

MOSSES ADAMS

**THE ROMAN CATHOLIC BISHOP OF  
STOCKTON,  
A CORPORATION SOLE**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
WITH  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2009 AND SUMMARIZED INFORMATION  
FOR 2008**

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**INDEPENDENT AUDITOR'S REPORT**

To the Most Reverend Stephen E. Blaire  
The Roman Catholic Bishop of Stockton

We have audited the accompanying statement of financial position of the Roman Catholic Bishop of Stockton, a Corporation Sole, (the Diocese) 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 Diocesan management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the Diocese's 2008 financial statements and, in our report dated December 10, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 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 Roman Catholic Bishop of Stockton, a Corporation Sole, as of June 30, 2009, and the changes 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.



San Francisco, California  
December 3, 2009

## FINANCIAL STATEMENTS

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**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 1,753,689	\$ 1,781,181
Deposits held in trust	11,507,687	14,112,239
Receivables		
Parishes and institutions (net of allowance for doubtful accounts of \$520,755 and 329,719, respectively)	2,110,144	2,798,303
Other receivables	603,842	791,716
Property and equipment, net	<u>390,228</u>	<u>425,590</u>
Total assets	<u>\$ 16,365,590</u>	<u>\$ 19,909,029</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 473,555	\$ 740,423
Notes payable	3,200,000	3,355,263
Held for insurance and retirement plans	5,704,726	6,207,085
Custodian funds	190,112	469,859
Under funded pension benefits	<u>4,065,824</u>	<u>934,487</u>
Total liabilities	<u>13,634,217</u>	<u>11,707,117</u>
NET ASSETS		
Unrestricted	5,619,911	6,689,094
Pension liability in excess of intangible pension assets	<u>(7,553,315)</u>	<u>(4,198,813)</u>
	(1,933,404)	2,490,281
Temporarily restricted	<u>4,664,777</u>	<u>5,711,631</u>
Total net assets	<u>2,731,373</u>	<u>8,201,912</u>
Total liabilities and net assets	<u>\$ 16,365,590</u>	<u>\$ 19,909,029</u>

*See accompanying notes.*

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
STATEMENTS OF ACTIVITIES  
Year Ended June 30, 2009  
(with comparative totals for year ended June 30, 2008)**

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Total	
<b>REVENUES AND OTHER ADDITIONS</b>				
Diocesan appeal	\$ 2,000,000	\$ -	\$ 2,000,000	\$ 1,307,157
Service fee	1,500,155	-	1,500,155	1,400,303
Fee and expense reimbursements	406,637	-	406,637	409,454
Interest and dividend income	178,642	146,584	325,226	374,661
Diocesan ministries	371,700	-	371,700	352,239
Gifts, bequests, and collections	252,715	531,951	784,666	509,279
Miscellaneous	504,165	-	504,165	509,212
Net realized and unrealized losses	(1,119,219)	(1,050,767)	(2,169,986)	(753,363)
Net assets released from restrictions	674,622	(674,622)	-	-
	<u>4,769,417</u>	<u>(1,046,854)</u>	<u>3,722,563</u>	<u>4,108,942</u>
Total revenues and other additions				
<b>EXPENSES AND OTHER DEDUCTIONS</b>				
Diocesan ministries	2,751,098	-	2,751,098	2,516,104
Subsidies	281,844	-	281,844	256,424
Expenditures as stipulated by donors	841,957	-	841,957	792,760
Depreciation expense	50,393	-	50,393	69,653
Interest expense	160,363	-	160,363	250,162
Other expenses	844,233	-	844,233	747,728
Administrative expenses	955,451	-	955,451	834,654
Litigation settlement costs	176,426	-	176,426	96,197
	<u>6,061,765</u>	<u>-</u>	<u>6,061,765</u>	<u>5,563,682</u>
Total expenses and other deductions				
<b>CHANGE IN NET ASSETS BEFORE PENSION RELATED CHANGES</b>				
	(1,292,348)	(1,046,854)	(2,339,202)	(1,454,740)
<b>PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST</b>				
	<u>(3,131,337)</u>	<u>-</u>	<u>(3,131,337)</u>	<u>(1,226,406)</u>
<b>CHANGE IN NET ASSETS</b>				
	(4,423,685)	(1,046,854)	(5,470,539)	(2,681,146)
<b>NET ASSETS, beginning of year</b>				
	<u>2,490,281</u>	<u>5,711,631</u>	<u>8,201,912</u>	<u>10,883,058</u>
<b>NET ASSETS, end of year</b>				
	<u>\$ (1,933,404)</u>	<u>\$ 4,664,777</u>	<u>\$ 2,731,373</u>	<u>\$ 8,201,912</u>

