
**PASTORAL OFFICE OF THE
ROMAN CATHOLIC
BISHOP OF MONTEREY**

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





INDEPENDENT AUDITORS' REPORT

Most Reverend Richard Garcia
The Roman Catholic Bishop of Monterey:

We have audited the accompanying statements of financial position of the **Pastoral Office of the Roman Catholic Bishop of Monterey** (the "Pastoral Office") 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 Pastoral Office'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 Pastoral Office'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, such financial statements present fairly, in all material respects, the financial position of the **Pastoral Office of the Roman Catholic Bishop of Monterey** as of 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental consolidating statements of financial position - designated funds as of August 31, 2009 and 2008, and supplemental consolidating statements of activities - designated funds for the years ended August 31, 2009 and 2008, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 15, the Pastoral Office is a party to certain matters involving pending and threatened litigation regarding claims of sexual misconduct. Since significant uncertainties exist regarding these claims, and a reasonable estimate of the potential uninsured cost of these claims to the Pastoral Office cannot be made, no accrual has been recorded in the accompanying financial statements.

Ryan & McDonald LLP

December 9, 2009

PASTORAL OFFICE OF THE ROMAN CATHOLIC BISHOP OF MONTEREY

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2009 AND 2008

ASSETS	2009				2008			
	Unrestricted		Temporarily Restricted		Unrestricted		Temporarily Restricted	
	Undesignated	Designated	Unrestricted	Total	Undesignated	Designated	Unrestricted	Total
Cash and cash equivalents	\$ 2,144,103	\$ (288,320)	\$ 1,855,783	\$ 1,906,668	\$ 4,018,721	\$ (1,519,180)	\$ 2,499,541	\$ 2,526,178
Marketable securities	-	11,239,074	11,239,074	11,239,074	-	12,023,752	12,023,752	12,023,752
Receivables:								
Parishes and institutions - net	4,003	625	4,628	4,628	135,259	69,793	205,052	205,052
Trade receivables of the Cemeteries - net	-	1,057,780	1,057,780	1,057,780	-	950,536	950,536	950,536
Contributions and bequests receivable	490,641	-	490,641	786,253	1,075,082	-	1,075,082	1,502,031
Grant distribution from the Bishop Clinch Endowment	165,247	-	165,247	165,247	188,521	-	188,521	188,521
Inventory	-	4,255,503	4,255,503	4,255,503	-	4,441,737	4,441,737	4,441,737
Deposits and prepaid expenses	36,867	915,578	952,445	952,445	20,747	689,073	709,820	709,820
Other assets	49,873	-	49,873	49,873	95,659	12,567	108,226	108,226
Assets whose use is limited:								
Marketable securities	-	12,477,713	12,477,713	12,477,713	-	20,127,308	20,127,308	20,127,308
Notes receivable - net	-	20,990,815	20,990,815	20,990,815	-	16,670,585	16,670,585	16,670,585
Note receivable	-	-	-	-	-	150,000	150,000	150,000
Land, buildings and equipment - net	6,782,866	832,837	7,615,703	7,615,703	6,027,063	825,711	6,852,774	6,852,774
Property subject to life estate interest	2,020,750	-	2,020,750	2,020,750	2,109,250	-	2,109,250	2,109,250
Interest in charitable remainder trust	-	-	-	93,762	-	-	-	88,455
TOTAL	\$11,694,350	\$51,481,605	\$63,175,955	\$63,616,214	\$13,670,302	\$54,441,882	\$68,112,184	\$68,654,225
LIABILITIES AND NET ASSETS								
LIABILITIES:								
Accounts payable and accrued liabilities	\$ 265,566	\$ 1,846,957	\$ 2,112,523	\$ 2,112,523	\$ 411,792	\$ 2,593,590	\$ 3,005,382	\$ 3,005,382
Deposits held for parishes and institutions	-	33,468,528	33,468,528	33,468,528	-	36,797,893	36,797,893	36,797,893
Notes payable	431,726	565,211	996,937	996,937	483,524	600,254	1,083,778	1,083,778
Deferred revenue	1,725,750	3,332,734	5,058,484	5,058,484	1,814,250	3,254,342	5,068,592	5,068,592
Total liabilities	<u>2,423,042</u>	<u>39,213,430</u>	<u>41,636,472</u>	<u>41,636,472</u>	<u>2,709,566</u>	<u>43,246,079</u>	<u>45,955,645</u>	<u>45,955,645</u>
NET ASSETS:								
Unrestricted:								
Designated	2,920,168	-	2,920,168	2,920,168	5,417,197	-	5,417,197	5,417,197
Investment in property and equipment	6,351,140	9,252,506	7,183,977	9,252,506	5,543,539	7,935,095	6,369,250	7,935,095
Cemeteries perpetual care fund	-	2,182,832	2,182,832	2,182,832	-	2,434,997	2,434,997	2,434,997
Temporarily restricted	-	-	-	440,259	-	-	-	542,041
Total net assets	<u>9,271,308</u>	<u>12,268,175</u>	<u>21,539,483</u>	<u>21,979,742</u>	<u>10,960,736</u>	<u>11,195,803</u>	<u>22,156,539</u>	<u>22,698,580</u>
TOTAL	\$11,694,350	\$51,481,605	\$63,175,955	\$63,616,214	\$13,670,302	\$54,441,882	\$68,112,184	\$68,654,225

See notes to financial statements.

