

Financial Statements and
Report of Independent Certified Public Accountants
**Central Administrative Office of the
Roman Catholic Diocese of San Jose**
June 30, 2005 and 2004

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Report of Independent Certified Public Accountants

Most Reverend Patrick J. McGrath
The Roman Catholic Bishop of San Jose

We have audited the accompanying statements of financial position of the Central Administrative Office of the Roman Catholic Diocese of San Jose (“CAO”) as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization’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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 CAO’s internal control over financial reporting. Accordingly, we express no opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Office of the Roman Catholic Diocese of San Jose at June 30, 2005 and 2004, 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.

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Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS

	2005	2004
Cash and cash equivalents	\$ 16,362,186	\$ 11,010,673
Marketable securities	17,017,007	15,581,416
Receivables		
Loans to parishes and institutions (net of allowance for doubtful accounts of \$297,268 in 2005 and \$248,349 in 2004)	692,202	747,290
Mortgages and notes	-	277,250
Pledges (net of allowance for doubtful accounts of \$133,009 in 2005 and \$165,159 in 2004)	2,591,712	2,766,951
Other (net of allowance for doubtful accounts of \$486,848 in 2005 and \$445,649 in 2004)	779,344	781,858
Deposits and prepaid expenses	567,275	1,027,930
Inventory	6,754,393	6,855,446
Loans receivable from parishes and institutions in deposit and loan fund (net of allowance for doubtful accounts of \$2,134,670 in 2005 and \$2,128,200 in 2004)	32,416,411	34,519,715
Bond issuance costs (net of accumulated amortization of \$277,936 in 2005 and \$228,157 in 2004)	717,654	767,433
Investment in real estate	839,216	839,216
Assets held in trust	915,187	934,512
Land, buildings and equipment	41,168,926	41,378,160
	<u>\$ 120,821,513</u>	<u>\$ 117,487,850</u>
Total assets		

LIABILITIES & NET ASSETS

Liabilities		
Accounts payable	\$ 1,158,856	\$ 918,833
Pledges payable to parishes and others	1,548,079	1,557,084
Accrued liabilities	12,348,146	13,965,944
Deposits payable	23,797,439	21,257,472
Debentures payable	17,380,000	18,015,000
Notes payable	1,087,239	1,123,846
Trust assets held for parish	915,187	934,512
Held for parishes and institutions	9,450,136	9,230,312
Deferred revenue	11,730,688	11,601,133
Total liabilities	79,415,770	78,604,136
Net assets		
Unrestricted		
Undesignated	19,236,996	18,282,120
Designated	4,690,589	4,375,398
Funds functioning as endowment - cemetery endowment care	4,080,538	3,684,663
Total unrestricted assets	28,008,123	26,342,181
Temporarily restricted	10,295,388	9,521,001
Permanently restricted	3,102,232	3,020,532
Total net assets	41,405,743	38,883,714
	<u>\$ 120,821,513</u>	<u>\$ 117,487,850</u>
Total liabilities and net assets		

Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENT OF ACTIVITIES

Year ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Gifts, bequests and collections	\$ 1,427,531	\$ 5,334,067	\$ 81,700	\$ 6,843,298
Fees and expense reimbursements	1,867,379	-	-	1,867,379
Diocesan assessments	2,632,547	-	-	2,632,547
Education revenues	3,791,599	-	-	3,791,599
Rental income	303,812	-	-	303,812
Investment income	225,951	644,260	-	870,211
Interest income from loans	1,229,005	-	-	1,229,005
Insurance premiums	16,323,531	-	-	16,323,531
Newspaper income	340,168	-	-	340,168
Cemetery revenues	5,235,575	-	-	5,235,575
Other income	94,820	-	-	94,820
Net assets released from restrictions	5,203,940	(5,203,940)	-	-
Total revenues	<u>38,675,858</u>	<u>774,387</u>	<u>81,700</u>	<u>39,531,945</u>
Expenses				
Pastoral	3,696,508	-	-	3,696,508
Religious and personnel development	2,212,368	-	-	2,212,368
Education	4,023,519	-	-	4,023,519
Pension, priest retirement	976,800	-	-	976,800
Administrative	3,218,219	-	-	3,218,219
Depreciation	1,317,225	-	-	1,317,225
Interest expense	2,083,000	-	-	2,083,000
Insurance premiums and benefits	15,512,211	-	-	15,512,211
Newspaper	450,888	-	-	450,888
Cemetery	4,460,219	-	-	4,460,219
Fundraising	1,069,655	-	-	1,069,655
Total expenses	<u>39,020,612</u>	<u>-</u>	<u>-</u>	<u>39,020,612</u>
Change in net assets before other gains and cumulative effect of change in accounting	(344,754)	774,387	81,700	511,333
Other gains				
Gain on discontinuing development	46,490	-	-	46,490
Gain on re-allocation of lay pension liability	823,206	-	-	823,206
Total other gains	<u>869,696</u>	<u>-</u>	<u>-</u>	<u>869,696</u>
Change in net assets before cumulative effect of change in accounting	524,942	774,387	81,700	1,381,029
Cumulative effect of change in accounting for post retirement benefits	<u>1,141,000</u>	<u>-</u>	<u>-</u>	<u>1,141,000</u>
INCREASE IN NET ASSETS	1,665,942	774,387	81,700	2,522,029
Net assets at beginning of the year	<u>26,342,181</u>	<u>9,521,001</u>	<u>3,020,532</u>	<u>38,883,714</u>
Net assets at end of year	<u>\$ 28,008,123</u>	<u>\$ 10,295,388</u>	<u>\$ 3,102,232</u>	<u>\$ 41,405,743</u>

Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENT OF ACTIVITIES

Year ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Gifts, bequests and collections	\$ 858,380	\$ 5,083,519	\$ 43,717	\$ 5,985,616
Fees and expense reimbursements	1,722,432	-	-	1,722,432
Diocesan assessments	2,139,348	-	-	2,139,348
Education revenues	3,432,977	-	-	3,432,977
Rental income	221,241	-	-	221,241
Investment income	463,759	463,509	-	927,268
Interest income from loans	1,767,275	-	-	1,767,275
Insurance premiums	14,793,823	-	-	14,793,823
Newspaper income	362,018	-	-	362,018
Cemetery revenues	5,777,992	-	-	5,777,992
Other income	48,803	-	-	48,803
Net assets released from restrictions	5,047,171	(5,047,171)	-	-
Total revenues	36,635,219	499,857	43,717	37,178,793
Expenses				
Pastoral	3,367,005	-	-	3,367,005
Religious and personnel development	1,842,388	-	-	1,842,388
Education	3,372,074	-	-	3,372,074
Pension, priest retirement	109,830	-	-	109,830
Administrative	2,838,317	-	-	2,838,317
Depreciation	1,277,394	-	-	1,277,394
Interest expense	2,372,438	-	-	2,372,438
Insurance premiums and benefits	14,537,473	-	-	14,537,473
Newspaper	385,153	-	-	385,153
Cemetery	4,911,927	-	-	4,911,927
Fundraising	1,215,946	-	-	1,215,946
Other	28,898	-	-	28,898
Total expenses before other losses	36,258,843	-	-	36,258,843
Other losses				
Cost of discontinuing development	100,433	-	-	100,433
Total other losses	100,433	-	-	100,433
Total expenses	36,359,276	-	-	36,359,276
INCREASE IN NET ASSETS	275,943	499,857	43,717	819,517
Net assets at beginning of the year	26,066,238	9,021,144	2,976,815	38,064,197
Net assets at end of year	<u>\$ 26,342,181</u>	<u>\$ 9,521,001</u>	<u>\$ 3,020,532</u>	<u>\$ 38,883,714</u>

Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2005	2004
Increase in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 2,522,029	\$ 819,517
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,317,226	1,277,394
Provision for losses on receivables	24,146	553,629
Amortization of bond issuance costs	49,779	49,779
Investment gains	(768,999)	(607,839)
Loss on disposal of plant assets	-	100,433
Cost of unfunded lay pension liability	1,016,527	139,943
Other gain on re-allocation of lay pension liability	(823,206)	-
Cumulative effect of change in accounting for post retirement benefits	(1,141,000)	-
Changes in operating assets and liabilities:		
Receivables	568,158	2,123,587
Inventories	101,051	544,913
Deposits and prepaid expenses	460,655	844,037
Trust assets held for parish	19,325	4,059
Accounts payable and pledges payable	231,019	(1,222,922)
Accrued liabilities	346,407	(263,122)
Deposits payable	2,539,967	(1,769,590)
Assets held in trust	(19,325)	(4,059)
Held for parishes and institutions	(796,702)	1,777,555
Deferred revenue	53,811	(2,451)
Net cash provided by operating activities	5,700,868	4,364,863
Cash flows from investing activities		
Purchase of plant assets	(1,107,993)	(375,555)
Proceeds from repayment of loans receivable	2,689,204	2,506,165
Advances for loans receivable	(592,069)	(4,918,346)
Purchase of marketable securities	(9,902,660)	(6,371,951)
Proceeds from sale of marketable securities	9,235,771	5,663,940
Net cash provided by (used in) investing activities	322,253	(3,495,747)
Cash flows from financing activities:		
Payments on notes and bonds payable	(671,608)	(658,749)
Net cash used in financing activities	(671,608)	(658,749)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,351,513	210,367
Cash and cash equivalents at beginning of the year	11,010,673	10,800,306
Cash and cash equivalents at end of the year	\$ 16,362,186	\$ 11,010,673
	2005	2004
<u>Supplemental disclosure of cash paid for:</u>		
Interest	\$ 2,135,215	\$ 2,372,438

