

**CHANCERY OF THE DIOCESE OF CHARLESTON
CHARLESTON, SOUTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2009 AND 2008**

CHANCERY OF THE DIOCESE OF CHARLESTON
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

To Bishop Robert E. Guglielmone
Bishop of Charleston
Charleston, South Carolina

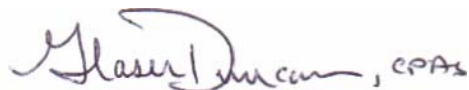
We have audited the accompanying statements of financial position of the Chancery of the Diocese of Charleston as of June 30, 2009 and 2008, and the related statements of activities, changes in unrestricted net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Chancery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Chancery's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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.

As described in the notes to the financial statements, depreciation has not been recognized in the financial statements for exhaustible property and equipment. In our opinion, accounting principles generally accepted in the United States of America require that exhaustible property and equipment be depreciated over their estimated useful lives. The effects of this departure from accounting principles generally accepted in the United States of America on the financial statements are not reasonably determinable.

In our opinion, except for the effects of not depreciating exhaustible property and equipment over their estimated useful lives, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery of the Diocese of Charleston as of June 30, 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.

As more fully described in Note one, the Chancery is not a separate legal entity, but a separate and identifiable operating unit of the Catholic Diocese of Charleston. These financial statements only contain the assets, liabilities, equity, revenue and expenses of this operating unit.



December 18, 2009

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
<u>Assets</u>		
Cash and cash equivalents	\$ 17,285,610	\$ 14,526,855
Investments	30,735,242	36,890,060
Receivables from other Diocesan entities:		
Loans receivable, net	8,257,206	7,906,137
Other receivables, net	661,610	636,287
Other receivables	660,234	1,720,892
Cash restricted for property projects	2,500,000	2,245,995
Bonds debt service fund	654,802	653,438
Other assets	938,895	1,047,499
Property and equipment	21,956,806	19,920,994
 Total Assets	 \$ 83,650,405	 \$ 85,548,157
<u>Liabilities and Net Assets</u>		
<u>Liabilities:</u>		
Accounts payable and accrued expenses	\$ 410,418	\$ 2,113,419
Savings deposits	15,371,605	14,596,618
Due to other Diocesan or Catholic Church entities	5,127,446	5,218,374
Interest rate swap agreement	651,932	425,577
Notes Payable	11,650,207	10,992,235
Bonds Payable	7,355,000	8,090,000
 Total Liabilities	 40,566,608	 41,436,223
<u>Net Assets</u>		
Unrestricted:		
Designated for insurance reserve	1,345,692	1,580,745
Designated for cemeteries care	2,501,314	3,037,304
Designated for investment and endowments	9,787,799	10,752,428
Property and equipment	16,071,780	15,587,435
Operating	333,679	1,338,770
Total unrestricted	30,040,264	32,296,682
Temporarily restricted	8,191,952	8,963,671
Permanently restricted	4,851,581	2,851,581
 Total Net Assets	 43,083,797	 44,111,934
 Total Liabilities and Net Assets	 \$ 83,650,405	 \$ 85,548,157

See Notes to the Financial Statements

CHANCERY OF THE DIOCESE OF CHARLESTON
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS		
Total support and revenue	\$ 7,049,465	\$ 9,237,105
Net assets released from restrictions	<u>3,150,555</u>	<u>3,023,949</u>
Total support, revenue, and reclassifications	10,200,020	12,261,054
Total expenses	<u>12,230,083</u>	<u>14,129,030</u>
Increase (decrease) in unrestricted net assets before derivative fair value adjustment	(2,030,063)	(1,867,976)
Fair value adjustment on interest rate swap agreement	<u>(226,355)</u>	<u>(290,383)</u>
Decrease in unrestricted net assets	<u>(2,256,418)</u>	<u>(2,158,359)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Support and revenue:		
Contributions	2,700,178	5,210,882
Interest and dividend income	46,153	117,638
Net realized gain on investment transactions	(257,013)	114,942
Net unrealized gain (loss) on investment transactions	<u>(110,482)</u>	<u>(348,748)</u>
Total support and revenue	2,378,836	5,094,714
Net assets released from restrictions	3,150,555	3,023,949
Net assets transferred from temporarily restricted classification	<u>-</u>	<u>(647,769)</u>
Increase (decrease) in temporarily restricted net assets	<u>(771,719)</u>	<u>1,422,996</u>
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	2,000,000	-
Net assets transferred to permanently restricted net assets	<u>-</u>	<u>647,769</u>
Increase in permanently restricted net assets	<u>2,000,000</u>	<u>647,769</u>
DECREASE IN NET ASSETS	(1,028,137)	(87,594)
NET ASSETS AT BEGINNING OF YEAR	<u>44,111,934</u>	<u>44,199,528</u>
NET ASSETS AT END OF YEAR	<u>\$ 43,083,797</u>	<u>\$ 44,111,934</u>