*See accompanying notes.*

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (5,470,539)	\$ (2,681,146)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized losses on investments	2,169,986	753,363
Pension related changes other than net periodic pension cost	3,131,337	1,226,406
Depreciation expense	50,393	69,653
Change in assets and liabilities		
Accounts receivable	688,159	(631,736)
Other receivables and other assets	187,874	(580,964)
Accounts payable	(266,868)	160,387
Net cash from operating activities	<u>490,342</u>	<u>(1,684,037)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(197,248)	(514,043)
Proceeds from sale of investments	631,814	992,574
Purchase of property and equipment	(15,031)	(19,692)
Net cash from investing activities	<u>419,535</u>	<u>458,839</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in held for insurance and retirement plans	(502,359)	(154,578)
Change in custodian funds	(279,747)	311,200
Principal payments on notes payable	(155,263)	(132,314)
Net cash from financing activities	<u>(937,369)</u>	<u>24,308</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(27,492)	(1,200,890)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,781,181</u>	<u>2,982,071</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,753,689</u>	<u>\$ 1,781,181</u>

*See accompanying notes.*

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – ORGANIZATION**

The Roman Catholic Bishop of Stockton, a California Corporation Sole, was incorporated and commenced financial operations on June 1, 1962, as the Roman Catholic Diocese of Stockton (“Diocese”). The Diocese encompasses the counties of San Joaquin, Stanislaus, Calaveras, Tuolumne, Alpine, and Mono.

The financial statements include only those funds for which the Diocese maintains direct operational controls. Those entities not included in these statements include the various parish churches, elementary and secondary schools, The Catholic Charities of Stockton, cemetery operations, the Madonna of the Peace Renewal Center, the Society for the Propagation of the Faith, the Diocese of Stockton Revocable Trust, the Diocese of Stockton Irrevocable Trust, the Bishop’s Educational Foundation, the Church for Tomorrow Fund, and the Roman Catholic Welfare Corporation.

Following is a description of the funds included in the financial statements:

**Current Fund** – This fund contains the unrestricted resources available to support the Diocesan operations.

**Custodian Fund** – This fund contains special purpose funds held for transmittal to third parties such as special collections and disaster appeals.

**Endowment Fund** – This fund is primarily expendable donations subject to temporary restrictions of the donors.

**Plant Fund** – This unrestricted fund contains the land, buildings and equipment held for use by the Diocese, as well as sites available for future parishes and institutions.

**NOTE 2 – SUMMARY OF ACCOUNTING POLICIES**

The accounting policies of the Diocese conform to generally accepted accounting principles applicable to not-for-profit organizations. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

**Summarized Financial Information** – The financial statements include certain prior-period summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Diocese’s financial statements for the year ended June 30, 2008, from which the summarized information was derived.

**Revenue** – Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Income or loss associated with the net assets categorized as temporarily restricted is reported as temporarily restricted revenue in accordance with the donors’ intent.

*Unrestricted* – Unconditional promise to give by a donor without any use or time restrictions.

*Temporarily Restricted* – Unconditional promise to give or contribution by a donor that specifies a specific use or time restriction.

*Permanently Restricted* – Unconditional promises to give by a donor that specifies that the assets donated be invested to provide a permanent source of income. Permanently restricted gifts (endowments) are to be managed according to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of the State of California. If the donor does not restrict the allowed use of the income, the organization classifies income as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard prudence prescribed by UPMIFA. The Diocese had no permanently restricted net assets at June 30, 2009 or 2008.

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
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NOTES TO FINANCIAL STATEMENTS**

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**Accrual Basis** – The financial statements of the Diocese have been prepared on the accrual basis of accounting.

