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**THE BISHOP HARRY A. CLINCH  
ENDOWMENT FUND OF THE  
DIOCESE OF MONTEREY**

*Financial Statements As Of and For The Years  
Ended August 31, 2009 and 2008 and  
Independent Auditors' Report*

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ryan & mcdonald  
certified public accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees

**The Bishop Harry A. Clinch Endowment Fund of the Diocese of Monterey:**

We have audited the accompanying statements of financial position of **The Bishop Harry A. Clinch Endowment Fund of the Diocese of Monterey** (the "Endowment Fund") as of August 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Endowment Fund'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 Endowment Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, such financial statements present fairly, in all material respects, the financial position of **The Bishop Harry A. Clinch Endowment Fund of the Diocese of Monterey** at August 31, 2009 and 2008, 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.

*Ryan & McDonald LLP*

January 28, 2010

**THE BISHOP HARRY A. CLINCH ENDOWMENT FUND OF THE DIOCESE OF MONTEREY**

STATEMENTS OF FINANCIAL POSITION  
AUGUST 31, 2009 AND 2008

<u>ASSETS</u>	<u>2009</u>		<u>2008</u>	
	<u>Participating Assets</u>	<u>Non-Participating Assets</u>	<u>Participating Assets</u>	<u>Non-Participating Assets</u>
Cash	\$ 144,301		\$ 301,565	\$ 301,565
Interfund loan receivable (payable)	753,410	\$ (753,410)	662,456	\$ (662,456)
Investments:				
Money market funds	254,240	-	380,457	-
Mutual funds - fixed income	3,051,575	-	4,393,942	-
Corporate equity securities	9,495,835	-	10,302,041	-
Real estate investment trusts	225,000	-	-	-
Land and building - net	135,000	-	136,750	-
Property held for sale	-	3,900,000	-	3,900,000
Property subject to life estate interest	-	1,200,000	-	1,200,000
<b>TOTAL</b>	<b>\$ 14,059,361</b>	<b>\$ 4,346,590</b>	<b>\$ 16,177,211</b>	<b>\$ 4,437,544</b>
<u>LIABILITIES AND NET ASSETS</u>				
<u>LIABILITIES:</u>				
Grants distribution payable	\$ 694,475		\$ 779,856	\$ 779,856
Annuity payable and life estate interest	-	\$ 432,762	-	\$ 469,566
Total liabilities	694,475	432,762	779,856	469,566
<u>NET ASSETS -</u>				
Unrestricted - Funds functioning as endowments	13,364,886	3,913,828	15,397,355	3,967,978
<b>TOTAL</b>	<b>\$ 14,059,361</b>	<b>\$ 4,346,590</b>	<b>\$ 16,177,211</b>	<b>\$ 4,437,544</b>

See notes to financial statements.

**THE BISHOP HARRY A. CLINCH ENDOWMENT FUND OF THE DIOCESE OF MONTEREY**

STATEMENTS OF ACTIVITIES  
 YEARS ENDED AUGUST 31, 2009 AND 2008

	2009		2008	
	Participating Assets	Non-Participating Assets	Participating Assets	Non-Participating Assets
		Total		Total
REVENUES:				
Contributions	\$ 226,655	\$ 238,051	\$ 267,870	\$ 271,137
Rental income	6,000	66,470	6,000	64,340
Interest and dividend income	290,941	290,941	484,998	484,998
Realized and unrealized gains (losses) on investments	(1,693,535)	(1,693,535)	(1,729,438)	(1,729,438)
Total revenues	<u>(1,169,939)</u>	<u>(1,098,073)</u>	<u>(970,570)</u>	<u>(908,963)</u>
EXPENSES:				
Administrative expenses	168,055	168,055	140,224	140,224
Property expenses	-	84,723	-	87,755
Change in annuity	-	16,425	-	36,159
Interest expense	-	24,868	-	29,007
Total expenses	<u>168,055</u>	<u>294,071</u>	<u>140,224</u>	<u>293,145</u>
CHANGE IN NET ASSETS BEFORE GRANTS DISTRIBUTION	(1,337,994)	(1,392,144)	(1,110,794)	(1,202,108)
GRANTS DISTRIBUTION	<u>694,475</u>	<u>694,475</u>	<u>779,856</u>	<u>779,856</u>
CHANGE IN NET ASSETS	(2,032,469)	(2,086,619)	(1,890,650)	(1,981,964)
UNRESTRICTED NET ASSETS - FUNDS FUNCTIONING AS ENDOWMENTS: BEGINNING OF YEAR	<u>15,397,355</u>	<u>19,365,333</u>	<u>17,288,005</u>	<u>21,347,297</u>
END OF YEAR	<u>\$ 13,364,886</u>	<u>\$ 17,278,714</u>	<u>\$ 15,397,355</u>	<u>\$ 19,365,333</u>

See notes to financial statements.