See Notes to the Financial Statements

CHANCERY OF THE DIOCESE OF CHARLESTON
 STATEMENTS OF CHANGES IN UNRESTRICTED NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Support and revenue		
Parish assessment income	\$ 4,750,452	\$ 4,415,390
Contributions and bequests	164,090	355,237
Interest and dividend income	1,457,385	1,986,894
Net realized gain (loss) on investment transactions	(2,378,727)	704,971
Net unrealized (loss) on investment transactions	(1,081,390)	(2,006,288)
Net loss from property and equipment transactions	-	(78,709)
Auxiliary activities	1,892,077	1,701,658
Other revenue	<u>2,245,578</u>	<u>2,157,952</u>
 Total support and revenue	 7,049,465	 9,237,105
 Net assets released from time restrictions or restrictions satisfied by payments	 <u>3,150,555</u>	 <u>3,023,949</u>
 Total unrestricted support, revenue and reclassifications	 <u>10,200,020</u>	 <u>12,261,054</u>
 Expenses		
Program Services:		
Pastoral	2,673,519	2,820,736
Church personnel development	1,498,717	1,419,927
Education	1,686,254	1,522,089
Cemeteries	371,935	361,444
Deposit and loan, including interest of \$717,188 in 2009 and \$905,675 in 2008	784,813	965,344
Auxiliary expenses	<u>1,528,872</u>	<u>1,598,862</u>
 Total program services	 <u>8,544,110</u>	 <u>8,688,402</u>
Supporting services:		
General and administration, including interest of \$335,121 in 2009 and \$286,056 in 2008	3,366,009	3,449,278
Development	<u>319,964</u>	<u>356,250</u>
 Total supporting services	 <u>3,685,973</u>	 <u>3,805,528</u>
 Class action settlement	 <u>-</u>	 <u>1,635,100</u>
 Total expenses	 <u>12,230,083</u>	 <u>14,129,030</u>
 Decrease in unrestricted net assets before derivative adjustment	 (2,030,063)	 (1,867,976)
 Fair value adjustment on interest rate swap agreement	 <u>(226,355)</u>	 <u>(290,383)</u>
 Decrease in unrestricted net assets	 <u>\$ (2,256,418)</u>	 <u>\$ (2,158,359)</u>

See Notes to the Financial Statements

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (1,028,137)	\$ (87,594)
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Contributions restricted for property projects	(254,005)	(2,245,995)
Amortization of bond issue costs	8,740	8,740
Investment income - bonds debt service fund	(1,364)	(9,608)
Net loss on investment transactions	3,827,612	1,535,123
Net loss from property and equipment transactions	-	78,709
Fair value adjustment on interest rate swap agreement	226,355	290,383
(Increase) decrease in receivables and other assets	1,051,918	(1,239,635)
Decrease in accounts payable and accrued expenses	(1,703,001)	(7,066,196)
Net cash provided (used) by operating activities	<u>2,128,118</u>	<u>(8,736,073)</u>
Cash Flows from Investing Activities:		
Increase in cash restricted for property projects	(254,005)	(2,245,995)
Proceeds from investment transactions	27,212,175	37,451,126
Purchases of investments	(24,884,969)	(30,600,886)
Increase (decrease) in loans receivable, net	(351,069)	(1,478,861)
Increase in other receivables	(25,323)	(57,588)
Decrease in other assets	108,604	1,250
Proceeds from dispositions of property and equipment	-	6,400
Purchases of property and equipment	(35,812)	(88,338)
Net cash provided by investing activities	<u>1,769,601</u>	<u>2,987,108</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for property projects	254,005	2,245,995
Increase in savings deposits, net	774,987	2,379,995
Increase in payables to other Diocesan entities, net	(90,928)	810,106
Principal payments on bonds payable	(735,000)	(735,000)
Proceeds from borrowings (notes payable)	-	6,658,676
Principal payments on notes payable	(1,342,028)	(354,682)
Net cash provided (used) by financing activities	<u>(1,138,964)</u>	<u>11,005,090</u>
Increase in cash	2,758,755	5,256,125
Cash at beginning of year	<u>14,526,855</u>	<u>9,270,730</u>
Cash at end of year	<u>\$ 17,285,610</u>	<u>\$ 14,526,855</u>
<u>Supplemental Cashflow Information:</u>		
Cash paid for interest	<u>\$ 1,078,708</u>	<u>\$ 1,191,731</u>
<u>Non-cash Financing and Investing Activities:</u>		
Acquisition of property through issuance of note payable	<u>\$ 2,000,000</u>	<u>\$ -</u>

See Notes to the Financial Statements

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

1. ORGANIZATION

The Catholic Diocese of Charleston (the "Diocese"), a unit of the Roman Catholic Church, is a non-profit corporation sole organized under the laws of the State of South Carolina under the name of Bishop of Charleston. The Diocese comprises the entire state of South Carolina with Charleston as its See city. Founded on July 11, 1820 by Pope Pius VII, it is one of the oldest Catholic dioceses in the United States. There are currently 118 active Catholic parishes and missions across the state and 31 Catholic schools with 27 Elementary Schools, 2 Diocesan High Schools, and 2 Private Catholic High Schools. There are no shareholders to the corporation, only the holder of the office of Bishop. The Diocese holds title to all assets and is liable for all indebtedness of its operating entities.

The Diocese consists of various distinct operating entities administered through the Diocesan structure. Each entity maintains its own separate accounts and carries on specific services and programs. The various entities can be categorized as follows: the Chancery of the Diocese of Charleston (the "Chancery"), which includes various diocesan level programs or activities (pastoral, church personnel development, educational support and the Diocesan educational offices for Catholic Youth Ministry, Religious Education, and the Catholic Schools Office, Diocesan cemeteries, cooperative investment and lending program, and auxiliary services involving certain insurance activities and the Diocesan newspaper, The Miscellany) and diocesan level administrative support offices; Parishes and Missions; Diocesan Educational Entities; Catholic Charities; and others. The accompanying financial statements include only the programs and administrative support offices of the Chancery of the Diocese of Charleston.

