CHANCERY OF THE DIOCESE OF CHARLESTON
CHARLESTON, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009

GlaserDuncan
CERTIFIED PUBLIC ACCOUNTANTS

CHANCERY OF THE DIOCESE OF CHARLESTON
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

TABLE OF CONTENTS

Erik M. Glaser, CPA

GlaserDuncan
CERTIFIED PUBLIC ACCOUNTANTS

Chris M. Duncan, CPA

American Institute of CPAs | Public Company Accounting Oversight Board | SC Association of CPAs

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, 2010 and 2009, and the related statements of activities, 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, 2010 and 2009, 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.

Glaser Duncan, CPAs

September 20, 2010

1040 Anna Knapp Boulevard, Mount Pleasant, SC 29464 | P 843.849.0655 | F 843.849.0612 | www.glaserduncan.com

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	2010	2009
Assets		
Cash and cash equivalents	$ 27,337,928	$ 17,285,610
Investments	29,297,830	30,735,242
Receivables from other Diocesan entities:		
Loans receivable, net	12,127,840	8,257,206
Other receivables, net	528,608	661,610
Other receivables	583,366	660,234
Cash restricted for property projects	500,000	2,500,000
Bonds debt service fund	633,552	654,802
Other assets	1,056,584	938,895
Property and equipment	19,872,539	21,956,806
Total Assets	$ 91,938,247	$ 83,650,405
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 849,342	$ 410,418
Savings deposits	23,981,863	15,371,605
Due to other Diocesan or Catholic Church entities	2,811,525	5,127,446
Interest rate swap agreement	710,996	651,932
Notes Payable	9,381,891	11,650,207
Bonds Payable	6,620,000	7,355,000
Total Liabilities	44,355,617	40,566,608
Net Assets		
Unrestricted:		
Designated for insurance reserve	1,498,889	1,345,692
Designated for cemeteries care	2,734,533	2,501,314
Designated for investment and endowments	12,066,960	9,787,799
Property and equipment	15,855,830	16,071,780
Operating	2,369,633	333,679
Total unrestricted	34,525,845	30,040,264
Temporarily restricted	5,205,204	8,191,952
Permanently restricted	7,851,581	4,851,581
Total Net Assets	47,582,630	43,083,797
Total Liabilities and Net Assets	$ 91,938,247	$ 83,650,405

See Notes to the Financial Statements

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Parish assessment income	$ 4,722,513	$ -	$ -	$ 4,722,513
Contributions and grants	916,698	3,069,752	1,000,000	4,986,450
Interest and dividend income	1,258,546	88,778	-	1,347,324
Net realized gain on investments	1,115,019	69,424	-	1,184,443
Net unrealized on investments	1,225,268	66,794	-	1,292,062
Supporting services fees	3,315,055	-	-	3,315,055
Other revenue	2,568,330	-	-	2,568,330
Total support and revenue	15,121,429	3,294,748	1,000,000	19,416,177
Net assets released from restrictions	4,281,496	(6,281,496)	2,000,000	-
Total support, revenue and reclassifications	19,402,925	(2,986,748)	3,000,000	19,416,177
Expenses				
Program Services:				
Pastoral	4,551,627	-	-	4,551,627
Church personnel development	1,220,882	-	-	1,220,882
Education	1,447,907	-	-	1,447,907
Cemeteries	411,578	-	-	411,578
Deposit and loan, including interest of $691,630 in 2010 and $717,188 in 2009	770,273	-	-	770,273
Supporting services	3,995,228	-	-	3,995,228
Total program services	12,397,495	-	-	12,397,495
Supporting services:				
General and administration, including interest of $283,256 in 2010 and $335,121 in 2009	2,212,884	-	-	2,212,884
Fundraising and development	247,900	-	-	247,900
Total supporting services	2,460,784	-	-	2,460,784
Total expenses	14,858,279	-	-	14,858,279
Change in net assets before derivative adjustment	4,544,646	(2,986,748)	3,000,000	4,557,898
Adjustment on interest rate swap agreement	(59,065)	-	-	(59,065)
Changes in net assets	4,485,581	(2,986,748)	3,000,000	4,498,833
Net assets, beginning of year	30,040,264	8,191,952	4,851,581	43,083,797
Net assets, end of year	$ 34,525,845	$ 5,205,204	$ 7,851,581	$ 47,582,630