PASTORAL OFFICE OF THE ROMAN CATHOLIC BISHOP OF MONTEREY

**STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2009 AND 2008**

	2009				2008			
	Unrestricted		Temporarily Restricted		Unrestricted		Temporarily Restricted	
	Undesignated	Designated	Unrestricted	Total	Undesignated	Designated	Unrestricted	Total
REVENUES:								
Programs	\$ 809,361	\$ -	\$ 809,361	\$ -	\$ 868,550	\$ -	\$ 868,550	\$ -
Gifts, bequests and collections	672,530	224,051	896,581	50,106	390,094	76,039	466,133	25,849
Change in value of contributions and bequests receivable	(116,997)	-	(116,997)	(71,867)	-	-	1,983,926	(49,505)
Interest and dividend income	-	1,540,465	1,540,465	-	-	-	-	-
Realized and unrealized gains (losses) on investments	-	(1,563,828)	(1,563,828)	-	-	(1,736,868)	(1,736,868)	-
Annual Ministries' Appeal	915,331	-	915,331	-	850,956	-	850,956	-
Parish assessments	1,844,425	-	1,844,425	1,844,425	1,728,665	-	1,728,665	-
Insurance billings	-	7,907,479	7,907,479	-	-	7,744,616	7,744,616	-
Cemetery revenue and endowment care income	-	1,960,997	1,960,997	-	-	1,930,184	1,930,184	-
Other income	466,539	106,893	573,432	-	396,333	100,293	496,626	-
Fund transfers	(1,992,046)	1,992,046	-	-	102,968	(102,968)	-	-
Net assets released from restrictions	75,531	4,490	80,021	(80,021)	177,269	17,552	194,821	(194,821)
Total revenues	2,674,674	12,172,593	14,847,267	(101,782)	4,514,835	10,012,774	14,527,609	(218,477)
EXPENSES:								
Programs:								
Ministries and services	3,750,476	1,136,047	4,886,523	-	3,739,933	941,941	4,681,874	-
Cemetery activities	-	1,995,131	1,995,131	-	-	2,180,368	2,180,368	-
Insurance premiums and claims	-	5,765,474	5,765,474	-	-	6,181,496	6,181,496	-
Deposit and loan/cash management interest expense	38,903	1,123,942	1,162,845	-	35,687	1,424,860	1,460,547	-
Administration costs:								
Professional and contracted services	111,522	435,698	547,220	-	191,993	453,919	645,912	-
Donation to San Carlos Cathedral	138,281	-	138,281	-	500,000	-	500,000	-
Other general administration	324,920	643,929	968,849	-	546,894	590,960	1,137,854	-
Total expenses	4,364,102	11,100,221	15,464,323	15,464,323	5,014,507	11,773,544	16,788,051	1,137,854
CHANGE IN NET ASSETS	(1,689,428)	1,072,372	(617,056)	(101,782)	(499,672)	(1,760,770)	(2,260,442)	(218,477)
NET ASSETS:								
BEGINNING OF YEAR	10,960,736	11,195,803	22,156,539	542,041	11,460,408	12,956,573	24,416,981	760,518
END OF YEAR	\$ 9,271,308	\$ 12,268,175	\$ 21,539,483	\$ 440,259	\$ 10,960,736	\$ 11,195,803	\$ 22,156,539	\$ 542,041
								\$ 22,698,580

See notes to financial statements.

PASTORAL OFFICE OF THE ROMAN CATHOLIC BISHOP OF MONTEREY

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

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (718,838)	\$ (2,478,919)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	519,190	478,331
Realized and unrealized losses on investments	1,563,828	1,736,868
Gain on sale of assets	(125,013)	(20,063)
Change in assets and liabilities:		
Receivables	832,232	(4,510)
Inventory	186,234	(6,268)
Deposits and prepaid expenses	(242,625)	471,158
Other assets	58,353	10,013
Interest in charitable remainder trust	(5,307)	(5,007)
Accounts payable and accrued liabilities	(892,859)	166,137
Deposits held for parishes and institutions	(3,329,365)	4,328,641
Deferred revenue	<u>(10,108)</u>	<u>84,661</u>
Net cash provided (used) by operating activities	<u>(2,164,278)</u>	<u>4,761,042</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(15,424,168)	(20,266,351)
Proceeds from sale of marketable securities	22,294,613	19,190,812
Notes receivable - additions	(6,997,217)	(4,723,994)
Notes receivable - collections	2,826,987	2,498,403
Purchases of land, buildings and equipment	(1,193,619)	(1,010,764)
Proceeds from sale of land, buildings and equipment	<u>125,013</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>1,631,609</u>	<u>(4,311,894)</u>
CASH FLOWS FROM FINANCING ACTIVITIES -		
Notes payable - repayments	<u>(86,841)</u>	<u>(81,662)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(619,510)	367,486
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	<u>2,526,178</u>	<u>2,158,692</u>
END OF YEAR	<u>\$ 1,906,668</u>	<u>\$ 2,526,178</u>
ADDITIONAL CASH FLOW INFORMATION -		
Interest paid	\$ 1,162,845	\$ 1,466,732

See notes to financial statements.