The Most Reverend Robert E. Guglielmone was ordained and installed as the 13th Bishop of Charleston on March 25, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Chancery have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Financial Statement Presentation

The Chancery follows the provisions of SFAS Nos. 116, *Accounting for Contributions Received and Contributions Made*, and 117, *Financial Statements of Not-for-Profit Organizations*.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

As required by SFAS No. 117, the accompanying financial statements have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This presentation has been accomplished by classification of fund balances and transactions into the following classes of net assets:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Chancery and/or the passage of time. Restrictions may include support of a particular activity, investment for a specified term or use in a specified future period. When a donor-imposed 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. It is the Chancery's policy to record temporarily restricted contributions received, for which the restriction expires in the same year, as unrestricted support.

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Chancery. The donors of these assets permit the Chancery to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Chancery considers all highly liquid temporary cash investments with a maturity of three months or less when purchased to be cash equivalents, except for the cash investments in the funds managed by investment companies and cash held by the bond trustee.

Receivables from Other Diocesan Entities and Other Receivables

Receivables are stated at amounts the Chancery expects to collect (unpaid principal balances less estimated allowances for doubtful accounts) based on the Chancery's assessment of the financial stability of the respective debtors. Receivables determined by the Chancery not be collectible are charged off against the respective allowances.

Investments

The Chancery follows the provisions of Statement of Financial Accounting Standard (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Donor restricted interest and dividend income are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized. Investment appreciation (depreciation) and income that is not donor restricted is reported in the unrestricted fund.

Property and Equipment

Purchases of property and equipment having a unit cost of \$5,000 or more are capitalized at cost. Donated property and equipment are capitalized at their estimated fair value at the date of donation. However, historical costs are not available for certain assets acquired before 1972. For these assets, insured or appraised values have been used. No provision is made for depreciation of exhaustible property and equipment.

Bond Issuance Costs

Costs incurred in connection with the issuance of bonds are being amortized over the term of the bonds. Net capitalized bond issue costs are included in Other Assets on the Statement of Activities.

Interest Rate Swap Agreement

The Chancery uses an interest rate swap agreement to manage its exposure to interest rate changes with respect to its bonds payable. The interest rate swap agreement is a derivative instrument and, as required by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, has been reported in the accompanying financial statements at fair value.

Parish Assessment Income

Parish assessment income is recorded as revenue in the year the parishes are assessed. Such revenue is calculated and assessed based upon an approved percentage of each parish's adjusted income for the preceding year.

Contributions

Contributions are considered to be unrestricted unless specifically restricted by the donors. Contributions that are restricted by the donors are reported as increases in the temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 Statements of Activities and of Changes in Unrestricted Net Assets as net assets released from restrictions.

Investment Income

Investment income consists of the interest income, dividend income and the realized gains/losses within equities from assets classified as investments in the accompanying financial statements. Interest income consists of the interest earned on assets, other than investments.

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Functional Classification of Expenses

Directly identifiable expenses are charged to programs and supporting services and have been summarized on a functional basis in the Statement of Changes in Unrestricted Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Diocese, and accordingly the Chancery, is exempt from federal and state income taxes under certain provisions of the Internal Revenue Code and the South Carolina Code of Laws; therefore, no provisions for income taxes have been included in these financial statements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Areas requiring significant estimates include the allowance for doubtful accounts and the functional allocation of expenses. It is at least reasonably possible that the significant estimates used will change within the next year.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued a new standard that could impact the Chancery. SFAS No. 157, *Fair Value Measurement* (FAS 157) defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The statement does not require new fair value measurements. Any impact will be recognized as an adjustment of beginning net assets in the year of adoption. The Chancery has evaluated the impact of adopting SFAS 157 on its results of operations and financial position and did not make any material adjustments.

On February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. The statement provides the option to report selected financial assets at fair value; it also includes presentation and disclosure requirements to facilitate comparisons between entities using different measurement attributes for similar kinds of assets and liabilities. SFAS 159 is effective in fiscal year 2009 for the Chancery. The Chancery has evaluated the impact of adopting SFAS 159 on its results of operations and financial position, and has not made any material adjustments from this statement.

FASB issued FASB Staff Position (FSP) 117-1, *Endowments for Not-for-Profit Organizations; Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* on August 14, 2008. FSP 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The State of South Carolina enacted a version of UPMIFA effective July 1, 2008. The FSP may require reclassification of appreciation of donor-restricted endowment funds from unrestricted net assets to temporarily or permanently restricted net assets. FSP 117-1 also requires additional disclosures about an organization's endowment funds. The changes from this standard are reflected in these financial statements.

3. CASH AND CASH EQUIVALENTS

Cash consists of interest-bearing checking accounts, savings accounts, money-market accounts, and certificates of deposit with a maturity of three months or less when purchased.

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

4. INVESTMENTS

In accordance with SFAS No. 124, the Chancery's investments are stated at fair market value. Fair market value is defined as 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. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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 that are not active; 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.

The Chancery's investments are valued at fair value under level 1 inputs at June 30, 2009 and 2008.