**Cash Equivalents** – All highly liquid debt instruments purchased with an original maturity of three months or less are considered cash equivalents.

**Deposits Held in Trust** – The Diocese deposits its investment securities portfolio with the Diocese of Stockton Revocable Trust and other trusts (Trust). The Trust holds and invests the Diocese's deposit and the Diocese's account is allocated the actual income (or loss) of the Diocese's share of the Trust's investment portfolio. Investment income or loss (including realized and unrealized gains and losses, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

**Fair Value of Assets** – The Diocese determines the fair value of assets consistent with Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). This standard clarifies the definition of fair value for financial reporting, establishes a hierarchical disclosure framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. The Diocese adopted SFAS 157 as of July 1, 2008. The adoption of SFAS 157 did not have a material impact on the financial statements.

The new standard provides a consistent definition of fair value which focuses on an exit price which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

*Level 1* Quoted prices in active markets for identical assets or liabilities.

*Level 2* Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets for securities that are not traded actively; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**Receivables** – Receivables represent service fees, insurance billings and lay retirement contributions due from parishes and Roman Catholic organizations in the Diocese of Stockton. These receivables are reported at face value, which approximates fair value, and are not subject to interest.

**Allowance for Doubtful Accounts** – The Diocese provides an allowance for receivables it believes it may not collect in full. It evaluates the collectability of its accounts based on a combination of factors. In circumstances where it is aware of a specific organization's inability to meet its financial obligations (i.e., financial difficulties or fluctuation in offertory), it records a specific reserve. For all other organizations, the Diocese recognizes reserves for bad debts based on its historical collection experience. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major organization's ability to meet its financial obligations), the Diocese's estimates of the recoverability of amounts due may change in the near term.

**Property and Equipment** – Purchased plant assets are recorded at cost and donated plant assets are recorded at approximate market value at the time of receipt. Depreciation expense is recorded on the straight-line basis for all plant assets over the estimated useful life ranging from three to twenty years. For the years ended June 30, 2009 and 2008, the Diocese capitalizes assets with a cost or donated value of \$1,000 or more.

**Held for Insurance and Retirement Plans** – Held for insurance and retirement plans represents amounts that the Diocese collects from and remits to plan or policy holders on behalf of the parishes.

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
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NOTES TO FINANCIAL STATEMENTS**

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**Custodial Funds** – Special purpose funds received by the parishes as a result of special collections and remitted to the Diocese to be paid directly to the organizations for which the collections were taken.

**Tax Exempt Status** – The Diocese has been recognized as tax-exempt by the Internal Revenue Service and the California Franchise Tax Board under Sections 501(c) (3) and 23701(d), respectively. Accordingly, no tax provision has been recorded in the financial statements. Further, the Diocese is not required to file tax returns as they are listed in the Catholic Register. Management has elected to defer the application of *Accounting for Uncertainty in Income Taxes* to fiscal years beginning after December 15, 2008. The Diocese evaluates uncertain tax positions in accordance with *Accounting for Contingencies* whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2009 and 2008, the Diocese had no uncertain tax positions requiring accrual.

**Functional Expenses** – The Diocese’s statement of activities and net assets reflects expenses in the functional categories of program and management and general. All expenses are considered program except those noted as administrative and litigation settlement costs. The Diocese does not incur significant, if any, fundraising expenses.

**Use of Estimates** – In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Diocese recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the financial position, including the estimates inherent in the process of preparing the financial statements. The Diocese’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the financial position but arose after the financial position date and before financial statements are available to be issued.

The Diocese has evaluated subsequent events through December 3, 2009, which is the date the financial statements are issued.