See Notes to the Financial Statements

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Parish assessment income	$ 4,750,452	$ -	$ -	$ 4,750,452
Contributions and bequests	958,033	2,700,178	2,000,000	5,658,211
Interest and dividend income	1,457,385	46,153	-	1,503,538
Net realized gain (loss) on investments	(2,378,727)	(257,013)	-	(2,635,740)
Net unrealized (loss) on investments	(1,081,390)	(110,482)	-	(1,191,872)
Supporting services fees	2,973,048	-	-	2,973,048
Other revenue	2,245,578	-	-	2,245,578
Total support and revenue	8,924,379	2,378,836	2,000,000	13,303,215
Net assets released from restrictions	3,150,555	(3,150,555)	-	-
Total support, revenue and reclassifications	12,074,934	(771,719)	2,000,000	13,303,215
Expenses				
Program Services:				
Pastoral	4,185,557	-	-	4,185,557
Church personnel development	1,199,110	-	-	1,199,110
Education	1,364,964	-	-	1,364,964
Cemeteries	396,118	-	-	396,118
Deposit and loan, including interest of				-
$717,188 in 2009 and $905,675 in 2008	784,813	-	-	784,813
Supporting services	3,737,679	-	-	3,737,679
Total program services	11,668,241	-	-	11,668,241
Supporting services:				
General and administration, including interest				
of $335,121 in 2009 and $286,056 in 2008	2,202,425	-	-	2,202,425
Fundraising and development	234,331	-	-	234,331
Total supporting services	2,436,756	-	-	2,436,756
Total expenses	14,104,997	-	-	14,104,997
Change in net assets before derivative adjustment	(2,030,063)	(771,719)	2,000,000	(801,782)
Adjustment on interest rate swap agreement	(226,355)	-	-	(226,355)
Changes in net assets	(2,256,418)	(771,719)	2,000,000	(1,028,137)
Net assets, beginning of year	32,296,682	8,963,671	2,851,581	44,111,934
Net assets, end of year	$ 30,040,264	$ 8,191,952	$ 4,851,581	$ 43,083,797

See Notes to the Financial Statements

CHANCERY OF THE DIOCESE OF CHARLESTON
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities:		
Changes in net assets	$ 4,498,833	$ (1,028,137)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Contributions restricted for property projects	-	(254,005)
Amortization of bond issue costs	8,739	8,740
Investment income - bonds debt service fund	21,250	(1,364)
Net realized and unrealized (gains) losses on investments	(2,476,505)	3,827,612
Gain on sale of land to Diocesan entities	(350,016)	-
Adjustment to allowance for loans receivable	(435,000)	-
Release of restriction on cash restricted for property projects	2,000,000	-
Changes in assets and liabilities:		
Increase (decrease) in other receivables - Diocesan entities	133,002	(25,323)
Decrease in other receivables	76,868	1,051,918
Increase in other assets	(126,428)	108,604
Increase (decrease) in accounts payable and accrued expenses	438,924	(1,703,001)
Fair value adjustment on interest rate swap agreement	59,064	226,355
Net cash provided by operating activities	3,848,731	2,211,399
Cash Flows from Investing Activities:		
Increase in cash restricted for property projects	-	(254,005)
Proceeds from investment transactions	30,034,379	27,212,175
Purchases of investments	(26,120,462)	(24,884,969)
Funding of loans receivable, net of repayments	(989,408)	(351,069)
Purchases of property and equipment	(11,943)	(35,812)
Net cash provided by investing activities	2,912,566	1,686,320
Cash flows from financing activities:		
Proceeds from contributions restricted for property projects	-	254,005
Increase in savings deposits, net	8,610,258	774,987
Decrease in payables to other Diocesan entities, net	(2,315,921)	(90,928)
Principal payments on bonds payable	(735,000)	(735,000)
Principal payments on notes payable	(2,268,316)	(1,342,028)
Net cash provided by (used for) financing activities	3,291,021	(1,138,964)
Increase in cash	10,052,318	2,758,755
Cash at beginning of year	17,285,610	14,526,855
Cash at end of year	$ 27,337,928	$ 17,285,610