PASTORAL OFFICE OF THE ROMAN CATHOLIC BISHOP OF MONTEREY

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

1. ORGANIZATION

The Roman Catholic Bishop of the Diocese of Monterey (the "Diocese"), a California Corporation Sole, was incorporated on December 18, 1967. The Diocese provides administrative support to parishes, schools, cemeteries, Diocesan programs, the Bishop Harry A. Clinch Endowment Fund, and the Catholic Charities of the Diocese of Monterey within the counties of Monterey, Santa Cruz, San Benito and San Luis Obispo.

The financial statements include only assets, liabilities, net assets and financial activities, which are administered by The Roman Catholic Bishop of Monterey through the Pastoral Office of the Roman Catholic Bishop of Monterey (the "Pastoral Office"). Included in these financial statements are the operations of the Pastoral Office Roman Catholic Cemeteries of Monterey. Parishes and schools, Catholic Charities of the Diocese of Monterey, the Bishop Harry A. Clinch Endowment Fund and the assets held and liabilities accumulated for priest and lay pension plans are not included in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - For financial statement purposes, all financial transactions are reported by the net asset categories prescribed for not-for-profit organizations by the Financial Accounting Standards Board. For internal accounting purposes, the accounts of the Pastoral Office 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 that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded by funds. Any transactions between funds have been eliminated upon consolidating the funds by net asset category for financial statement presentation.

Unrestricted - Unrestricted net assets consist of all resources of the Pastoral Office which have not been restricted by a donor. The major sources of revenue are parish assessments, the annual ministries' appeal, cemetery revenue, revenues raised by Diocesan programs, interest and investment income. Certain unrestricted resources have been designated as follows:

Insurance Service Fund includes funds collected and disbursed for employee benefit programs and property/liability insurance.

Diocesan Banking Fund contains custodial deposits ("deposit and loan fund" and "cash management fund"), held by the Pastoral Office, that belong to parishes and institutions. The designated net assets are used in the administration of the banking program. Deposits in the deposit and loan fund are available for loans to other parishes and institutions and deposits in the cash management fund are available upon demand by the parish or institution to whom they belong. Interest rates paid on deposits in the deposit and loan fund and the cash management fund are adjusted periodically as determined by Diocese management (3% and 1% at August 31, 2009, respectively).

Cemetery Fund includes the operations of the five Cemeteries within the Diocese.

Special Purpose Fund includes funds received and held by the Pastoral Office as fiscal agent for others and funds designated for special 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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets received and whose purpose or time restrictions are satisfied within the same accounting period are reported as unrestricted revenue.

Permanently Restricted – Permanently restricted net assets are assets whose use has been restricted for investment in perpetuity. The Pastoral Office has no permanently restricted net assets.

Basis of Accounting – The financial statements of the Pastoral Office have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents – The Pastoral Office considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Receivables – Receivables include assessments receivable from parishes, schools and other institutions, trade receivables of the Cemeteries, contributions and bequests receivable, grant distributions receivable from the Bishop Harry A. Clinch Endowment Fund, notes receivable from loans made to parishes and institutions by the Diocesan Banking Fund, and other non-trade receivables.

Receivables From Parishes and Institutions are stated net of an allowance for doubtful accounts of \$5,000 at August 31, 2009 and 2008, respectively.

Trade Receivables of the Cemeteries – The Cemeteries sell graves, crypts and niches on account to individuals and families. Trade accounts receivable are payable in accordance with the terms of the sales contract and are stated at amounts due, net of an allowance for doubtful accounts of \$75,323 at August 31, 2009 and 2008.

Notes Receivable from loans made by the Deposit and Loan Fund are stated net of an allowance for doubtful accounts of \$201,337 at August 31, 2009 and 2008. Credit is extended based upon an evaluation of the organization's financial condition and other factors, and generally, collateral is not required. Loans receivable have no stated maturity date and are generally due either on demand of the Pastoral Office or in accordance with scheduled payments. The allowance for loan losses is determined by a number of factors including the Pastoral Office's previous loss history, the organization's previous payment history, financial condition and ability to pay, and the condition of the general economy.

Marketable Securities – Marketable equity securities 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.

Inventory – Cemetery inventory is stated at the lower of cost or market. Included in inventories is the cost of land and improvements representing gravesites. Land and gravesites in inventory at August 31, 2009 and 2008, acquired prior to September 1, 1991, are reported using an estimated cost.

Land, Buildings and Equipment – Property acquisitions are capitalized at cost when purchased, or fair value at date of gift if donated, and are presented net of accumulated depreciation. Depreciation expense is calculated based on estimated service lives of each asset, ranging from 5 to 40 years, using the straight-line method.

Deferred Revenue – Some pre-need sales of graves, crypts and niches include amounts for future goods and services, such as monuments and labor. Accordingly, Cemetery revenues relating to these future goods and services are deferred until the goods are delivered and services are performed.