**NOTE 3 – DEPOSITS HELD IN TRUST**

Deposits held in the Trust were invested by the Trust as follows:

	June 30, 2009		
	Current Fund	Endowment Fund	Total
Corporate stocks	\$ 2,916,039	\$ 1,769,951	\$ 4,685,990
Mutual funds	3,755,927	2,059,370	5,815,297
Total equity securities	6,671,966	3,829,321	10,501,287
Corporate bond funds	-	391,645	391,645
U.S. Government bond funds	439,122	175,633	614,755
Deposits held in trust	<u>\$ 7,111,088</u>	<u>\$ 4,396,599</u>	<u>\$ 11,507,687</u>

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
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NOTES TO FINANCIAL STATEMENTS**

	June 30, 2008		
	Current Fund	Endowment Fund	Total
Corporate stocks	\$ 4,484,481	\$ 2,601,438	\$ 7,085,919
Mutual funds	3,578,529	2,053,139	5,631,668
Total equity securities	8,063,010	4,654,577	12,717,587
Corporate bonds	-	353,634	353,634
U.S. Government bonds	789,080	251,938	1,041,018
Deposits held in trust	\$ 8,852,090	\$ 5,260,149	\$ 14,112,239

All of the Diocese's investments in the accompanying Statement of Financial Position are measured at fair value on a recurring basis and are classified as Level 1 pursuant to the valuation hierarchy. Level 1 securities include highly liquid government and corporate bond funds and exchange traded equities and therefore are valued based on quoted market prices in an active market.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Land, buildings, and equipment are as follows as of June 30:

	2009	2008
Pastoral operating properties and improvements	\$ 945,391	\$ 945,391
Computer equipment	219,398	231,199
Furniture and equipment	93,982	93,982
Vehicles	24,689	24,689
	1,283,460	1,295,261
Less accumulated depreciation	(1,039,435)	(1,015,874)
	244,025	279,387
Land held for possible future development	146,203	146,203
	\$ 390,228	\$ 425,590

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
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NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – NOTES PAYABLE**

Notes payable consist of the following at June 30:

	2009	2008
Unsecured loan due date extended to October 20, 2010, variable rate interest at prime with bottom cap of 5% (5% at June 30, 2009 and 2008). In conjunction with the extension, principal payment of \$100,000 was paid on March 20, 2009 and additional principal payments of \$50,000 each are due on October 20, 2009 and March 20, 2010.	\$ 3,100,000	\$ 3,200,000
Note payable to Archdiocese of Los Angeles, secured by interest in bank account, payable in equal monthly installments of \$11,102, including interest at 6% through December 1, 2008.	-	55,263
Non-interest bearing, unsecured note to Madonna of the Peace Renewal Center, a related party. The note requires no monthly payments and has no stated maturity date. Madonna of the Peace Renewal Center does not have intentions to call the note for the foreseeable future.	100,000	100,000
	\$ 3,200,000	\$ 3,355,263

Aggregate annual principal maturities of notes payable are as follows at June 30, 2009:

2010		-
2011		\$ 3,100,000
2012		-
2013		-
Thereafter		100,000
		\$ 3,200,000

The promissory note agreement with the Archdiocese of Los Angeles requires the Diocese to maintain a \$5 million balance in a certain investment account and grants the Archdiocese of Los Angeles a security interest in this account. As of June 30, 2009, the note to the Archdiocese of Los Angeles had been paid in full.

In September 2008 the Diocese entered into an agreement binding them as a third party commercial guarantor of a loan agreement between Modesto Commerce Bank and the Pastor of St. Stanislaus Church. The \$4,000,000 non-revolving line of credit at June 30, 2009, was \$3,022,000, is payable by the Pastor of St. Stanislaus Church with an interest rate of prime plus .50% variable with a floor rate of 6.00%. In the event of default Modesto Commerce Bank can demand payment from the Diocese. The line requires one principal payment of \$500,000 due November 2009 with the balance due in full in November 2010 with a commitment for a four year maturity extension upon the payment of an additional 0.5% loan fee. Interest is due monthly. The fair value of the liability of the guarantee is not material to the Diocese.

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
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NOTES TO FINANCIAL STATEMENTS**

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**NOTE 6 – CUSTODIAN FUND**

Change in custodian funds is as follows for the year ended June 30:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 469,859	\$ 158,659
Additions (reductions)		
Funds due to others, increase (decrease)	<u>(279,747)</u>	<u>311,200</u>
Balance, end of year	<u>\$ 190,112</u>	<u>\$ 469,859</u>

**NOTE 7 – PENSION PLAN**

The Diocese participates in a defined benefit plan operated by the Roman Catholic Diocese of Stockton. Any lay person who works at least 25 hours per week, attained the age of 21, and has been employed for a minimum of one year is covered by the plan.