**THE BISHOP HARRY A. CLINCH ENDOWMENT FUND OF THE DIOCESE OF MONTEREY**

STATEMENTS OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2009 AND 2008

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	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,086,619)	\$ (1,981,964)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,750	1,750
Realized and unrealized (gains) losses on investments	1,693,535	1,729,438
Change in assets and liabilities:		
Grants distribution payable	(85,381)	55,039
Annuity payable and life estate interest	<u>(36,804)</u>	<u>(8,068)</u>
Net cash used by operating activities	<u>(513,519)</u>	<u>(203,805)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	7,526,270	11,715,531
Purchases of investments	<u>(7,170,015)</u>	<u>(11,649,546)</u>
Net cash provided by investing activities	<u>356,255</u>	<u>65,985</u>
NET DECREASE IN CASH	(157,264)	(137,820)
CASH:		
BEGINNING OF YEAR	<u>301,565</u>	<u>439,385</u>
END OF YEAR	<u>\$ 144,301</u>	<u>\$ 301,565</u>
ADDITIONAL CASH FLOW INFORMATION -		
Interest paid	\$ 24,868	\$ 29,007

See notes to financial statements.

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## **THE BISHOP HARRY A. CLINCH ENDOWMENT FUND OF THE DIOCESE OF MONTEREY**

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2009 AND 2008

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### 1. ORGANIZATION

**The Bishop Harry A. Clinch Endowment Fund of the Diocese of Monterey** ("the Endowment Fund") operates under a declaration of trust dated May 3, 2004, which amended the original declaration of trust dated May 23, 1986. The trust "Settlor" is the Bishop of the Diocese of Monterey, an independent Board of Trustees administers the Endowment Fund, and the investments are professionally managed. The Endowment Fund's mission is to serve charitable, educational and religious needs within the Diocese of Monterey.

Only gifts, which can function as an endowment, are accepted by the Endowment Fund and become its property upon receipt. It is the Endowment Fund's stated objective to fulfill the wishes of each donor, however, the Endowment Fund does have unilateral variance power in case the conditions, restrictions or qualifications of the donor's gift, due to changed circumstances, become unnecessary, undesirable, incapable of fulfillment or become inconsistent with the mission of the Endowment Fund.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Unrestricted Net Assets – Funds Functioning as Endowments** – The Endowment Fund provides periodic distributions to support the parishes, schools and other ministries within the Diocese of Monterey, in accordance with the intent of donors subject to the variance power described below.

Gifts accepted by the Endowment Fund are subject to Section 6.03 of the Declaration of Trust that states, "circumstances may change within the Diocese so that the conditions, restrictions or qualifications of a gift may become unnecessary, undesirable or incapable of fulfillment or may become inconsistent with the charitable, educational or religious needs of the Diocese. In any such case, the Board of Trustees by the affirmative vote of three-fifths (3/5) majority of its members and with the approval of the Settlor may order a variance from or modification of any restriction, condition or qualification of a gift as may be necessary to serve the charitable, educational and religious purposes of the Endowment Fund." Accordingly, because all gifts are subject to the variance power, the Endowment Fund has no temporarily restricted or permanently restricted net assets as defined by generally accepted accounting principles and, therefore, all net assets have been classified as unrestricted.

However, as stated in the Trust provision above, the Endowment Fund's variance power will only be and can only be exercised in situations where a change in circumstances makes it unnecessary, undesirable or incapable of fulfilling the donor's intended use of the gift.

**Basis of Accounting** – The financial statements of the Endowment Fund have been prepared on the accrual basis of accounting.

**Participating and Nonparticipating Assets** – Assets and liabilities have been categorized into participating and nonparticipating to show which net assets are subject to (participating) or not subject to (nonparticipating) the Endowment Fund's grant distribution policy.

**Cash** – The Pastoral Office of the Roman Catholic Bishop of Monterey (the "Pastoral Office") maintains custodial deposits on behalf of the Endowment Fund as well as parishes and other entities. As such, cash consists of deposits in the Diocesan Banking Fund of the Pastoral Office and, at August 31, 2009, bear interest at 3%.

**Investments** – Investments in equity and debt securities are stated at fair market value, with current period recognition of increases or decreases in fair value shown in the statement of activities.

**Land and Building** – Property acquisitions are capitalized at cost when purchased, or at fair value at date of gift if donated, and are presented net of accumulated depreciation. Depreciation expense is calculated using the straight-line method based on a 40-year estimated useful life of the building.