The Pastoral Office received residential property as a gift, for which the Pastoral Office granted back to the donor a life estate interest that entitles the donor and designated beneficiaries the right to live in the residence for the remainder of their lives. Accordingly, a portion of contribution revenue related to the residential property was deferred, and is being recognized over a period of time equal to the shorter of the estimated service life of the property or the remaining lives of the beneficiaries.

Contributions – The Pastoral Office reports contributions as unrestricted support unless they are received with donor stipulations that restrict the use of the donated assets in which case they are recorded as temporarily or permanently restricted revenue. The Pastoral Office recognizes all unconditional gifts and promises to give in the period notified.

Functional Classification of Expenses – The costs of providing the various program and administrative expenses have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated, principally on a direct cost basis, among the classifications.

Income Taxes – The Diocese is exempt from federal and state income tax under provisions of Section 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 Pastoral Office to credit risk consist primarily of cash and cash equivalents, marketable securities and receivables. Cash and cash equivalents are maintained in major financial institutions and include repurchase agreements. At times, bank deposits may exceed FDIC limits. Marketable securities, which include money market funds, fixed income mutual funds, corporate equity securities, and real estate investment trusts are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain marketable securities and the level of uncertainty related to changes in the value of marketable securities, it is at least reasonably possible that changes in value due to these risks in the near term could materially affect the Pastoral Office's financial position. Receivables consist primarily of trade receivables of the Cemeteries, contributions and bequests receivable, and notes receivable from loans made to parishes and institutions by the Diocesan Banking Fund. The Pastoral Office closely monitors these receivables and has not experienced significant credit losses.

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 self-insurance liabilities, bequests receivable, and deferred revenue related to a life estate interest in property. Actual results could differ from those estimates.

Subsequent events have been evaluated through December 9, 2009 (date financial statements were available for issuance).

3. MARKETABLE SECURITIES

Marketable securities consist of the following at August 31:

	<u>2009</u>	<u>2008</u>
Statement of Financial Position Captions:		
Marketable securities	\$ 11,239,074	\$ 12,023,752
Assets whose use is limited – marketable securities	<u>12,477,713</u>	<u>20,127,308</u>
Total	<u>\$ 23,716,787</u>	<u>\$ 32,151,060</u>
Money market funds	\$ 2,409,151	\$ 16,872,864
Mutual funds -		
Fixed income	8,126,880	4,110,710
Corporate equity securities	12,860,756	11,167,486
Real estate investment trusts	<u>320,000</u>	<u>-</u>
Total	<u>\$ 23,716,787</u>	<u>\$ 32,151,060</u>

4. BEQUESTS RECEIVABLE

The Pastoral Office is a one-third beneficiary of the real property in an estate. During fiscal 2009 most of the real property was sold and the estate was partially settled. Subsequent to year-end, the final parcel of real property was sold and settlement of the estate was finalized. The carrying value of the receivable related to this bequest was \$164,676 and \$1,007,909 at August 31, 2009 and 2008, respectively.

During fiscal 2009, the Pastoral Office was named a one-third residual beneficiary of an estate which is in the process of being settled. Management estimates the value of this bequest is approximately \$250,000.

5. INVENTORY

Inventories consist of the following at August 31:

	<u>2009</u>	<u>2008</u>
Gravesites	\$ 2,600,613	\$ 2,609,989
Crypts	1,613,746	1,783,777
Niches	<u>41,144</u>	<u>47,971</u>
Total	<u>\$ 4,255,503</u>	<u>\$ 4,441,737</u>

6. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consists of assets held in custody for parishes and institutions in the Diocesan Banking Fund. Such assets are limited for repayment to those entities.

7. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at August 31, 2009:

	<u>Undesignated</u>	<u>Designated</u>	<u>Total</u>
Land	\$ 2,952,374	\$ -	\$ 2,952,374
Buildings and building improvements	4,967,245	392,957	5,360,202
Automobiles	365,366	65,098	430,464
Office equipment and furniture	1,448,552	617,870	2,066,422
Cemetery roads	<u>-</u>	<u>679,664</u>	<u>679,664</u>
Total	9,733,537	1,755,589	11,489,126
Less accumulated depreciation	<u>(2,950,671)</u>	<u>(922,752)</u>	<u>(3,873,423)</u>
Land, buildings and equipment - net	<u>\$ 6,782,866</u>	<u>\$ 832,837</u>	<u>\$ 7,615,703</u>

Land, buildings and equipment consist of the following at August 31, 2008:

	<u>Undesignated</u>	<u>Designated</u>	<u>Total</u>
Land	\$ 2,952,374	\$ -	\$ 2,952,374
Buildings and building improvements	3,910,399	342,672	4,253,071
Automobiles	322,642	65,098	387,740
Office equipment and furniture	1,413,199	609,459	2,022,658
Cemetery roads	<u>-</u>	<u>679,664</u>	<u>679,664</u>
Total	8,598,614	1,696,893	10,295,507
Less accumulated depreciation	<u>(2,571,551)</u>	<u>(871,182)</u>	<u>(3,442,733)</u>
Land, buildings and equipment - net	<u>\$ 6,027,063</u>	<u>\$ 825,711</u>	<u>\$ 6,852,774</u>

8. PROPERTY SUBJECT TO LIFE ESTATE INTEREST

The Pastoral Office received residential property as a gift, for which the Pastoral Office granted back to the donor a Life Estate Interest that entitles the donor and designated beneficiaries the right to live in the residence for the remainder of their lives. The property is presented at fair value as of the date of receipt in the amount of \$2,950,000, net of accumulated depreciation of \$929,250 and \$840,750 as of August 31, 2009 and 2008, respectively.