The plan was amended effective January 1, 2001, and the plan was converted to a cash balance plan. Participants of the plan on January 1, 2001, were grand-fathered into the plan and they have the option of selecting between two methods of calculating their benefits. Grand-fathered participants will receive as benefits the greater of the cash balance method or benefits based on the percentage of average annual earnings minus the percentage of primary social security benefit. The plan document provides for definitions of the various benefit payouts. New participants to the plan after January 1, 2001, receive benefits based on the cash balance method.

The Diocese adopted the provisions of Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (as amended)* (SFAS 158). SFAS 158 requires that the difference between assets of the pension plan and the Plan's actuarial obligation be reported as an asset or liability of the Diocese, depending on the funding status of the Plan. The Plan had an actuarial obligation in excess of its assets of \$4,065,824 and \$934,487 at June 30, 2009 and 2008, respectively.

Although the Diocese is exempt from the funding requirements of ERISA, it has been the Diocese's practice to make annual contributions that are not less than the ERISA minimum funding requirement. It is the Diocese's policy to make contributions sufficient to fund the benefits provided by the Plan on an actuarially sound basis.

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
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NOTES TO FINANCIAL STATEMENTS**

The Bishop of the Diocese of Stockton is the administrator of the pension trust. The Diocese is ultimately responsible for the payment of the plan benefits to the participants. The Diocese assesses each parish and Diocesan institution their allocable share of the liability and benefits. The following table (based on projected actuarial data) sets forth the plan's funded status and amounts recognized for the entire plan as of June 30:

	<u>2009</u>	<u>2008</u>
Projected benefit obligation		
Beginning of year	\$ 19,373,769	\$ 19,066,007
Service cost	1,127,685	1,143,714
Interest costs	1,277,008	1,169,123
Actuarial (gain) loss	(127,073)	319,239
Benefits paid	(1,732,822)	(1,596,926)
Assumption change	(297,352)	(727,388)
End of year	<u>\$ 19,621,215</u>	<u>\$ 19,373,769</u>
Fair value of plan assets		
Beginning of year	\$ 18,439,282	\$ 19,357,925
Actual return on plan assets	(2,708,872)	(674,447)
Employer contributions	1,557,803	1,352,730
Benefits paid	(1,732,822)	(1,596,926)
End of year	<u>\$ 15,555,391</u>	<u>\$ 18,439,282</u>
Funded status of the Plan at year-end (underfunded)	<u>\$ (4,065,824)</u>	<u>\$ (934,487)</u>

Net pension cost (benefit) for the entire plan was determined as follows as of June 30:

	<u>2009</u>	<u>2008</u>
Service cost-benefits earned during the period	\$ 1,127,685	\$ 1,143,714
Interest cost on projected benefit obligation	1,277,008	1,169,123
Actual return (loss) on plan assets	(1,468,142)	(1,517,612)
Net amortization and deferral	242,989	242,989
Recognized net actuarial losses	155,098	-
	<u>\$ 1,334,638</u>	<u>\$ 1,038,214</u>

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 6.7% and 6.9%, respectively, for the years ended June 30, 2009 and 2008. The expected long-term rate of return on assets was 8% for both years.

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
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NOTES TO FINANCIAL STATEMENTS**

The investment objective for the Plan is to maximize total return within reasonable and prudent levels of risk. The Plan's weighted-average asset allocations as of June 30, 2009 and 2008, are as follows:

Asset category	2009	2008
Common and collective trusts		
Equity	47.0%	59.0%
Debt	43.0%	39.0%
Cash and cash equivalents	10.0%	2.0%
Total	100.0%	100.0%

The estimated minimum benefit payments which reflect expected future service, as appropriate, to be paid by the Diocese as a whole are as follows:

Estimated minimum benefit payments Year Ending June 30,	
2010	\$ 2,958,610
2011	1,310,530
2012	1,970,263
2013	2,530,000
2014	2,001,185
2015 - 2019	11,639,929
	\$ 22,410,517

The Diocese contributed \$82,406 and \$72,436 to the plan for the years ended June 30, 2009 and 2008, for those employees employed directly by the Diocese. The Diocese's total contributions to the plan were \$1,577,803 and \$1,352,700 for the years ended June 30, 2009 and 2008, respectively, which includes amounts paid on behalf of the parishes and other institutions.