**Distributions** – The Endowment Fund's grants distribution policy is 4.5% of the participating account balances as of the end of the prior year.

Grants distribution payable totaled \$694,475 and \$779,856 at August 31, 2009 and 2008, respectively.

**Income taxes** – The Endowment Fund is exempt from federal and state income taxes under provisions of Sections 501(c)(3) and 23701(d) of the Internal Revenue Code and the California Revenue and Taxation Code, respectively.

**Concentration of Credit Risk** – Financial instruments which potentially subject the Endowment Fund to credit risk consist primarily of cash, and investments. All cash balances are maintained in the Diocesan Banking Fund of the Pastoral Office and, as such, are subject to credit risk associated with the financial condition of the Diocese of Monterey. Investments, which include money market funds, fixed income mutual funds, corporate equity securities, and real estate investments trusts, are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in value due to these risks in the near term could materially affect the Endowment Fund's financial position.

**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, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Significant estimates include the valuation of the annuity payable and life estate interest. Actual results could differ from those estimates.

**Subsequent events** have been evaluated through January 28, 2010 (date financial statements were available for issuance).

3. LAND AND BUILDING

Land and building consist of property in San Luis Obispo, which was transferred to the Endowment Fund on September 1, 1990. The property is capitalized at cost. Depreciation on the building is recorded on a straight-line basis over a 40-year life. This building is for the use of the Newman Center in San Luis Obispo.

	<u>2009</u>	<u>2008</u>
Land	\$ 100,000	\$ 100,000
Building	<u>70,000</u>	<u>70,000</u>
Total	170,000	170,000
Less accumulated depreciation	<u>(35,000)</u>	<u>(33,250)</u>
Land and building - net	<u>\$ 135,000</u>	<u>\$ 136,750</u>

4. PROPERTY HELD FOR SALE

Property held for sale consists of land and buildings which were gifted to the Endowment Fund and are being held for sale. The property is stated at the lower of fair value at time of donation or estimated net realizable value. No depreciation has been taken on the property.

5. PROPERTY SUBJECT TO A LIFE ESTATE INTEREST

During 2004, property with a fair value of \$1,200,000, at date of sale, was sold to the Endowment Fund for \$239,000 plus a monthly annuity of \$3,000 for the remainder of the donor's life (adjusted annually based on a consumer price index) with the prior owner retaining the right to live on the property for the rest of his life. The estimated present value of the annuity, based on actuarial tables, and using a discount rate of 3.8%, was \$219,669 and \$245,077 at August 31, 2009 and 2008, respectively. The estimated present value of the life estate interest was \$213,093 and \$224,489 at August 31, 2009 and 2008, respectively.

6. RELATED PARTY TRANSACTIONS

Fees paid to the Pastoral Office for certain administrative services totaled \$50,000 for each of the years ended August 31, 2009 and 2008.

At August 31, 2009 and 2008, the Endowment Fund had cash totaling \$144,301 and \$301,565, respectively, held in the Diocesan Banking Fund of the Pastoral Office.

7. FUNDS FUNCTIONING AS ENDOWMENTS

Funds functioning as endowments consist of approximately 136 individual funds established for a variety of purposes in support of the parishes, schools and other ministries within the Diocese of Monterey. As discussed in Note 1, because all gifts accepted are subject to the variance power included in the Declaration of Trust, the Endowment Fund has no temporarily restricted or permanently restricted net assets as defined by generally accepted accounting principles and, therefore, all net assets have been classified as unrestricted.

The Endowment Fund has interpreted the State of California enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the Endowment Fund, absent explicit donor stipulations to the contrary, to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulate endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligation to use the endowment to achieve the purposes for which it was donated. In making a determination to appropriate or accumulate endowment funds, the Endowment Fund adheres to the standard of prudence prescribed by UPMIFA and considers the following factors:

- (1) The duration and preservation of the fund
- (2) The purposes of the Endowment Fund and the donor's intended use of the gift
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Endowment Fund
- (7) The investment policies of the Endowment Fund.

The Endowment Fund has adopted investment and distribution policies for endowment assets that are designed to provide a predictable stream of funding to programs supported by its endowment while seeking to protect the real purchasing power of the assets from inflation. Under the investment policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an average rate of return of approximately 9.5% annually over time.

To satisfy its long-term rate-of-return objectives, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Endowment Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The investment policy includes an overall target of 70% of its investments in equities and 30% in income instruments, various targets related to asset diversification, and criteria for Socially Responsible Investing.

The Endowment Fund's distribution policy directs an annual distribution of 4.5% of the fair market value of the endowment as of the end of the prior fiscal year. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets.

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