Deferred revenue related to the value of the life estate interest was calculated based on the remaining life of the beneficiaries. Deferred revenue was \$1,725,750 and \$1,814,250 as of August 31, 2009 and 2008, respectively.

9. LINE OF CREDIT

The Pastoral Office has a \$5,000,000 line of credit with Wells Fargo Bank, at prime plus .25%, subject to renewal in April 2010. No borrowings were outstanding at August 31, 2009 or 2008.

10. NOTES RECEIVABLE – ASSETS WHOSE USE IS LIMITED

The Pastoral Office administers a loan program for parishes and schools for various projects and to priests for car loans. Interest accrues at 5%. The notes receivable are reported net of an allowance for doubtful accounts of \$201,337 at August 31, 2009 and 2008. Future collections of notes receivable outstanding as of August 31, 2009 are estimated to be approximately as follows.

Year Ending August 31,

2010	\$ 3,808,000
2011	1,122,000
2012	1,148,000
2013	1,196,000
2014	1,246,000
Thereafter	<u>12,672,000</u>
Total	21,192,000
Less allowance for doubtful accounts	<u>(201,000)</u>
Total	<u>\$ 20,991,000</u>

11. INTEREST IN CHARITABLE REMAINDER TRUST

The Pastoral Office is a remainderman in a charitable remainder trust. The trust provides for distributions to the donor or other designated beneficiary's over the trust's term (the designated beneficiary's lifetime). At the end of the trust's term, a portion of the remaining assets is distributed to and available for the use of the Pastoral Office. The portion of the trust representing the present value of the estimated future benefits to be received by the Pastoral Office was recorded in the statement of activities as temporarily restricted contribution revenue in the period the trust was established. The value of the trust at the date of donation was \$318,750 and was discounted using a discount rate of 6% and applicable mortality tables. The present value amounted to \$93,762 and \$88,455 at August 31, 2009 and 2008, respectively.

12. NOTES PAYABLE

Notes payable consist of the following at August 31:

	<u>2009</u>	<u>2008</u>
Designated Fund -		
Diocesan Banking Fund - 4% note payable to the U.S. Small Business Administration, secured by irrevocable letters of credit with Wells Fargo Bank, due \$4,869 monthly, including interest, through 2022	\$ 565,211	\$ 600,254
Undesignated Fund -		
7% unsecured note payable to the Franciscan Sisters of the Immaculate Conception and of St. Joseph for the Dying, due \$6,977 monthly, including interest, through January 2016	<u>431,726</u>	<u>483,524</u>
Total notes payable	<u>\$ 996,937</u>	<u>\$ 1,083,778</u>

Aggregate maturities of notes payable as of August 31, 2009 are approximately as follows:

2010	\$ 92,000
2011	97,000
2012	103,000
2013	109,000
2014	116,000
Thereafter	<u>480,000</u>
Total	<u>\$ 997,000</u>

13. LAY EMPLOYEES' PENSION PLANS

Defined Benefit Plan - Prior to January 1, 1983, full-time lay employees of the Pastoral Office participated in a nonqualified defined benefit plan. The plan was frozen on January 1, 1983. The plan operated as a multi-employer plan through the Diocese and is not subject to ERISA funding requirements. The Diocese made no contributions to the plan during fiscal 2009 or 2008. During fiscal 2007, the Diocese made plan contributions of \$373,000 to fund the excess of the accumulated benefit obligation over fair value of plan assets shown on the latest actuarial report. The following summarizes the funded status of the plan as of September 1, 2005 (the date of the latest actuarial report):

Fair value of plan assets	\$ 832,929
Accumulated benefit obligation	1,205,648
Excess of accumulated benefit obligation over fair value of plan assets	(372,719)

At August 31, 2009, the fair value of plan assets was \$750,643.

Defined Contribution Plan - On January 1, 1983, the Diocese implemented a defined contribution plan for all full-time lay employees. The plan has subsequently been qualified and established as a separate trust. The Diocese makes contributions to the plan equal to 5% of compensation of all eligible lay employees. The Pastoral Office pension expense for this plan for the years ended August 31, 2009 and 2008 was approximately \$120,000 and \$134,000, respectively.