**NOTE 8 – INVESTMENT IN SELF-INSURED RISK RETENTION GROUP**

The Diocese is self-insured with respect to its general liability coverage, through its participation in a Risk Retention Group, incorporated in Vermont, with twelve other Archdioceses and Dioceses in several western states. Membership in the Risk Retention Group requires a minimum participation of five years. Each member's participation in the risk retention group is fully assessable and each member is responsible for its share of the risk retention group's liabilities. The Diocese expenses premiums paid to the policy group in the year paid. At December 31, 2008, the policy group has a positive policy holder surplus. Therefore, management believes there is no unrecorded liability.

**NOTE 9 – LITIGATION**

The Diocese has been involved in various lawsuits relating to claims of alleged sexual misconduct by certain individuals. The Diocese vigorously defended these matters and will continue to do so in a manner consistent with the norms established by the U.S. Conference of Catholic Bishops and with all due respect to the victims of childhood sexual abuse.

The Diocese is a defendant in various other cases. The cases are not at a stage where an outcome can be determined. Although future lawsuits are always a possibility, the Diocese believes that actions have been taken that will mitigate this risk in the future.

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10 – RESTRICTED NET ASSETS**

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

	2009	2008
Schools	\$ 3,550,247	\$ 4,325,648
Tuition assistance	618,761	767,282
Parishes	495,769	618,701
	\$ 4,664,777	\$ 5,711,631

Temporarily restricted net assets have been released from restrictions during the year ended June 30, 2009, as follows:

	2009
Tuition assistance	\$ 241,895
Schools	203,216
Parishes	229,511
	\$ 674,622

**NOTE 11 – CONCENTRATIONS OF CREDIT RISK**

Substantially all of the Diocese’s cash is maintained at brokerage accounts which are subject to \$500,000 in Securities Investors Protection Corporation protection. In addition to the SIPC coverage, most brokerages carry additional coverage. The Diocese also from time to time maintains cash balances in excess of the FDIC insurance.

**NOTE 12 – UNCERTAINTY RELATED TO SIGNIFICANT ESTIMATES**

The Diocese records investment securities, including its deposits held in the Revocable Trust, at their estimated fair value. The Diocese’s investment securities are carried at an estimated fair value of \$11,507,687 and \$14,112,239 as of June 30, 2009 and 2008, respectively. Investment securities are exposed to various risks, such as interest rate, market and credit risks. It is reasonably possible that the estimated fair value of investment securities will change significantly in the future, with the result that the carrying amount of the investment securities may change materially, based on market conditions and risk associated with certain investment securities (Note 3).

**SUPPLEMENTARY INFORMATION**

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**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION**

To the Most Reverend Stephen E. Blaire  
The Roman Catholic Bishop of Stockton

Our report on our audit of the basic financial statements of the Roman Catholic Bishop of Stockton, a Corporation Sole for the years ended June 30, 2009 and 2008, appears on page one. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information presented on Pages 14 through 18, hereinafter, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit 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.

*Moss Adams LLP*

San Francisco, California  
December 3, 2009

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
COMBINING STATEMENT OF FINANCIAL POSITION – ALL FUNDS  
June 30, 2009**