Investments along with their cost, fair value and net unrealized gain (loss) at June 30, 2009 are as follows:

	Cost	Fair Value	Net Unrealized Gain (Loss)
Certificates of deposit	\$ 7,958,377	\$ 7,958,377	\$ -
Cash with investment companies	960,931	960,931	-
Mutual funds	2,611,684	2,421,283	(190,401)
Mortgage and asset backed securities	1,946,826	2,102,509	155,683
Corporate and government debt securities	8,289,708	8,442,950	153,242
Equity securities	9,898,120	8,849,192	(1,048,928)
	<u>\$ 31,665,646</u>	<u>\$ 30,735,242</u>	<u>\$ (930,404)</u>

Investments along with their cost, fair value and net unrealized gain (loss) at June 30, 2008 are as follows:

	Cost	Fair Value	Net Unrealized Gain (Loss)
Certificates of deposit	\$ 9,121,143	\$ 9,121,143	\$ -
Cash with investment companies	1,073,994	1,073,994	-
Mutual funds	3,904,593	4,186,220	281,627
Mortgage and asset backed securities	670,423	677,115	6,692
Corporate and government debt securities	11,532,255	11,655,443	123,188
Equity securities	10,244,642	10,176,145	(68,497)
	<u>\$ 36,547,050</u>	<u>\$ 36,890,060</u>	<u>\$ 343,010</u>

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

4. INVESTMENTS - continued

Certain of the Chancery's investments are maintained in funds managed by investment companies. Other Diocesan entities (e.g. - parishes, schools, etc.) also participate in these investment funds. Investment income and realized and unrealized gains and losses are allocated monthly to the respective Chancery and other Diocesan entity accounts maintained for these pooled investments. Only the Chancery's share of these pooled investments is reflected in the accompanying financial statements. A recap of these pooled investments follows:

	2009	2008
Chancery of the Diocese of Charleston	\$ 17,159,186	\$ 21,761,657
Other Diocesan entities	7,463,469	8,500,012
	\$ 24,622,655	\$ 30,261,669

The Chancery's share of these pooled investments has been allocated to the respective classifications of investments as of June 30, 2009 and 2008 detailed previously in this note.

5. RECEIVABLES FROM OTHER DIOCESAN ENTITIES

Loans receivable consist of the loans made under the lending program of the Chancery. The loans are primarily due from parishes and schools in varying amounts through 2025 and bear interest at varying rates. The loans are stated at their unpaid balances less estimated allowances for doubtful accounts of approximately \$735,000 and \$735,000 at June 30, 2009 and 2008, respectively.

The Diocese obtains blanket property, liability and health insurance for the Chancery and certain other Diocesan entities. The Chancery pays the premiums and bills the Diocesan entities for their portion of the premiums. In addition, the Chancery bills parishes for their annual parish assessments. Receivables related to these billings principally comprise the other receivables from other Diocesan entities. These receivables are stated at their unpaid balances less estimated allowances for doubtful accounts of \$43,800 and \$43,800 at June 30, 2009 and 2008, respectively.

6. OTHER RECEIVABLES

	2009	2008
Mortgage notes receivable	\$ 513,132	\$ 552,424
Insurance claim receivable	2,732	916,166
Accrued interest on investments and notes receivable	113,969	158,903
Other, net of reserve for doubtful accounts	30,401	93,399
	\$ 660,234	\$ 1,720,892

Mortgage note receivable is secured by property in Charleston, South Carolina; due in monthly installments of \$7,871 and includes interest at 5.75%. The note matures in July 2015.

7. BONDS DEBT SERVICE FUND

In conjunction with the issuance of certain bonds (see the note, "Bonds Payable," for a further discussion of same), a bonds debt retirement fund, consisting of an interest reserve account and a redemption account, was established in the custody of the bonds' trustee. Monthly interest payments are made to the interest reserve account by the Chancery and disbursed by the trustee to the bondholders on the first day of the month. Additionally, monthly principal payments are made to the redemption account by the Chancery to fund the bonds to be redeemed annually by the trustee on September 1. The bond debt service balances at June 30, 2009 and 2008 consist of the monthly principal redemption payments made by the Chancery, plus the accumulated interest earned on same.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 9,222,275	\$ 9,277,275
Buildings	12,188,955	10,167,184
Furniture, Equipment and Vehicles	<u>545,576</u>	<u>476,535</u>
Property and equipment, net	<u>\$ 21,956,806</u>	<u>\$ 19,920,994</u>

9. NOTES PAYABLE

Notes payable consist of the following:

	<u>2009</u>	<u>2008</u>
Note 1	\$ 831,750	\$ 884,095
Note 2	739,352	791,147
Note 3	1,570,852	1,782,468
Note 4	820,849	875,849
Note 5	5,765,182	6,658,676
Note 6	<u>1,922,222</u>	<u>-</u>
	<u>\$ 11,650,207</u>	<u>\$ 10,992,235</u>

Note 1 is unsecured and is payable in monthly installments of \$7,633, including interest at 4.5%, with a final payment of all unpaid principal and interest due in February 2011.

Note 2 is unsecured and is payable in monthly installments of \$7,397, including interest at 4.75%, with a final payment of all unpaid principal and interest due in January 2012.

Note 3 is unsecured and is payable in monthly installments of \$25,045, including interest at 5.2%, with a final payment of all unpaid principal and interest due in July 2015.

Note 4 is unsecured and is payable in monthly principal installments of \$4,583, plus interest at the LIBOR daily floating rate plus .85%, with a final payment of all unpaid principal and interest due in October 2012.

Note 5 is collateralized by certain pooled investment accounts; interest only is payable monthly at the LIBOR daily floating rate plus .5%, loan principal and accumulated interest was originally due in full at July 30, 2008. Subsequent to June 30, 2008, the note was renewed under principally the same terms with the loan principal and accumulated interest due in full in July 2009. However, the required minimum collateral value was reduced to \$7,750,000.

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

9. NOTES PAYABLE - continued

In conjunction with the funding of the class action settlement pool of \$7,000,000 (see the note, "Class Action Settlement" for a further discussion of same), the Chancery obtained a letter of credit and a line of credit with Bank of America for \$7,000,000 each in July 2007. Note 5 was funded under the line of credit. The letter of credit and line of credit both expired in July 2009. This line of credit was amended and restated into a \$5,765,182 promissory note subsequent to year end (see note 21).