See Notes to the Financial Statements

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 116 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 supporting 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 Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities-Revenue Recognition*, and ASC 958-205, *Not-for-Profit Entities- Presentation of Financial Statements.*

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 ASC 958, 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.

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 ASC 958-320, *Not-for-Profit Entities-Investments.* Under ASC 958-320, 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.

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.

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.

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 ASC 815, *Derivatives and Hedging*, 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 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.

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 Statements of Activities. 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

Effective September 15, 2009, the Chancery adopted Financial Accounting Standards Board (FASB) Statement on Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,* as amended. SFAS No. 168 establishes the FASB Accounting Standards Codification as the sole source of authoritative accounting principles recognized by the FASB to be applied by nonpublic entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (the GAAP hierarchy).

Effective June 15, 2009, the Chancery adopted FASB ASC 855, *Subsequent Events* (pre-codification FASB SFAS No. 165, *Subsequent Events*). FASB ASC 855 establishes general standards of accounting for and disclosing of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855 defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. FASB ASC 855 defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (i.e., recognized event). The second type consists of events or transactions that provide evidence about conditions that did not exist as of the financial statement date (i.e., non-recognized event). Management evaluated all events and transactions that occurred after June 30, 2010 through October 5, 2010, the date we issued 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.

4. INVESTMENTS

In accordance with ASC 820, *Fair Value Measures and Disclosures*, 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. ASC 820 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, 2010 and 2009.

Investments along with their cost, fair value and net unrealized gain (loss) at June 30, 2010 are as follows:

	Cost	Fair Value	Net Unrealized Gain
Certificates of deposit	$ 8,148,659	$ 8,148,659	$ -
Cash with investment companies	1,371,634	1,371,634	-
Mutual funds	3,993,518	4,064,040	70,522
Mortgage and asset backed securities	335,235	359,949	24,714
Corporate and government debt securities	5,132,888	5,226,640	93,752
Equity securities	9,954,238	10,126,908	172,670
	$ 28,936,172	$ 29,297,830	$ 361,658

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)
	$ 31,665,646	$ 30,735,242	$ (930,404)

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.

4. INVESTMENTS - continued

A recap of these pooled investments follows:

	2010	2009
Chancery of the Diocese of Charleston	$ 22,268,426	$ 17,159,186
Other Diocesan entities	8,126,092	7,463,469
	$ 30,394,518	$ 24,622,655

The Chancery's share of these pooled investments has been allocated to the respective classifications of investments as of June 30, 2010 and 2009 detailed previously in this note.

5. RECEIVABLES FROM OTHER DIOCESAN ENTITIES

Loans Receivable
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 fixed and variable rates which are 4.46% to 7.22% at June 30, 2010. The Chancery’s current lending program primarily issues new loans with interest rates based upon the one month LIBOR rate plus 1.5%; these new loans generally also bear a floor to the variable rate which is generally 4.5%. The loans are stated at their unpaid balances less estimated allowances for doubtful accounts of approximately $300,000 and $735,000 at June 30, 2010 and 2009, respectively.

Scheduled future principal payments under loans due from parishes and schools at June 30, 2010 are as follows:

2011	$ 2,247,096
2012	1,642,582
2013	1,397,981
2014	944,458
2014	716,610
Thereafter	2,957,887
*Undetermined	2,521,226
	12,427,840
Less: allowance for doubtful accounts	(300,000)
	$ 12,127,840

* Undetermined payment amounts represent three loans for which the timing of repayment is contingent on the progression of construction on the acquired land. These loans are currently interest only and will convert to an amortized note with principal and interest payments based upon the completion of stages of the construction project.