ASSETS					
	Current Fund	Custodian Fund	Endowment Fund	Plant Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 960,313	\$ -	\$ 340,463	\$ 452,913	\$ 1,753,689
Deposits held in trust	7,111,088	-	4,396,599	-	11,507,687
Receivables					
Parishes and institutions (net of allowance for doubtful accounts of \$520,755)	2,055,855	-	-	54,289	2,110,144
Other receivables	603,842	-	-	-	603,842
Property and equipment, net	-	-	-	390,228	390,228
Due from (to) other funds	38,644	190,112	(72,285)	(156,471)	-
Total assets	<u>\$ 10,769,742</u>	<u>\$ 190,112</u>	<u>\$ 4,664,777</u>	<u>\$ 740,959</u>	<u>\$ 16,365,590</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 473,555	\$ -	\$ -	\$ -	\$ 473,555
Notes payable	3,200,000	-	-	-	3,200,000
Held for insurance and retirement plans	5,704,726	-	-	-	5,704,726
Custodial funds	-	190,112	-	-	190,112
Under funded pension benefits	4,065,824	-	-	-	4,065,824
Total liabilities	13,444,105	190,112	-	-	13,634,217
<b>NET ASSETS</b>					
Unrestricted	4,878,952	-	-	740,959	5,619,911
Pension liability in excess of intangible pension assets	(7,553,315)	-	-	-	(7,553,315)
Temporarily restricted	-	-	4,664,777	-	4,664,777
Total net assets	(2,674,363)	-	4,664,777	740,959	2,731,373
Total liabilities and net assets	<u>\$ 10,769,742</u>	<u>\$ 190,112</u>	<u>\$ 4,664,777</u>	<u>\$ 740,959</u>	<u>\$ 16,365,590</u>

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
COMBINING STATEMENT OF FINANCIAL POSITION – ALL FUNDS  
June 30, 2008**

ASSETS					
	Current Fund	Custodian Fund	Endowment Fund	Plant Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 727,300	\$ -	\$ 445,051	\$ 608,830	\$ 1,781,181
Deposits held in trust	8,852,090	-	5,260,149	-	14,112,239
Receivables					
Parishes and institutions (net of allowance for doubtful accounts of \$329,719)	2,737,753	-	-	60,550	2,798,303
Other receivables	791,716	-	-	-	791,716
Property and equipment, net	-	-	-	425,590	425,590
Due from (to) other funds	(334,851)	469,859	6,431	(141,439)	-
	<u>\$ 12,774,008</u>	<u>\$ 469,859</u>	<u>\$ 5,711,631</u>	<u>\$ 953,531</u>	<u>\$ 19,909,029</u>
Total assets					
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 740,423	\$ -	\$ -	\$ -	\$ 740,423
Notes payable	3,355,263	-	-	-	3,355,263
Held for insurance and retirement plans	6,207,085	-	-	-	6,207,085
Custodial funds	-	469,859	-	-	469,859
Under funded pension benefits	934,487	-	-	-	934,487
Total liabilities	<u>11,237,258</u>	<u>469,859</u>	<u>-</u>	<u>-</u>	<u>11,707,117</u>
<b>NET ASSETS</b>					
Unrestricted	5,735,563	-	-	953,531	6,689,094
Pension liability in excess of intangible pension assets	(4,198,813)	-	-	-	(4,198,813)
Temporarily restricted	-	-	5,711,631	-	5,711,631
Total net assets	<u>1,536,750</u>	<u>-</u>	<u>5,711,631</u>	<u>953,531</u>	<u>8,201,912</u>
Total liabilities and net assets	<u>\$ 12,774,008</u>	<u>\$ 469,859</u>	<u>\$ 5,711,631</u>	<u>\$ 953,531</u>	<u>\$ 19,909,029</u>

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
COMBINING STATEMENT OF ACTIVITIES – ALL FUNDS  
Year Ended June 30, 2009**