Note 6 is unsecured and is payable in monthly installments of \$11,111, including interest including interest at the bank's prime rate (3.25% at June 30, 2009). Final payment of all unpaid principal and interest is due in November 2011.

The scheduled future maturities of the notes payable at June 30, 2009:

2010	\$	658,574
2011		1,623,151
2012		3,181,711
2013		5,582,077
2014		604,694
Thereafter		-
	\$	11,650,207

10. BONDS PAYABLE

On September 1, 1998, tax-exempt bonds in the aggregate principal amount of \$12,500,000 were issued on behalf of the Diocese through the South Carolina Jobs - Economic Development Authority to finance the acquisition, construction, equipping and furnishing of certain educational facilities in the Diocese. As more fully discussed in the note, "Organization," the Diocese consists of various distinct operating entities, including the Chancery. The bonds payable are included in the financial statements of the Chancery, as part of its cooperative investment and lending program. However, the construction projects funded by the bonds involve certain other diocesan educational entities. As such, these construction projects are included as property and equipment on these other diocesan entities' records. Accordingly, the Chancery's financial statements reflect assets, consisting of notes receivable from other diocesan entities, relative to the use of the bond proceeds.

The bonds bear interest at the "weekly rate," as defined in the bond document. Under the weekly rate, interest is payable monthly, in arrears, on the first day of each month. Beginning in October 2001, monthly principal payments to the bond fund held by the trustee were also required. Principal payments to the bondholders are payable on September 1 of each of the following years: 2010 through 2017 - \$735,000; 2018 - \$740,000.

In conjunction with the issuance of the bonds, the Diocese entered into a letter of credit agreement with Bank of America to secure the principal balance of the outstanding bonds plus an interest component thereof. The letter of credit, as amended in August 2003, expired on September 15, 2008. In July 2008, the letter of credit was amended to extend the stated expiration date to September 14, 2010.

The bonds, including the various related agreements, provide for certain covenants including (1) the maintenance of unencumbered liquid assets of 25% of the aggregate borrowing availability; and (2) certain limitations on encumbrances of diocesan property, transfers of diocesan property outside the ordinary course of business, and additional indebtedness.

11. INTEREST RATE SWAP AGREEMENT

In February 2001, the Diocese entered into an interest rate swap agreement with Bank of America having a stated fixed interest rate of 3.96% on the outstanding bonds payable for the period from February 15, 2001 through September 1, 2018. Interest expense on the bonds under the bond document and interest rate swap agreement is included as part of the deposit and loan interest expense in the accompanying Statements of Changes in Unrestricted Net Assets.

CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
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11. INTEREST RATE SWAP AGREEMENT- continued

The Chancery uses the interest rate swap agreement to manage its exposure to interest rate changes with respect to its bonds payable. It is not intended for speculative purposes. The interest rate swap is a derivative instrument. Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires that all derivative instruments be reported at fair value. At June 30, 2009 and 2008, the fair values of the swap agreement were (\$651,932) and (\$425,577), respectively, and are reflected in the accompanying Statements of Financial Position as liabilities. The changes in the fair value of the swap agreement for 2009 and 2008 are reflected in the Statements of Activities and Changes in Unrestricted Net Assets as decreases in unrestricted net assets of \$226,355 and \$290,383, respectively, and identified as "fair value adjustment on interest rate swap agreement."

This interest rate swap agreement requires the Diocese and, effectively, the Chancery to maintain unrestricted cash and equivalents, government backed securities and equities in an amount not less than \$1,000,000.

12. INVESTMENT EXPENSES

Expenses relating to investment income, including custodial fees and investment advisory fees, approximated \$98,197 and \$128,400 for 2009 and 2008, respectively, and have been netted against investment income in the accompanying Statements of Activities and Changes in Unrestricted Net Assets.

13. RETIREMENT PLAN

The Diocese has a contributory retirement plan covering substantially all lay Diocesan employees, including Chancery employees. After one year of service, the employer contributes 5% of the employee's monthly pay for a participating employee contributing a minimum of 3% of monthly pay. The contributions are limited to the maximum annual amounts allowed by the Internal Revenue Service. In 2009 and 2008, the Chancery made contributions to the lay retirement plan for its employees approximating \$96,151 and \$81,000, respectively.

In addition, the Diocese maintains the Diocesan Priests' Retirement Plan (the "Plan") for the benefit of all eligible priests, as defined in the Plan provisions, working in the Diocese. The Plan is a defined benefit plan providing benefits to eligible participants in accordance with the Plan provisions. Effective January 1, 2007, the Plan was amended to (a) conform to Section 401(a) of the Internal Revenue Code; (b) allow foreign priests to be eligible to participate in the Plan; (c) reduce the vesting period; (d) reduce the required number of years for normal retirement benefits; and (e) provide for the proration of normal retirement benefits for years less than 20. The funding of the Plan is provided by the respective Diocesan entities (Chancery, parishes and missions, and other Diocesan entities) which are served by the eligible priests of the Diocese. For 2009 and 2008, the funding established for the Plan was \$550 per month for each active eligible priest. In 2009 and 2008, the Chancery made contributions to the Plan approximating \$47,250 and \$74,500, respectively, for the eligible priests assigned to the Chancery. The Chancery recognizes pension expense based upon the funding established for the Plan.