Other Receivables
The Diocese obtains blanket property and liability insurance, and contracts for 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 property and liability insurance premiums. In addition, the Chancery bills parishes for their annual parish assessments. Receivables related to these billings and accrued interest on loans receivable principally comprise the other receivables from other Diocesan entities. These receivables are stated at their unpaid balances less estimated allowances for doubtful accounts of $62,560 at June 30, 2010 and 2009.

6. OTHER RECEIVABLES

	2010	2009
Mortgage note receivable	$ 414,018	$ 513,132
Insurance claim receivable	127,732	2,732
Accrued interest on investments	6,619	113,969
Cemetery and miscellaneous other receivables	129,997	125,401
	678,366	755,234
Less: allowance for doubtful accounts	(95,000)	(95,000)
	$ 583,366	$ 660,234

Included in other receivables, 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. Scheduled future principal payments to be received under the mortgage note receivable are as follows at June 30, 2010:

2011	$ 72,542
2012	76,824
2013	81,360
2014	86,164
2014	91,251
Thereafter	5,877
	$ 414,018

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 of $633,552 and $654,802 at June 30, 2010 and 2009, respectively, consists of the monthly principal redemption payments made by the Chancery, plus the accumulated interest earned on same.

8. OTHER ASSETS

Other assets are comprised of the following at June 30:

	2010	2009
Cash surrender value life insurance	$ 470,791	$ 427,271
Prepaid insurance and expenses	52,321	-
Unamortized bond issuance costs, net	69,918	78,657
Other assets	463,554	432,967
	$ 593,030	$ 505,928

8. OTHER ASSETS - continued

Future amortization expense on bond issuance costs at June 30 is as follows:

2011	$ 8,739
2012	8,739
2013	8,739
2014	8,739
2015	8,739
Thereafter	26,223
	$ 69,918

Amortization expense for the years ended June 30, 2010 and 2009 was $8,739 and $8,740, respectively.

9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2010	2009
Land	$ 7,126,064	$ 9,222,275
Buildings	12,188,955	12,188,955
Furniture, Equipment, and Vehicles	557,520	545,576
	$ 19,872,539	$ 21,956,806

As noted in footnote 2, no provision for depreciation on property and equipment is provided in these financial statements.

10. NOTES PAYABLE

Notes payable consist of the following:

	2010	2009
Note 1	$ 776,965	$ 831,750
Note 2	685,006	739,352
Note 3	-	1,570,852
Note 4	765,849	820,849
Note 5	5,365,182	5,765,182
Note 6	1,788,889	1,922,222
	$ 9,381,891	$ 11,650,207

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 January 23, 2011.

10. NOTES PAYABLE - continued

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. This note was paid in full in December 2009.

Note 4 is unsecured and is payable in monthly principal installments of $4,583, plus interest at the LIBOR daily floating rate plus .85% (1.197% at June 30, 2010), 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 1.5% or 2.25%, whichever is greater (2.25% at June 30, 2010); loan principal and accumulated interest was originally due in full at July 30, 2008. On August 19, 2009, the note was renewed under principally the same terms with the loan principal and accumulated interest due in full in July 20, 2012. However, the required minimum collateral value was reduced to $7,750,000.

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.

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, 2010). Final payment of all unpaid principal and interest is due in November 2, 2011.

The scheduled future maturities of the notes payable at June 30, 2010:

2011	$ 1,181,974
2012	1,227,889
2013	6,972,028
2014	-
2015	-
	$ 9,381,891

11. 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:

11. BONDS PAYABLE - continued

2011	$ 735,000
2012	735,000
2013	735,000
2014	735,000
2015	735,000
Thereafter	2,945,000
	$ 6,620,000

In conjunction with the issuance of the bonds, the Diocese entered into a letter of credit agreement with Bank of America, N.A. 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, 2009. In July 2010, the letter of credit was amended to extend the stated expiration date to September 15, 2013.