	Current Fund	Custodian Fund	Endowment Fund	Plant Fund	Total
<b>REVENUES AND OTHER ADDITIONS</b>					
Diocesan appeal	\$ 2,000,000	\$ -	\$ -	\$ -	\$ 2,000,000
Service fee	1,500,155	-	-	-	1,500,155
Fee and expense reimbursements	406,637	-	-	-	406,637
Interest and dividend income	166,320	-	146,584	12,322	325,226
Diocesan ministries	371,700	-	-	-	371,700
Gifts, bequests and collections	252,715	-	531,951	-	784,666
Miscellaneous	504,165	-	-	-	504,165
Net realized and unrealized losses on investments	(1,119,219)	-	(1,050,767)	-	(2,169,986)
Total revenues and other additions	<u>4,082,473</u>	<u>-</u>	<u>(372,232)</u>	<u>12,322</u>	<u>3,722,563</u>
<b>EXPENSES AND OTHER DEDUCTIONS</b>					
Diocesan ministries	2,751,098	-	-	-	2,751,098
Subsidies	281,844	-	-	-	281,844
Expenditures as stipulated by donors	-	-	667,456	174,501	841,957
Depreciation expense	-	-	-	50,393	50,393
Interest expense	160,363	-	-	-	160,363
Other expenses	844,233	-	-	-	844,233
Administrative expenses	948,285	-	7,166	-	955,451
Litigation settlement costs	176,426	-	-	-	176,426
Total expenses and other deductions	<u>5,162,249</u>	<u>-</u>	<u>674,622</u>	<u>224,894</u>	<u>6,061,765</u>
CHANGE IN NET ASSETS BEFORE CHANGE IN PENSION ASSET/LIABILITY	(1,079,776)	-	(1,046,854)	(212,572)	(2,339,202)
CHANGE IN PENSION ASSET/LIABILITY	<u>(3,131,337)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,131,337)</u>
CHANGE IN NET ASSETS	(4,211,113)	-	(1,046,854)	(212,572)	(5,470,539)
NET ASSETS, beginning of year	<u>1,536,750</u>	<u>-</u>	<u>5,711,631</u>	<u>953,531</u>	<u>8,201,912</u>
NET ASSETS, end of year	<u>\$ (2,674,363)</u>	<u>\$ -</u>	<u>\$ 4,664,777</u>	<u>\$ 740,959</u>	<u>\$ 2,731,373</u>

**THE ROMAN CATHOLIC BISHOP OF STOCKTON,  
A CORPORATION SOLE  
COMBINING STATEMENT OF ACTIVITIES – ALL FUNDS  
Year Ended June 30, 2008**

	Current Fund	Custodian Fund	Endowment Fund	Plant Fund	Total
<b>REVENUES AND OTHER ADDITIONS</b>					
Diocesan appeal	\$ 1,307,157	\$ -	\$ -	\$ -	\$ 1,307,157
Service fee	1,400,303	-	-	-	1,400,303
Fee and expense reimbursements	409,454	-	-	-	409,454
Interest and dividend income	186,412	-	154,741	33,508	374,661
Diocesan ministries	352,239	-	-	-	352,239
Gifts, bequests and collections	133,403	-	375,876	-	509,279
Miscellaneous	509,212	-	-	-	509,212
Net realized and unrealized losses on investments	(421,053)	-	(330,549)	(1,761)	(753,363)
Total revenues and other additions	<u>3,877,127</u>	<u>-</u>	<u>200,068</u>	<u>31,747</u>	<u>4,108,942</u>
<b>EXPENSES AND OTHER DEDUCTIONS</b>					
Diocesan ministries	2,516,104	-	-	-	2,516,104
Subsidies	256,424	-	-	-	256,424
Expenditures as stipulated by donors	-	-	557,817	234,943	792,760
Depreciation expense	-	-	-	69,653	69,653
Interest expense	250,162	-	-	-	250,162
Other expenses	747,728	-	-	-	747,728
Administrative expenses	825,708	-	8,946	-	834,654
Litigation settlement costs	96,197	-	-	-	96,197
Total expenses and other deductions	<u>4,692,323</u>	<u>-</u>	<u>566,763</u>	<u>304,596</u>	<u>5,563,682</u>
CHANGE IN NET ASSETS BEFORE CHANGE IN PENSION ASSET/LIABILITY	(815,196)	-	(366,695)	(272,849)	(1,454,740)
CHANGE IN PENSION ASSET/LIABILITY	<u>(1,226,406)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,226,406)</u>
CHANGE IN NET ASSETS	(2,041,602)	-	(366,695)	(272,849)	(2,681,146)
NET ASSETS, beginning of year	<u>3,578,352</u>	<u>-</u>	<u>6,078,326</u>	<u>1,226,380</u>	<u>10,883,058</u>
NET ASSETS, end of year	<u>\$ 1,536,750</u>	<u>\$ -</u>	<u>\$ 5,711,631</u>	<u>\$ 953,531</u>	<u>\$ 8,201,912</u>