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

NOTE A - ORGANIZATION

The Roman Catholic Bishop of San Jose, a California Corporation Sole, was incorporated on March 19, 1981 and commenced financial operations on July 1, 1981 as the Roman Catholic Diocese of San Jose (“Diocese”).

The financial statements include only those funds for which the Central Administrative Office (“CAO”) maintains direct operational control. All significant inter-organizational and interfund balances and transactions have been eliminated. Those entities not included in these statements are the parish churches, certain elementary and secondary schools, The Catholic Foundation of Santa Clara County, The Catholic Charities of San Jose, The Roman Catholic Seminary Corporation of San Jose (“Seminary”), the Cathedral Foundation, Jeanne d’Arc Manor, Giovanni Center, Charities Housing Development Corporation of Santa Clara County, San Tomas/Charities Housing Corporation, Sierra Vista/Charities Housing Corporation, Sunset Housing Corporation and Stoney Pine.

Following is a description of the fund groups included in net assets:

Unrestricted net assets are not subject to donor-imposed stipulations. The following funds have unrestricted net assets:

- Current Funds

- Operating Fund

- This fund contains the unrestricted resources available for the support of the CAO and resources held for parishes and institutions. This includes the land, buildings and equipment held for use by the CAO, St. Joseph’s Cathedral and sites held for sale and for future parishes and institutions. The operating fund also held funds raised and spent for acquisition of a site for a future parish. During 2004, the option to acquire that site expired and the CAO recorded a loss of \$100,433 as a result of writing off initial acquisition and development costs of that site. This loss is shown as a cost of discontinuing development in the statement of activities. During 2005, the CAO recovered \$46,490 of that cost. This recovery is shown as a gain of discontinuing development in the statement of activities. A portion of unrestricted net assets of the operating fund has been designated for certain initiatives.

- Newspaper Fund

- This fund contains the resources available for Newspaper operations.

- Service Funds

- Payroll Fund

- This fund contains resources held by the CAO to operate a central payroll system for parishes and institutions. They are billed for their respective shares of the periodic payrolls and the system’s costs.

- Benefit Fund

- This fund collects and disburses monies for benefit programs.

- Comprehensive Insurance Fund

- This fund collects and disburses monies for liability, general property and workers’ compensation insurance. The net assets are designated for potential claims.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE A - ORGANIZATION (continued)

- Cemetery Fund

The Roman Catholic Cemeteries of San Jose are contained in this fund. Amounts set aside for perpetual cemetery care are designated as funds functioning as endowment in the unrestricted net asset category.

- Deposit and Loan Fund

This fund contains deposits held by the CAO for parishes and institutions which are held for investment and/or loaned to other parishes and institutions. Interest rates applied to deposits are 55% - 65% of prime rate on April 1 of each year. At June 30, 2005, the effective rate was 2.2% - 4.41%, depending on term of the deposit. The variable interest rates applied to loans range from 2.25% to 5.25% as of June 30, 2005. At June 30, 2004, the effective rate was 2.34% - 4.31%, depending on term of the deposit. The variable interest rates applied to loans range from 5.93% to 8.22% as of June 30, 2004.