Statements of Financial Standards (SFAS) No. 132, as amended by SFAS 158, requires certain reporting and disclosures with respect to defined benefit plans such as the Diocesan Priests' Retirement Plan. The Plan involves the Diocese as a whole which consists of various distinct operating entities, including the Chancery. It is not practical to separate such reporting and disclosures for the Chancery or the other Diocesan operating entities participating in the Plan. For purposes of the Chancery's financial statements, the Plan is considered a multiemployer pension plan and the reporting and disclosures limited to the information provided in the preceding paragraph. The Diocese did obtain an actuarial valuation of the Plan as of June 30, 2009 which reported that the present value of the accumulated plan benefits exceeded the Plan's assets by approximately \$237,925 as of that date. The underfunding of the Plan as of June 30, 2009 was significantly affected by the decline in the market value of the Plan's investments as of that date. Based on the current funding of \$550 per month for each eligible priest, contributions to the Plan for the year ending June 30, 2010, are estimated at approximately \$500,000 and exceed the estimated benefit payments of approximately \$459,070 for this fiscal year. Funding of \$1,000,000 to the Plan is one of the case elements of the Our Heritage Our Hope Campaign and was received and placed within the Plan during the year ended June 30, 2009. Effectively, the Chancery is a guarantor of the Plan's obligations.

**CHANCERY OF THE DIOCESE OF CHARLESTON
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14. LIMITATIONS ON UNRESTRICTED NET ASSETS

The Bishop has chosen to place the following limitations on unrestricted net assets:

	<u>2009</u>	<u>2008</u>
Designated reserve for property insurance deductible/self insured retention	\$ 1,345,692	\$ 1,580,745
Designated for perpetual care of the St. Lawrence and Holy Cross cemeteries	2,501,314	3,037,304
Designated for long-term investment and certain endowments	<u>9,787,799</u>	<u>10,752,428</u>
	<u>\$ 13,634,805</u>	<u>\$ 15,370,477</u>

15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2009</u>	<u>2008</u>
Restricted for use in subsequent year	\$ 1,424,775	\$ 1,560,933
Restricted for construction of Diocesan conference and retreat center	2,500,000	2,256,349
Restricted for various other Chancery programs	3,455,859	3,896,352
Restricted for endowments	<u>811,318</u>	<u>1,250,037</u>
	<u>\$ 8,191,952</u>	<u>\$ 8,963,671</u>

16. ENDOWMENTS

The Chancery's endowments consist of several funds established for a variety of purposes. The endowments include donor-restricted endowments funds and funds designated by the Bishop and the Finance Council. As required by accounting principles generally accepted in the United States of America, the net assets associated with the endowments are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of Relevant Law

The Chancery has interpreted the State of South Carolina's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chancery classifies as permanently restricted net assets the original value of the gifts donated to the endowment and the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted fund that is not classified as permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure by the Chancery in a manner consistent with the standards of prudence prescribed by UPMIFA.

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
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16. ENDOWMENTS - continued

In accordance with UPMIFA, the Chancery considered the following factors in making their determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the funds
2. The purpose of the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Chancery
7. Investment policies of the Chancery.

The following tables present the Chancery's endowment net asset classification and composition for the indicated years:

Endowment net assets composition by type of fund at June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 811,318	\$ 4,851,581	\$ 5,662,899
Total funds	<u>\$ -</u>	<u>\$ 811,318</u>	<u>\$ 4,851,581</u>	<u>\$ 5,662,899</u>

Endowment net assets composition by type of fund at June 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,250,037	\$ 2,851,581	\$ 4,101,618
Total funds	<u>\$ -</u>	<u>\$ 1,250,037</u>	<u>\$ 2,851,581</u>	<u>\$ 4,101,618</u>

Permanently restricted net assets consist of the following at June 30:

	2009	2008
Third world ministry endowment	\$ 647,769	\$ 647,769
Synod endowment	1,500,000	1,500,000
St. Mary's education fund endowment	50,000	50,000
Miscellaneous endowment fund	56,026	56,026
Cathedral maintenance endowment	540,427	540,427
Infirm priests endowment	57,359	57,359
Hispanic ministry endowment	2,000,000	-
	<u>\$ 4,851,581</u>	<u>\$ 2,851,581</u>

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
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16. ENDOWMENTS - continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Chancery to retain as a fund of perpetual duration. No such deficiencies existed at June 30, 2009 and 2008.

Strategies Employed for Achieving Investment Objectives

The Chancery follows an investment policy with long-term growth as the main objective. The Chancery 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 Chancery utilizes a diversified asset allocation, with greater emphasis on equity-based investments, to achieve its long term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Related to Spending Policy

The Chancery has a policy of appropriating for distribution each year, as determined by the investment committee and approved by the Bishop: 5% of its endowment funds' average fair value over the prior 36 months as of June 30th (measurement date) each year. In establishing these policies, the Chancery considered the expected return on its endowment. Accordingly, the Chancery expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and excess investment return.

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 1,250,037	\$ 2,851,581	\$ 4,101,618
Total investment return	-	(321,155)	-	(321,155)
Contributions	-	-	2,000,000	2,000,000
Appropriation of endowment assets for expenditure	-	(117,564)	-	(117,564)
Endowment net assets (deficit), end of year	<u>\$ -</u>	<u>\$ 811,318</u>	<u>\$ 4,851,581</u>	<u>\$ 5,662,899</u>

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

16. ENDOWMENTS - continued

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,587,995	\$ 2,203,812	\$ 3,791,807
Total investment return	-	(116,168)	-	(116,168)
Amounts reclassified from temporarily restricted	-	-	647,769	647,769
Appropriation of endowment assets for expenditure	-	(221,790)	-	(221,790)
Endowment net assets (deficit), end of year	<u>\$ -</u>	<u>\$ 1,250,037</u>	<u>\$ 2,851,581</u>	<u>\$ 4,101,618</u>

In 2008, the personal representatives for an estate which had bequeathed \$647,769 to the Chancery prior to 2007, clarified that such funds were permanently restricted. These assets were originally classified as temporarily restricted. Accordingly, such assets are reported as net assets transferred to a permanently restricted classification in the 2008 financial statements.