The bonds, including the various related agreements, provide for certain covenants including (1) the maintenance of unrestricted net assets that are 50% of the aggregate current borrowing; and (2) certain limitations on encumbrances of diocesan property, transfers of diocesan property outside the ordinary course of business, and additional indebtedness.

12. 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.

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. ASC 815, *Derivatives and Hedging*, requires that all derivative instruments be reported at fair value. At June 30, 2010 and 2009, the fair values of the swap agreement were ($710,996) and ($651,932), respectively, and are reflected in the accompanying Statements of Financial Position as liabilities. The changes in the fair value of the swap agreement for 2010 and 2009 are reflected in the Statements of Activities as decreases in unrestricted net assets of $59,065 and $226,355, 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.

13. INVESTMENT EXPENSES

Expenses relating to investment income, including custodial fees and investment advisory fees, approximated $52,109 and $98,197 for 2010 and 2009, respectively, and have been netted against investment income in the accompanying Statements of Activities and Changes in Unrestricted Net Assets.

14. 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 2010 and 2009, the Chancery made contributions to the lay retirement plan for its employees approximating $108,867 and $96,151, respectively.

14. RETIREMENT PLAN - continued

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 2010 and 2009, the funding established for the Plan was $550 per month for each active eligible priest. In 2010 and 2009, the Chancery made contributions to the Plan approximating $50,600and $47,250, respectively, for the eligible priests assigned to the Chancery. The Chancery recognizes pension expense based upon the funding established for the Plan.

ASC 715-20, *Compensation-Retirement Plan, Defined Benefit Plan,* 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, 2010 which reported that the present value of the accumulated plan benefits was exceeded by the Plan's assets by approximately $35,622 as of that date. Based on the funding of $550 per month for each eligible priest, contributions to the Plan for the year ending June 30, 2011 are estimated at approximately $502,000 and exceed the estimated benefit payments of approximately $467,031. Effectively, the Chancery is a guarantor of the Plan's obligations.

15. LIMITATIONS ON UNRESTRICTED NET ASSETS

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

	2010	2009
Designated reserve for property insurance deductible/self insured retention	$ 1,498,889	$ 1,345,692
Designated for perpetual care of the St. Lawrence and Holy Cross cemeteries	2,734,533	2,501,314
Designated for long-term investments and certain endowments	12,066,960	9,787,799
	$ 16,300,382	$ 13,634,805

16. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2010	2009
Restricted for use in subsequent year	$ 730,929	$ 1,424,775
Restricted for construction of Diocesan conference and retreat center	500,000	2,500,000
Restricted for various other Chancery programs	3,240,626	3,455,859
Restricted for endowments	733,649	811,318
	$ 5,205,204	$ 8,191,952

17. 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.

<u>Interpretation of Relevant Law</u>
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.

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.

17. ENDOWMENTS - continued

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, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 733,649	$ 7,851,581	$ 8,585,230
Total funds	$ -	$ 733,649	$ 7,851,581	$ 8,585,230

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	$ -	$ 811,318	$ 4,851,581	$ 5,662,899

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

	2010	2009
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	2,000,000
Seminarian education fund	1,000,000	-
Catholic education endowment	2,000,000	-
	$ 7,851,581	$ 4,851,581

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, 2010 and 2009.

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.

17. ENDOWMENTS - continued

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 (or since inception if shorter) 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, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 811,318	$ 4,851,581	$ 5,662,899
Total investment return	-	224,996	-	224,996
Contributions	-	-	1,000,000	1,000,000
Net assets released from temporary restriction	-	-	2,000,000	2,000,000
Appropriation of endowment assets for expenditure	-	(302,665)	-	(302,665)
Endowment net assets, end of year	$ -	$ 733,649	$ 7,851,581	$ 8,585,230

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, end of year	$ -	$ 811,318	$ 4,851,581	$ 5,662,899

18. 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.