14. PRIESTS' PENSION PLAN

A defined benefit pension plan (the "Basic Plan") exists for priests in the Pastoral Office, as well as priests at the schools, parishes and other entities within the Diocese. The Basic Plan operates as a multi-employer plan and has been in existence since 1970. The Basic Plan is a legal trust separate from the Diocese. Plan actuaries have calculated the present value of accumulated plan benefits for the entire Diocesan plan using a rate of return of 7%. Assessments paid to the Basic Plan from the Pastoral office were approximately \$25,000 and \$28,000 in 2009 and 2008, respectively. Parishes, schools and other entities pay directly into the Basic Plan based on assessments made by the Basic Plan. The following summarizes the funded status of the basic plan as of August 31, 2009:

Fair value of plan assets	\$ 6,109,689
Accumulated benefit obligation	6,676,812
Unfunded accrued liability	(567,123)

In addition to the Basic Plan, there is a supplemental multi-employer benefit plan (the "Supplemental Plan") that was formalized in November 1988. Plan actuaries have calculated the present value of accumulated plan benefits using a rate of return of 7%. A portion of this liability may be assumed by the Basic Plan. The Supplemental Plan is funded through donations and donor-restricted investment income. The following summarizes the funded status of the supplemental plan as of August 31, 2009:

Fair value of plan assets	\$ 61,296
Accumulated benefit obligation	171,809
Unfunded accrued liability	(110,513)

15. COMMITMENTS AND CONTINGENCIES

From time to time, the Pastoral Office is a party to various litigation matters in the normal course of business. Management believes that the resolution of these normal matters will have no material adverse effect on the financial condition of the Pastoral Office.

In addition, the Pastoral Office is a party to certain matters involving pending and threatened litigation regarding claims of sexual misconduct. If such claims are upheld and are not resolved within applicable insurance coverage/limits, the potential losses to the Pastoral Office could be material. Since significant uncertainties exist regarding these claims, and a reasonable estimate of the potential uninsured cost of these claims to the Pastoral Office cannot be made, no accrual has been recorded in the accompanying financial statements.

16. INVESTMENT IN SELF-INSURED RISK RETENTION GROUP

The Pastoral Office is a participant, along with ten other dioceses in the western United States, in a self-funded liability insurance group, The Ordinary Mutual.

17. NET ASSETS

Temporarily restricted net assets were held for the following purposes or time restriction at August 31:

	<u>2009</u>	<u>2008</u>
Ministry programs (purpose and time restricted)	\$ 50,885	\$ 26,637
Interest in charitable remainder trust (time restricted)	93,762	88,455
Estate receivable (time restricted)	<u>295,612</u>	<u>426,949</u>
Total	<u>\$ 440,259</u>	<u>\$ 542,041</u>

18. CONTINGENT ASSETS

The Bishop Harry A. Clinch Endowment Fund, a trust, receives gifts from donors. The donors generally designate which diocesan institution (parish, school, ministry program, or general purposes) they would like to benefit from their gift. However, the trust has variance powers and all distributions are made at the sole discretion of the trustees. Accordingly, gifts designated by donors to assist diocesan ministries are contingent upon future trust declarations and are not recorded as assets on the books of the Diocese.

The Pastoral Office recognized revenues from trust distributions totaling \$165,247 and \$188,521 in fiscal 2009 and 2008, respectively, representing 4.5% of the fair value of the assets held by the trust as of the trust's August 31 year-end. At August 31, 2009 and 2008, after such distributions, the fair value of gifts held by the trust to assist certain diocesan ministries, which are administered by the Pastoral Office, were as follows:

	<u>2009</u>	<u>2008</u>
Ministry/Use of Distributions:		
General purposes/provides for general ministry needs	\$ 1,658,039	\$ 1,945,585
Bishop Shubsda Burse/ministry that provides for seminary education and support	1,098,803	1,289,371
Bishop McFarland Student Tuition Assistance/ministry providing tuition aid for students	194,599	228,349
Clergy continuing education/ministry that provides ongoing learning of the clergy	53,786	63,114
Ministry programs/ministry of religious lay formation	42,673	49,306
Newman – San Luis Obispo/ministry program at California Polytechnic State University, San Luis Obispo	33,162	38,914
Priest Retirement/ministry that provides assistance to retired clergy	24,346	28,568
Newman UCSC – Santa Cruz/ministry program at University of California, Santa Cruz	24,152	26,956
Tuition assistance	<u>4,190</u>	<u>1,958</u>
Total	<u>\$ 3,133,750</u>	<u>\$ 3,672,121</u>

19. NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by satisfying the conditions for the following restricted purposes:

	<u>2009</u>	<u>2008</u>
Ministry programs	<u>\$ 80,021</u>	<u>\$ 194,821</u>

20. RELATED PARTY TRANSACTIONS

Administrative fees received from the Catholic Charities of the Diocese of Monterey ("Catholic Charities"), totaled \$24,000 for each of the years ended August 31, 2009 and 2008. Rent received from Catholic Charities also totaled \$24,000 for each of the years ended August 31, 2009 and 2008. Administrative fees received from the Bishop Harry A. Clinch Endowment Fund (the "Endowment Fund") totaled \$50,000 for each of the years ended August 31, 2009 and 2008.

At August 31, 2009 and 2008, the Endowment Fund had payables for income distributions to the Pastoral Office in the amount of \$165,247 and \$188,521, respectively.

