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 \$497,060 at June 30, 2009 that represents the cost to date of the seismic retrofit of the National Shrine of St. Francis of Assisi, and \$1,018,158 at June 30, 2008 that represents the subsidy for the construction of the Porziuncola at the National Shrine of St. Francis of Assisi, a replica of the chapel in Assisi, Italy.

Included in Land is the amount of \$2,996,620 and \$2,300,000 at June 30, 2009 and 2008, respectively, for an interest in St. Vincent's Property as a tenant in common.

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.

Depreciation expense totaled to \$1,063,569 at June 30, 2009 and \$1,218,547 at June 30, 2008.

9. **Seismic Retrofit Costs**

The Chancery is obligated to make certain structural improvements to a building 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 on this building is \$4,500,000. A seismic retrofit obligation and its related deferred cost have been recorded on the books and records and are reflected on the statement of financial position.

Continued

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

10. **Payables to Capital Assets Support Corporation**

Payables to Capital Assets Support Corporation at June 30:

	2009	2008
Note payable to Capital Assets Support Corporation	\$ 500,000	\$ -
Payable to Capital Assets Support Corporation	7,426,461	9,926,461
Total payables to Capital Assets Support Corporation	\$7,926,461	\$9,926,461

During the year ended June 30, 2009, the Corporation Sole entered into a long-term promissory note payable to the Capital Assets Support Corporation. The promissory note is for a line of credit not to exceed \$5,000,000 that may be drawn upon as needed. The draws on the line are made for the purpose of providing financing in the form of a loan to Marin Catholic High School for the construction of a Student Center. As of June 30, 2009, the Chancery has drawn upon the line of credit in the amount of \$500,000. The promissory note is due and payable in three installments commencing October 31, 2010 through October 31, 2012.

11. **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, 2009 and 2008. This change in fair value is shown as a change in permanently restricted net assets.

Continued

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

12. **Temporarily Restricted Net Assets**

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

	<u>2009</u>	<u>2008</u>
Archbishop's Annual Appeal	\$ 5,858,800	\$ 5,696,620
Tuition, education assistance	11,769	3,598,682
Social, ethnic, and cultural services	1,875,611	1,817,271
Education (primary and secondary schools)	1,659,404	1,691,351
Religious personnel education and development	2,709,453	2,843,371
Pastoral programs	92,086	93,236
Priest's Retirement	-	51,041
Building improvements	<u>15,243</u>	<u>7,435</u>
Total temporarily restricted net assets	<u>\$12,222,366</u>	<u>\$15,799,007</u>

13. **Donor Restricted Endowments**

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

	<u>2009</u>	<u>2008</u>
Tuition, education assistance	\$16,490,363	\$16,439,750
Religious personnel education and development	1,154,676	1,367,698
Mass stipends	<u>1,000</u>	<u>1,000</u>
Total permanently restricted net assets	<u>\$17,646,039</u>	<u>\$17,808,448</u>

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 \$852,863 for the year ended June 30, 2009. For the year subsequent to June 30, 2009, the annual distribution threshold was set at \$400,000. 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.

Continued

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

13. **Donor Restricted Endowments, continued**

Changes in endowment net assets for the years ended June 30, 2009 and 2008 follows:

	2009			2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Tuition, education assistance					
Endowment net assets, beginning of year	\$ -	\$ 3,664,401	\$ 16,439,750	\$ 5,609,204	\$ 16,333,619
Contributions	-	-	50,613	-	106,131
Investment income	-	1,028	-	26,087	-
Realized and unrealized loss	-	(3,574,818)	-	(1,158,709)	-
Interfund transfer for scholarships	(795,382)	795,382	-	-	-
Net assets released from restriction	795,382	(852,863)	-	(812,182)	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 33,130</u>	<u>\$ 16,490,363</u>	<u>\$ 3,664,400</u>	<u>\$ 16,439,750</u>
Religious personnel education and development					
Endowment net assets, beginning of year	\$ -	\$ 109,466	\$ 1,367,698	\$ 115,834	\$ 1,460,866
Contributions	-	-	-	-	-
Investment income	-	38,762	-	41,776	-
Realized and unrealized loss	-	(16,687)	-	(9,941)	-
Change in beneficial interest in perpetual trust	-	-	(213,022)	-	(93,168)
Net assets released from restriction	-	(38,762)	-	(38,203)	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 92,779</u>	<u>\$ 1,154,676</u>	<u>\$ 109,466</u>	<u>\$ 1,367,698</u>
Building improvements					
Endowment net assets, beginning of year	\$ -	\$ 7,435	\$ -	\$ 28,503	\$ -
Investment income	-	-	-	7,573	-
Realized and unrealized loss	-	7,808	-	(21,068)	-
Net assets released from restriction	-	-	-	(7,573)	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 15,243</u>	<u>\$ -</u>	<u>\$ 7,435</u>	<u>\$ -</u>
Mass stipends					
Endowment net assets, beginning of year	\$ -	\$ -	\$ 1,000	\$ -	\$ 1,000
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ 1,000</u>
Total endowment net assets					
Endowment net assets, beginning of year	\$ -	\$ 3,781,302	\$ 17,808,448	\$ 5,753,541	\$ 17,795,485
Contributions	-	-	50,613	-	106,131
Investment income	-	39,790	-	75,436	-
Realized and unrealized loss	-	(3,583,697)	-	(1,189,718)	-
Change in beneficial interest in perpetual trust	-	-	(213,022)	-	(93,168)
Interfund transfer for scholarships	(795,382)	795,382	-	-	-
Net assets released from restriction	795,382	(891,625)	-	(857,958)	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 141,152</u>	<u>\$ 17,646,039</u>	<u>\$ 3,781,301</u>	<u>\$ 17,808,448</u>

Continued

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

13. **Permanently Restricted Net Assets**, continued

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor. No such deficiencies existed at June 30, 2009 and 2008.

14. **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:

	2009	2008
Archbishop's Annual Appeal	\$5,696,620	\$5,520,700
Social, ethnic, and cultural services	82,106	100,670
Education (primary and secondary schools)	1,067,068	1,110,325
Religious personnel education and development	543,593	672,203
Pastoral programs	1,150	4,485
Priest's Retirement	330,356	236,514
Building improvements	-	7,572
Total net assets released from restriction	\$7,720,893	\$7,652,469

Continued

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

15. **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:

	2009	2008
Program:		
Pastoral	\$ 2,024,671	\$ 3,425,196
Religious personnel education and development	2,403,027	2,493,956
Education	5,722,974	5,716,111
Social, ethnic, and cultural services	894,842	815,410
Insurance and benefits	24,324,700	20,394,184
Deposit and loan	838,366	2,136,662
Priest retirement	940,718	883,339
Total program	37,149,298	35,864,858
Supporting services:		
Management and general	7,183,711	6,621,603
Development	388,290	385,186
Total supporting services	7,572,001	7,006,789
Total expenses	\$44,721,299	\$42,871,647

16. **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, 2009 (latest valuation date), the present value of future benefits was approximately \$21,041,000, using an assumed long-term rate of return of 7%. At July 1, 2008 (latest valuation date), the market value of assets available for plan benefits was approximately \$12,045,000. No amounts were contributed by the Chancery to fund the qualified plan in 2009 and 2008. This plan is not subject to 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, 2009 (latest valuation date), the present value of future benefits was approximately \$12,420,000, using an assumed long-term rate of return of 7%. At July 1, 2008 (latest valuation date), the market value of assets available for plan benefits was approximately \$5,172,000. Amounts contributed by the Chancery to the plan plus gifts, bequests and collections were \$860,258 and \$3,227,742 in 2009 and 2008, respectively. This plan is not subject to ERISA funding requirements.

Continued

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

17. Pension Plans – Lay Employees

All full-time, nonpriest employees of the Archdiocese, including those of 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, 2009 (latest valuation date) and January 1, 2008, the present value of all accrued benefits were \$73,911,000 and \$67,162,000, respectively, using an assumed long-term rate of return of 7.5% in 2009 and 2008. At January 1, 2009 and 2008, the market value of assets were \$51,376,000 and \$67,237,000, respectively. Amounts charged to pension cost for employees in these financial statements during 2009 and 2008 were \$409,927 and \$435,465, respectively.