The Deposit and Loan Fund had \$23,797,439 and \$21,257,472 of deposits from parishes and schools and other funds of the CAO as of June 30, 2005 and 2004, respectively. The source and term of deposits is shown in the following table:

<u>As of June 30, 2005</u>	<u>By term</u>			
	<u>< 1year</u>	<u>1-2 years</u>	<u>6 years</u>	<u>Total</u>
Parishes	\$ 12,513,904	\$ 4,060,837	\$ 2,172,993	\$ 18,747,734
Schools	2,604,946	795,473	1,464,465	4,864,884
Other funds of the CAO	<u>184,821</u>	<u>-</u>	<u>-</u>	<u>184,821</u>
Total deposits	<u>\$ 15,303,671</u>	<u>\$ 4,856,310</u>	<u>\$ 3,637,458</u>	<u>\$ 23,797,439</u>
Percentage	65%	20%	15%	100%

<u>As of June 30, 2004</u>	<u>By term</u>			
	<u>< 1year</u>	<u>1-2 years</u>	<u>6 years</u>	<u>Total</u>
Parishes	\$ 11,357,396	\$ 3,604,284	\$ 2,079,987	\$ 17,041,667
Schools	1,982,041	773,842	1,177,108	3,932,991
Other funds of the CAO	<u>282,814</u>	<u>-</u>	<u>-</u>	<u>282,814</u>
Total deposits	<u>\$ 13,622,251</u>	<u>\$ 4,378,126</u>	<u>\$ 3,257,095</u>	<u>\$ 21,257,472</u>
Percentage	64%	21%	15%	100%

- Employee Loan Fund

This fund has been established for loans to employees and priests of the Diocese. At June 30, 2005, the interest rate on loans was 5.00%. At June 30, 2004, the interest rate on loans was 5.31%.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE A - ORGANIZATION (continued)

- Endowment Fund

The unrestricted portion of this fund has been designated by the CAO as quasi-endowment and may be used for any purpose. The balance of the fund is currently used for scholarships for high school and elementary school students in Catholic schools in the Diocese and for priest retirement and seminarian education.

- Priest Retirement Funds

These funds have been established to provide support for retired priests. Specific assets have been designated for this purpose from the Annual Diocesan Appeal, parish payments and potential claims and a Medicare supplemental plan for priests.

- Fundraising Fund

This fund has been established for general fundraising expenses for the general Diocesan operations. During 2004 the CAO closed out the capital campaign begun in 1996 and wrote off \$158,953 of pledges receivable after adjusting the total pledges receivable balance of \$568,114 by loss reserves of \$373,183 and collections of \$35,977.

- Holy Spirit School

Holy Spirit School, a Diocesan elementary school, is contained in this fund. The CAO has a substantial investment in the school and has an active oversight in monitoring the operations of the school. Because of this significantly closer affiliation with Holy Spirit School which became effective July 1, 2002, the financial statements of the School have been combined with those of the CAO in a manner similar to a "pooling of interests" under APB Opinion No. 16, *Business Combinations* and the AICPA Audit and Accounting Guide for Not-For-Profit Organizations. All significant interfund balances and transactions have been eliminated.

Temporarily restricted net assets include gifts for which donor-imposed purpose restrictions or time restrictions have not been met.

- Operating Fund

In addition to unrestricted net assets, this fund also includes uncollected donor bequests and trusts and other donor-restricted gifts which are classified as temporarily restricted net assets.

- Annual Appeal Fund

This fund contains the operations of the Annual Diocesan Appeal. The annual appeal funds raised in February through June are treated as temporarily restricted revenues and are released from restriction in the following year, which is the period for which the funds are collected from the parishes and budgeted for use in operations. Associated fund raising costs are expensed as incurred.

- Endowment Fund

In addition to unrestricted and permanently restricted net assets, this fund also contains resources that are temporarily restricted in accordance with trust or other donor agreements.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE A - ORGANIZATION (continued)

- Capital Campaign Fund

This fund was established to raise money for the Diocese of San Jose to be used for a number of needs including priest retirement, bond repayment, scholarships and new parishes. This fund was closed in 2004 and remaining cash distributed according to the campaign case.

- Holy Spirit School

In addition to unrestricted and permanently restricted net assets, this fund also contains resources that are restricted for scholarships, as well as pledges receivable that are temporarily restricted by a time restriction until the cash is collected on these pledges.

Permanently restricted net assets consist of assets, the use of which has been restricted for investment in perpetuity. The income from these assets is available for either general operations or specific programs as specified by the donor.

- Endowment Fund

In addition to unrestricted and temporarily restricted net assets, this fund contains permanently restricted resources, the income from which is to be used principally for priest education and retirement and scholarships and are invested within the pooled investment fund.

- Holy Spirit School

In addition to unrestricted and temporarily restricted net assets, this fund also contains permanently restricted resources, the income from which is to be used for scholarships.