PASTORAL OFFICE OF THE ROMAN CATHOLIC BISHOP OF MONTEREY

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF FINANCIAL POSITION - DESIGNATED FUNDS
AUGUST 31, 2009**

<u>ASSETS</u>	<u>Insurance Service Fund</u>	<u>Diocesan Banking Fund</u>	<u>Cemetery Fund</u>	<u>Special Purpose Fund</u>	<u>Eliminations</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,503,775	\$ (6,415,027)	\$ 172,570	\$ 1,450,362	\$ -	\$ (288,320)
Marketable securities - allocated	-	9,085,445	2,153,629	-	-	11,239,074
Receivables:						
Parishes and institutions - net	625	-	-	-	-	625
Trade receivables of the Cemeteries - net	-	-	1,057,780	-	-	1,057,780
Inventory	-	-	4,255,503	-	-	4,255,503
Deposits and prepaid expenses	915,578	-	-	-	-	915,578
Assets whose use is limited:						
Marketable securities	-	12,477,713	-	-	-	12,477,713
Notes receivable - net	-	20,990,815	-	-	-	20,990,815
Land, buildings and equipment - net	-	-	832,837	-	-	832,837
TOTAL	<u>\$ 5,419,978</u>	<u>\$ 36,138,946</u>	<u>\$ 8,472,319</u>	<u>\$ 1,450,362</u>	<u>\$ -</u>	<u>\$ 51,481,605</u>
 <u>LIABILITIES AND NET ASSETS</u>						
LIABILITIES:						
Accounts payable and accrued liabilities	\$ 1,675,002	\$ 29,610	\$ 38,272	\$ 104,073	\$ -	\$ 1,846,957
Deposits held for parishes and institutions	-	33,468,528	-	-	-	33,468,528
Notes payable	-	565,211	-	-	-	565,211
Deferred revenue	-	-	3,332,734	-	-	3,332,734
Due to (from)	-	203,890	241,820	(445,710)	-	-
Total liabilities	<u>1,675,002</u>	<u>34,267,239</u>	<u>3,612,826</u>	<u>(341,637)</u>	<u>-</u>	<u>39,213,430</u>
 NET ASSETS:						
Unrestricted:						
Designated	3,744,976	1,871,707	1,843,824	1,791,999	-	9,252,506
Investment in property and equipment	-	-	832,837	-	-	832,837
Cemeteries perpetual care fund	-	-	2,182,832	-	-	2,182,832
Total net assets	<u>3,744,976</u>	<u>1,871,707</u>	<u>4,859,493</u>	<u>1,791,999</u>	<u>-</u>	<u>12,268,175</u>
TOTAL	<u>\$ 5,419,978</u>	<u>\$ 36,138,946</u>	<u>\$ 8,472,319</u>	<u>\$ 1,450,362</u>	<u>\$ -</u>	<u>\$ 51,481,605</u>

PASTORAL OFFICE OF THE ROMAN CATHOLIC BISHOP OF MONTEREY

SUPPLEMENTAL CONSOLIDATING STATEMENT OF ACTIVITIES – DESIGNATED FUNDS
YEAR ENDED AUGUST 31, 2009

	Insurance Service Fund	Diocesan Banking Fund	Cemetery Fund	Special Purpose Fund	Eliminations	Total
REVENUES:						
Gifts, bequests and collections	\$ -	\$ -	\$ 7,225	\$ 216,826	\$ -	\$ 224,051
Interest and dividend income	175,814	1,489,033	53,153	46,613	(224,148)	1,540,465
Realized and unrealized gains (losses) on investments	-	(1,281,045)	(282,783)	-	-	(1,563,828)
Insurance billings	7,907,479	-	-	-	-	7,907,479
Cemetery revenue and endowment care income	-	-	1,960,997	-	-	1,960,997
Other income	-	-	106,893	-	-	106,893
Fund transfers	-	2,000,000	-	97,147	(105,101)	1,992,046
Net assets released from restrictions	-	-	4,490	-	-	4,490
Total revenues	<u>8,083,293</u>	<u>2,207,988</u>	<u>1,849,975</u>	<u>360,586</u>	<u>(329,249)</u>	<u>12,172,593</u>
EXPENSES:						
Programs:						
Ministries and services	1,136,047	-	-	-	-	1,136,047
Cemetery activities	-	-	1,995,131	-	-	1,995,131
Insurance premiums and claims	5,765,474	-	-	-	-	5,765,474
Deposit and loan/cash management interest expense	-	1,444,114	9,077	-	(329,249)	1,123,942
Administration costs:						
Professional and contracted services	138,118	282,653	14,927	-	-	435,698
Other general administration	110,622	268,527	264,780	-	-	643,929
Total expenses	<u>7,150,261</u>	<u>1,995,294</u>	<u>2,283,915</u>	<u>-</u>	<u>(329,249)</u>	<u>11,100,221</u>
CHANGE IN NET ASSETS	933,032	212,694	(433,940)	360,586	-	1,072,372
NET ASSETS:						
BEGINNING OF YEAR	<u>2,811,944</u>	<u>1,659,013</u>	<u>5,293,433</u>	<u>1,431,413</u>	<u>-</u>	<u>11,195,803</u>
END OF YEAR	<u>\$ 3,744,976</u>	<u>\$ 1,871,707</u>	<u>\$ 4,859,493</u>	<u>\$ 1,791,999</u>	<u>\$ -</u>	<u>\$ 12,268,175</u>