18. Fair Value Measurements

SFAS 157 includes a fair value hierarchy that is intended to increase the consistency and comparability in fair value measurements and related disclosures. Valuation techniques used to measure fair value must 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, 2009.

The fair value hierarchy consists 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.

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

18. **Fair Value Measurements**, continued

The following table summarizes the Chancery's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 and 2008:

	<u>2009</u>	Quoted Prices in Active Markets of Identical Assets (Level 1)	Unobservable Inputs (Level 3)	<u>2008</u>
Investments				
Cash and cash equivalents	\$ 2,882,282	\$ 2,882,282	\$ -	\$ 2,219,073
Corporate stocks	33,725,224	33,725,224	-	44,263,299
Corporate bonds	9,578,791	9,578,791	-	6,070,647
U.S. bonds and notes	4,146,562	4,146,562	-	7,562,655
U.S. government securities	10,639,794	10,639,794	-	12,724,500
Mutual funds	10,194,508	10,194,508	-	13,873,145
Hedge funds	<u>1,679,233</u>	<u>-</u>	<u>1,679,233</u>	<u>2,013,771</u>
Total investments	<u>\$ 72,846,394</u>	<u>\$ 71,167,161</u>	<u>\$ 1,679,233</u>	<u>\$ 88,727,090</u>
Seismic retrofit obligation	<u>\$ 4,500,000</u>	<u>\$ -</u>	<u>\$ 4,500,000</u>	<u>\$ 5,000,000</u>

The seismic retrofit obligation and alternative investment in hedge funds are Level 3 inputs. The fair value is determined without observable market value and requires a high level of judgment to determine the fair value. The following table reconciles the valuation of the hedge funds and seismic retrofit obligation for the year ended June 30, 2009:

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

19. **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.

Continued

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

20. **Line of Credit**

The Chancery has three collateralized standby letters of credit in the amounts of \$548,135, \$467,743, and \$442,025 for worker's compensation insurance with a bank that expire in December 2009 and January 2010. The Chancery had a \$5,000,000 line of credit with a bank that expired on November 1, 2008. There were no outstanding borrowings under these agreements at June 30, 2009 or 2008.

21. **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.

22. **Future Minimum Rental Receipts**

The Chancery leases various properties. During the years ended June 30, 2009 and 2008, the Chancery recorded \$1,675,904 and \$1,560,971, respectively, in rental income, primarily from leases on its rental properties. The Chancery has received a prepayment of \$4,092,000 for one of the leases, which is not included in the table below. As a result of these leases, the following are future minimum rental receipts from long-term non-cancelable operating leases as of June 30, 2009:

2010	\$1,340,292
2011	1,081,282
2012	600,276
2013	536,300
2014	536,300
Thereafter	<u>5,763,750</u>
Total	<u><u>\$9,858,200</u></u>

23. **Subsequent Events**

In accordance with SFAS 165, *Subsequent Event*, the Chancery evaluated subsequent events for recognition and disclosure through December 15, 2009, the date which these financial statements were available to be issued. Management concluded the following material subsequent events have occurred since June 30, 2009, that required recognition or disclosure in such financial statements.

Continued

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

23. **Subsequent Events, continued**

On August 13, 2009, the Corporation Sole formalized a long-term Promissory Note Payable for the payable to the Capital Assets Support Corporation of \$7,426,461 (Note 10) for the Archdiocesan portion of the construction of a parking garage for St. Mary's Chinese Center. The promissory note bears interest at the rate of 5.5% per annum and provides for monthly principal and interest payments in the amount of \$45,605 beginning August 31, 2009, through December 31, 2026, at which time the entire remaining balance is due and payable. The promissory note is secured by the net proceeds from the sale of Our Lady of Guadalupe Church property.

Subsequent to June 30, 2009, the Chancery drew an additional \$2,000,000 on the line of credit available from the Capital Assets Support Corporation (Note 10). These draws were remitted to Marin Catholic High School to provide financing for the Student Center.