17. RELATED PARTY TRANSACTIONS

The Chancery has entered into an agreement to lease certain land in Mt. Pleasant, South Carolina to East Cooper Community Outreach (ECCO), a non-profit organization associated with a Diocesan parish. The land lease is for a period of 50 years, ending in 2052, at \$1 per year, with ECCO being responsible for all costs relative to the property and the operation of an ecumenical outreach center thereon.

18. CONCENTRATION OF CREDIT RISK

The Chancery maintains cash balances with various financial institutions that exceed the federally insured limit of \$100,000 (which was changed to \$250,000 in October 2008) per financial institution. Statement of Financial Accounting Standards No. 105 identifies such as a concentration of credit risk requiring disclosure. The Chancery's management believes such risk is reduced by maintaining its deposits in high quality financial institutions. At June 30, 2009 and 2008, the Chancery's uninsured cash balances, including those cash accounts classified as investments, totaled approximately \$16,141,000 and \$20,300,000, respectively.

19. CLASS ACTION SETTLEMENT

In June 2006, the Diocese entered into an agreement to pay four claimants \$460,000 in settlement of allegations of sexual abuse by certain church personnel of the Diocese and to pursue the formation of a "class" of potential claimants in order to reach out to a broad group (those born before August 30, 1980) of victims of sexual abuse by church personnel of the Diocese. The final settlement agreement was entered into on January 12, 2007 and on July 30, 2007, the proposed class action settlement of \$12,000,000 ("class settlement") was approved by a circuit court. The class settlement provided for the following: (1) two pools of funds (\$5,000,000 and \$7,000,000) were to be established and funded by the Diocese; (2) awards ranging from \$10,000 to \$200,000 depending on the type of abuse were established; (3) claimants had until December 6, 2007 to elect to participate in the class action or to opt out; and (4) a neutral arbitrator was appointed to review and validate each claim.

**CHANCERY OF THE DIOCESE OF CHARLESTON
NOTES TO THE FINANCIAL STATEMENTS
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19. CLASS ACTION SETTLEMENT - continued

On August 31, 2007, the court entered an order approving a supplemental settlement agreement with 11 victims whose objections were overruled by the original court order. Under this court order (“supplemental settlement”), these 11 victims are to receive a total of \$1,375,000 which was to be paid (1) from the surplus funds, if any, of the class settlement total of \$12,000,000; or (2) if sufficient funds were not available from surplus class settlement funds, then the Diocese was obligated to pay the supplemental settlement amount of \$1,375,000. Additionally, class counsel for the class settlement was required to pay \$100,000 of the supplemental settlement.

During the year ended June 30, 2007, the Chancery remitted \$460,000 to class counsel. The Chancery’s reasonable estimate of the remaining liability at June 30, 2007 ranged from \$7,016,000 to \$10,949,000; and its best estimate within this range was \$8,600,000. Accordingly, \$8,600,000 was accrued at June 30, 2007. During 2008, (1) claims and non-claimant costs totaling \$9,850,100 relative to the class settlement were approved and paid from the two pools of funds and the unexpended balance of the funds was returned to the Chancery; (2) the class counsel for the class settlement put \$100,000 on deposit with the Chancery’s attorney to be held in escrow for the supplemental settlement; and (3) insurance claims totaling \$890,000 were filed by the Chancery, recorded as part of other receivables at June 30, 2008, and collected by the Chancery subsequent to year end. At June 30, 2008, the supplemental settlement of \$1,375,000 was unpaid and is accrued as part of the Chancery’s accounts payable and accrued expenses. The class settlement payments in 2008 and the unpaid supplemental settlement, net of the payment received in 2008 of \$100,000 from the class counsel for the class settlement and the insurance claim settlements of \$890,000, exceeded the class action liability accrued at June 30, 2007 by \$1,635,100 and is reported as the class action settlement expense in the 2008 statement of changes in unrestricted net assets.

In March 2008, prior to the court ordered settlement of \$1,375,000 being paid by the Chancery, the claimants’ attorney for the supplemental settlement filed a civil complaint against the Diocese seeking additional damages of costs and interest in addition to special damages for a 12th claimant not a party to the supplemental settlement. The Diocese has filed certain motions in response to these new legal actions and, upon advice from its counsel, payment of the court ordered settlement of \$1,375,000 was suspended until these new legal actions are addressed by the courts. Counsel for the Diocese has advised: (1) that the new legal actions are without merit; (2) that the Diocese intends to contest them vigorously; and (3) that the ultimate outcome of these new legal actions cannot presently be determined. Accordingly, the liability accrued by the Chancery at June 30, 2008 is the August 2007 court ordered settlement amount of \$1,375,000 and no provision for any additional liability that may result from these new legal actions has been made in the accompanying financial statements.

In December 2008, a complaint and petition on behalf of a claimant, who was part of the class settlement, was filed with the South Carolina State Supreme Court alleging that certain persons were negligent in the handling of the class action lawsuit. In conjunction with this complaint and petition, the Diocese was named as a defendant and was alleged to have colluded in obtaining court approval of the class action settlement.