PASTORAL OFFICE OF THE ROMAN CATHOLIC BISHOP OF MONTEREY

SUPPLEMENTAL CONSOLIDATING STATEMENT OF FINANCIAL POSITION – DESIGNATED FUNDS
AUGUST 31, 2008

ASSETS	Insurance Service Fund	Diocesan Banking Fund	Cemetery Fund	Special Purpose Fund	Eliminations	Total
Cash and cash equivalents	\$ 4,437,727	\$ (7,139,715)	\$ (17,710)	\$ 1,200,518	\$ -	\$ (1,519,180)
Marketable securities - allocated	-	9,511,334	2,512,418	-	-	12,023,752
Receivables:						
Parishes and institutions - net	58,827	697	-	10,269	-	69,793
Trade receivables of the Cemeteries - net	-	-	950,536	-	-	950,536
Inventory	-	-	4,441,737	-	-	4,441,737
Deposits and prepaid expenses	689,073	-	-	-	-	689,073
Other assets	-	-	12,567	-	-	12,567
Assets whose use is limited:						
Marketable securities	-	20,127,308	-	-	-	20,127,308
Notes receivable - net	-	16,670,585	-	-	-	16,670,585
Note receivable	-	-	-	150,000	-	150,000
Land, buildings and equipment - net	-	-	825,711	-	-	825,711
TOTAL	\$ 5,185,627	\$ 39,170,209	\$ 8,725,259	\$ 1,360,787	\$ -	\$ 54,441,882
LIABILITIES AND NET ASSETS						
LIABILITIES:						
Accounts payable and accrued liabilities	\$ 2,373,683	\$ 10,348	\$ 34,223	\$ 175,336	\$ -	\$ 2,593,590
Deposits held for parishes and institutions	-	36,797,893	-	-	-	36,797,893
Notes payable	-	600,254	-	-	-	600,254
Deferred revenue	-	-	3,254,342	-	-	3,254,342
Due to (from)	-	102,701	143,261	(245,962)	-	-
Total liabilities	<u>2,373,683</u>	<u>37,511,196</u>	<u>3,431,826</u>	<u>(70,626)</u>	<u>-</u>	<u>43,246,079</u>
NET ASSETS:						
Unrestricted:						
Designated	2,811,944	1,659,013	2,032,725	1,431,413	-	7,935,095
Investment in property and equipment	-	-	825,711	-	-	825,711
Cemeteries perpetual care fund	-	-	2,434,997	-	-	2,434,997
Total net assets	<u>2,811,944</u>	<u>1,659,013</u>	<u>5,293,433</u>	<u>1,431,413</u>	<u>-</u>	<u>11,195,803</u>
TOTAL	\$ 5,185,627	\$ 39,170,209	\$ 8,725,259	\$ 1,360,787	\$ -	\$ 54,441,882

PASTORAL OFFICE OF THE ROMAN CATHOLIC BISHOP OF MONTEREY

**SUPPLEMENTAL CONSOLIDATING STATEMENT OF ACTIVITIES – DESIGNATED FUNDS
YEAR ENDED AUGUST 31, 2008**

	Insurance Service Fund	Diocesan Banking Fund	Cemetery Fund	Special Purpose Fund	Eliminations	Total
REVENUES:						
Gifts, bequests and collections	\$ -	\$ -	\$ 15,100	\$ 60,939	\$ -	\$ 76,039
Interest and dividend income	181,760	1,898,175	86,171	51,422	(233,602)	1,983,926
Realized and unrealized gains (losses) on investments	-	(1,425,460)	(311,408)	-	-	(1,736,868)
Insurance billings	7,744,616	-	-	-	-	7,744,616
Cemetery revenue and endowment care income	-	-	1,930,184	-	-	1,930,184
Other income	6,090	-	94,203	-	-	100,293
Fund transfers	-	-	-	90,913	(193,881)	(102,968)
Net assets released from restrictions	-	-	17,552	-	-	17,552
Total revenues	<u>7,932,466</u>	<u>472,715</u>	<u>1,831,802</u>	<u>203,274</u>	<u>(427,483)</u>	<u>10,012,774</u>
EXPENSES:						
Programs:						
Ministries and services	929,041	-	-	12,900	-	941,941
Cemetery activities	-	-	2,180,368	-	-	2,180,368
Insurance premiums and claims	6,181,496	-	-	-	-	6,181,496
Deposit and loan/cash management interest expense	-	1,852,343	-	-	(427,483)	1,424,860
Administration costs:						
Professional and contracted services	144,452	286,909	22,558	-	-	453,919
Other general administration	86,000	273,048	231,912	-	-	590,960
Total expenses	<u>7,340,989</u>	<u>2,412,300</u>	<u>2,434,838</u>	<u>12,900</u>	<u>(427,483)</u>	<u>11,773,544</u>
CHANGE IN NET ASSETS	591,477	(1,939,585)	(603,036)	190,374	-	(1,760,770)
NET ASSETS:						
BEGINNING OF YEAR	<u>2,220,467</u>	<u>3,598,598</u>	<u>5,896,469</u>	<u>1,241,039</u>	<u>-</u>	<u>12,956,573</u>
END OF YEAR	<u>\$ 2,811,944</u>	<u>\$ 1,659,013</u>	<u>\$ 5,293,433</u>	<u>\$ 1,431,413</u>	<u>\$ -</u>	<u>\$ 11,195,803</u>