19. CONCENTRATION OF CREDIT RISK

The Chancery maintains cash balances with various financial institutions that exceed the federally insured limit of $250,000 per financial institution under the Federal Depository Insurance Program (FDIC). At June 30, 2010 and 2009, the Chancery's uninsured cash and cash equivalent balances, totaled approximately $27,217,500 and $16,141,000, respectively.

20. CLASS ACTION SETTLEMENT

In June 2006, the Diocese, entered into a settlement for 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 of $12,000,000 was entered into on January 12, 2007 and approved by a circuit court on July 30, 2007.

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 received a total of $1,375,000. During 2009, these 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. The attorneys for these objectors have appealed the denial for pre and post judgment interest.

As of June 30, 2010, the Diocese continues to defend existing and newly brought actions associated with matters related to, or with, this class action settlement. 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. Counsel further advises that any further actions should be dismissed on the basis that the action is barred under the application of the class action settlement agreement, by the Doctrine of Charitable Immunity and/or the statute of limitations. Accordingly, no provision for any liability that may result from these matters has been made in the accompanying financial statements.

21. 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.

Bank of America, N.A. 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, N.A. The balances on these notes totaled $11,543,864 and $15,353,171 at June 30, 2010 and 2009, respectively. The Chancery carries the amounts due from the Parishes and School’s as well as the corresponding amount due to the bank on its financial statements (net amount was $0 at June 30, 2010 and 2009, respectively). Effectively, the Chancery is a guarantor of such debt.

21. CONTINGENCIES - continued

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 assets exceeded liabilities at June 30, 2010 by $35,622. Effectively, the Chancery is a guarantor of the Plan’s obligations and the impact of future market, credit and other conditions could impact the excess or deficit of these Plan’s assets to Plan liabilities.

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.

22. SUBSEQUENT EVENT

On July 15, 2010, the Chancery extended its irrevocable letter of credit with the Bank of America dated September 1, 1998, associated with its bonds payable (Note 11). The expiration date of the letter of credit is September 15, 2013.

On July 16, 2010, the Chancery signed a loan agreement to lend $1,336,929 to a parish. Terms of the note require 120 monthly payments of principal and interest of $13,856 starting August 13, 2010 and maturing on July 13, 2020. The interest rate of the loan is based upon the 1-Month LIBOR rate plus 1.5% to be adjusted semi-annually on January 1st and July 1st, and shall not fall below 4.5%.

On July 23, 2010, the Chancery signed a loan agreement to lend $3,687,043 to a parish. Terms of the note require 60 monthly payments of principal and interest of $68,738 starting August 10, 2010 and maturing on July 15, 2010. The interest rate of the loan is based upon the 1-Month LIBOR rate plus 1.5% to be adjusted semi-annually on January 1st and July 1st, and shall not exceed 5.65% or fall below 4.5%.

23. SUPPLEMENTAL CASH FLOW INFORMATION

<u>Supplemental Cash Flow Information:</u>				
Cash paid for interest	$	974,886	$	1,078,708
<u>Non-cash Financing and Investing Activities:</u>				
Sale of property through issuance of loans receivable	$	2,446,226	$	-
Gain on sale of property sold through issuance of loans receivable	$	350,016	$	-

24. 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, 2010:

Contributions received by the development office of the Chancery		$ 22,245,256
Allocation of contributions received		
Restricted contributions to the Chancery for:		
Fund raising costs	$ 2,563,484	
Bishop's Stewardship Appeal for 2006	1,985,877	
Diocesan retreat and conference center	500,000	
Catholic education endowment	2,000,000	
Other Campaign case elements	3,397,342	10,446,703
Contributions for non-Chancery Campaign case elements:		
Local parish support:		
Disbursed to the parishes	4,563,397	
Liability at June 30, 2010 to be subsequently disbursed	626,713	5,798,553
Cathedral restoration:		
Disbursed to the Cathedral parish	$ 3,500,000	3,500,000
Other non-Chancery Campaign case elements		2,500,000
Total		$ 22,245,256