In January 2009, the court entered an order to grant the Diocese motion to deposit the \$1,375,000 to enforce the agreement above. The funds were transferred to the Dorchester County Clerk of Court, and remitted to claimant’s counsel for disbursement to the claimants upon receipt of executed releases. Class counsel has appealed the denial for pre and post judgment interest and continues to seek damages for the 12th claimant identified above. Counsel for the Diocese has advised that there are significant uncertainties with respect to this legal action but the Diocese position on these open matters will be strongly defended and no estimate of monetary damages can be estimated. Accordingly, no provision for any liability that may result from this matter has been made in the accompanying financial statements.

20. CONTINGENCIES

Various legal and other actions, other than those identified in the preceding note, “Class Action Settlement”, are pending against the Diocese and, effectively, the Chancery which involve claims for damages, as well as other types of relief, relative to the actions of certain personnel of the Diocese of Charleston. Counsel for the Diocese has advised that there are significant uncertainties with respect to these legal and other actions; and that the ultimate outcome from such legal and other actions pending against the Diocese cannot presently be determined. Accordingly, no provision for any liability that may result from these matters has been made in the accompanying financial statements.

CHANCERY OF THE DIOCESE OF CHARLESTON
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20. CONTINGENCIES - continued

The Diocese had a line of credit in the amount of \$15,000,000 with Bank of America with an availability period from February 26, 2007 to June 28, 2008 for the construction of new facilities and for additions or renovations to existing facilities in the Diocese. Any loans funded under the line of credit were to be unsecured and have the following terms: interest only payable directly by the Chancery to Bank of America on a monthly basis at the BBA LIBOR Daily Floating Rate, plus .73%. The principal balances of any loans funded were due in full on June 28, 2008. Additionally, the line of credit agreement included a covenant which required the Diocese, and, effectively, the Chancery to maintain unrestricted cash and equivalents, government backed securities, and equities at a minimum of 50% of "Aggregate Borrowing Availability," as defined in the loan agreement. There were no loans funded under this line of credit and such expired on June 28, 2008.

Bank of America has made loans to the Diocese under certain line of credit agreements which have been used by Diocesan parishes and missions in connection with the construction of new facilities and for additions or renovations to existing facilities. The monthly debt service payments on these notes are made by the respective parishes and missions directly to Bank of America. The balances on these notes totaled \$15,353,171 and 18,192,510 at June 30, 2009 and 2008, respectively. Such debt is not reflected in the accompanying financial statements of the Chancery. Effectively, the Chancery is a guarantor of such debt.

As more fully discussed in the note, "Retirement Plan," the Diocese obtained an actuarial valuation of the Diocesan Priests' Retirement Plan (the "Plan") which reported that the Plan's liabilities at June 30, 2009 exceeded its assets by \$237,925. Effectively, the Chancery is a guarantor of the Plan's obligations.

The Diocese obtains blanket property and liability insurance coverage for the Chancery and certain other Diocesan entities. The Chancery pays the premiums and bills the Diocesan entities for their portion of the premiums. Under the Diocese's property and liability insurance coverage, the self insured retention of the Chancery has an annual aggregate ("stop loss") of \$750,000.

In connection with a school building project for a parish in Beaufort County, the County required the following letters of credit: (1) \$134,168 for landscape survival covering a two year period ending November 2009; and (2) \$158,650 for a frontage road covering a three year period ending November 2010. The Chancery, on behalf of the parish, obtained these letters of credit from Bank of America and purchased certificates of deposits with Bank of America, originally in the same amounts as the letters of credit, which collateralize same.

21. SUBSEQUENT EVENT

Subsequent to the end of the year, the Chancery refinanced its line of credit (see footnote 10 above – note 5). The terms of the promissory note provide for an interest rate of the greater of LIBOR plus 1.5% or 2.25%, with a new maturity date of July 20, 2012. Principal payments will be made semi-annually with a final principal payment of \$4,414,182 due on July 20, 2012.

**CHANCERY OF THE DIOCESE OF CHARLESTON
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22. OUR HERITAGE, OUR HOPE CAMPAIGN

The Diocese of Charleston conducted Our Heritage, Our Hope, a diocesan capital fund raising campaign ("Campaign"), during the period from September 2005 through December 2006. The Campaign had a goal to raise \$32,000,000 for the benefit of numerous Diocesan entities, including approximately 33% for the benefit of the Chancery. In conjunction with the Campaign, intentions to give ("faith promises") were obtained. However, such intentions to give are not intended to be legally binding. As such they do not represent promises to give and are not recognized as revenues when obtained. In conjunction with the Campaign, the Chancery agreed to absorb all of the fund raising costs from its share of the Campaign contributions. The following is a summary of the cumulative cash activities of the Campaign through June 30, 2009:

		Through June 30 2009
Contributions received by the development office of the Chancery		\$ 19,397,531
Allocation of contributions received		
Restricted contributions to the Chancery for:		
Fund raising costs	\$ 2,491,076	
Bishop's Stewardship Appeal for 2006	1,985,277	
Diocesan retreat and conference center	2,500,000	
Other Campaign case elements	2,035,485	9,011,838
Contributions for non-Chancery Campaign case elements:		
Local parish support:		
Disbursed to the parishes	4,206,480	
Liability at June 30, 2009 to be subsequently disbursed	983,630	5,190,110
Cathedral restoration:		
Disbursed to the Cathedral parish	961,869	
Liability at June 30, 2009 to be subsequently disbursed	\$ 2,538,131	3,500,000
Other non-Chancery Campaign case elements		1,695,583
Total		\$ 19,397,531