Also included in the statement of financial position is the following fund:

- Pooled Investment Fund

This fund contains investments of the CAO, as well as those investments held for parishes and institutions. Ownership by specific funds or entities is accounted for by use of a pooling method based on market values. Revenues and expenses of the Pool are reflected as net asset changes in the fund or entity for which the assets are held.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE B - SUMMARY OF ACCOUNTING POLICIES

The accounting policies of the CAO conform to accounting principles generally accepted in the United States of America applicable to religious organizations.

A summary of the significant accounting policies applied consistently in the preparation of the accompanying financial statements follows:

- Fund Accounting

The accounts of the CAO are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded by fund group. However, for the financial statements, transactions are reported by the net asset categories described in Note A.

- Accrual Basis

The financial statements of the CAO have been prepared on the accrual basis of accounting.

- Cash and Cash Equivalents

All highly liquid debt instruments purchased with a maturity of three months or less are considered cash equivalents, and may include short-term commercial paper and repurchase agreements.

A significant portion of the cash balances held at various banks at June 30, 2005 and 2004 are in excess of federally insured limits.

- Revenue Recognition

The CAO records earned revenue on an accrual basis. Diocesan assessments paid by parishes are based on parish collections for each fiscal year. Diocesan assessments, insurance and other fees are billed to the parishes and schools by the CAO on a monthly basis.

Sales of developed cemetery property and at-need services and merchandise are recognized when the contracts are executed and the property and services are delivered. Revenues and costs associated with cemetery property sold on a pre-developed basis are deferred and recognized in accordance with the retail land sales provisions of Statement of Financial Accounting Standards (SFAS) No. 66, Accounting for the Sales of Real Estate.

- Contributions and Pledges

Contributions are recognized as pledges receivable in the Statement of Financial Position at the time a donor makes a promise to give to the CAO that is, in substance, unconditional. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donation. When the donor restriction expires, stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted assets and reported in the Statement of Activities as net assets released from restriction. The CAO follows the policy of reporting donor-imposed restricted gifts and investment earnings whose restrictions are met in the same period received as unrestricted support.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

- Marketable Securities

Marketable securities are presented in the financial statements at fair value.

- Trade Receivables

Trade receivables are principally generated from the operations of the Cemeteries and from billings from the CAO to the various parishes and schools within the Diocese for insurances, payroll, pension and other costs. The CAO provides an allowance for doubtful accounts provision for those receivables in excess of 90 days past due and considers the financial position and payment history of the parish or school when estimating the allowance for doubtful accounts.

- Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal, net of the allowance for loan losses. Interest on loans is calculated by using the simple interest method on the balance of the principle amount outstanding.

A loan is identified as impaired when it is probable that interest and principle will not be collected according to the contracted terms of the loan agreement.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Interest income is subsequently recognized only to the extent cash payments are received and where the future collection of principle is probable.

- Allowance for Loan Losses in Deposit and Loan Fund

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans and commitments to extend credit, based on evaluations of the collectibility and prior loss experience of loans and commitments to extend credit. The evaluation takes into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, commitments and current and anticipated economic conditions that may affect the borrowers' ability to pay.

- Inventories

Cemetery inventories consist of graves, crypts, cremains, niches, landscaping and irrigation surrounding the sites and site development. Inventories are valued at the lower of cost (based on average cost) or market.

- Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, or, in the case of cemetery properties acquired directly from the Archdiocese of San Francisco, at approximate market value at the time of transfer. Depreciation expense is calculated principally on the straight-line method over the estimated useful lives of the assets. The CAO capitalizes an asset that costs \$5,000 or more, or if multiple assets in one transaction are individually less than \$5,000 but as a group greater than \$25,000. Maintenance and repairs which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

- Deferred Revenue

Deferred revenue consists principally of rental income, which is recognized on a straight-line basis over the term of the lease, and pre-need cemetery sales of future goods and services.

- Tax Exempt Status

The Diocese has been granted tax exempt status by the Internal Revenue Service and the California Franchise Tax Board under code Sections 501(c)(3) and 23701(d), respectively. The Diocese has received a ruling that it is not a private foundation.

- Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

- Cash, Receivables, Loans and Payables

The carrying amount approximates fair value because of the short maturity of those instruments. In the case of interest bearing loans, interest is charged at variable market rates.

- Marketable Securities

The fair value of marketable securities is estimated based on quoted market prices for those or similar investments.

- Notes Payable

The carrying value of notes payable approximates the fair value, as the carrying value is calculated using discounted cash flow analyses, based on the CAO's incremental borrowing rate.

- Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

The CAO's allowances for doubtful receivables, pledges and loans totaling \$3,011,502 in 2005 and \$2,987,357 in 2004 are particularly sensitive estimates. The determination of the balances in these accounts is based on an analysis of the receivables and loans and reflects amounts which, in management's judgment, are adequate to provide for potential losses after giving consideration to the character of the receivables and loan portfolio, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

- Trusts

The CAO has been named trustee for two unitrusts. The donor is the income beneficiary until death, at which time the property transfers to the designated beneficiary. The CAO is not the beneficiary and, therefore, records an asset and a corresponding liability.

- Bond Issuance Costs

Costs incurred in connection with the issuance of debentures are being amortized over the life of the debentures.

- Liquidity

In fiscal 2005 cash and cash equivalents increased by approximately \$5,352,000. Approximately 80% of the increase was due to a reduction in loans and increase in deposits in the deposit and loan fund and the 20% balance due to increases at Holy Spirit School principally due to tuition prepayment.

There were \$1,757,000 of net construction commitments outstanding at June 30, 2005, an increase of \$200,000 from June 30, 2004. All commitments are fully funded by Parishes and Schools with deposits in the Deposit and Loan fund.

Subsequent to the date of these financial statements, the CAO engaged an underwriter to commence the process of re-finance of its existing bonded indebtedness. The \$17,380,000 of debentures payable carry an effective interest rate in excess of 8%. There was no prepayment possible under the terms of the debenture until December 2004. In September of 2005 the CAO refinanced the bond through a Letter of Credit-backed facility at a variable interest rate below 4%. During the fiscal year the CAO obtained an unsecured line of credit from a bank for \$2,500,000. No borrowings were made on this line of credit. Also subsequent to fiscal year end the CAO obtained another unsecured line of credit of \$1,700,000 to finance the construction of a new mausoleum for one of the cemeteries.

In fiscal 2003, the CAO instituted the collection of a Diocesan assessment from the parishes of the Diocese. In fiscal 2005 and 2004 approximately \$2,632,000 and \$2,139,000, respectively, of revenue was raised. It is anticipated that this source of revenue will increase again in fiscal 2006 not due to an increase in the assessment rate but due to increases in overall collections in the parishes. These funds are used to cover some of the fixed operating expenses of the CAO.

The Deposit and Loan Fund continues to be a source of existing and potential liquidity problems for the CAO. At June 30, 2005 there were approximately \$23,797,000 in deposits in the fund. As shown in the tables in Note A, the amount of deposits committed for terms of 1 year or more remained stable at approximately 35% of the total. The continuing long-term nature of the deposits reduces the potential negative short-term impact on liquidity due a draw on deposits. The increase of deposits in fiscal 2005 was due to sale of some parish property, and general overall increases, some in anticipation of construction projects.

In the event that the CAO does not obtain sufficient cash from these aforementioned sources and strategies, additional cash could be obtained through the sales of unrestricted marketable securities.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

As of June 30, 2005 and 2004 over \$7 million of the outstanding loans of \$32,416,000 and \$34,519,000 were on the equivalent of non-accrual of interest due to the inability of the parishes to pay in accordance with the original terms. The CAO does not expect any principal losses on these loans. The CAO anticipates having adequate cash resources over and above restricted cash to meet its obligations.

The Diocese is listed as a beneficiary of a proposed endowment and capital campaign to commence in 2005 by the Catholic Foundation of Santa Clara County. The funds proposed for the CAO benefit are restricted to reduction of the bond debt and funding of some pastoral office operations.

NOTE C - MARKETABLE SECURITIES

Marketable securities at June 30 consist of the following:

	2005	2004
Corporate stocks	\$ 9,383,339	\$ 7,748,401
Corporate bonds	1,849,068	1,520,423
Mutual funds	336,844	329,450
U.S. Government securities	4,573,162	5,082,175
Other	874,594	900,967
Total	\$ 17,017,007	\$ 15,581,416

Investment income for the years ended June 30 consists of the following:

Interest and dividends	\$ 395,737	\$ 406,461
Investment gains	768,999	607,839
Total income	1,164,736	1,014,300
Portfolio manager and custodian fees	(76,108)	(87,087)
Net income from investment pool activities	1,088,628	927,213
Investment income – cash management and other	198,891	379,724
Total income from investment activities	1,287,519	1,306,937
Less income attributed to custodian and similar funds:		
Interest and dividends (net of manager fees of \$22,384 in 2004 and \$22,384 in 2004)	124,447	137,906
Realized and unrealized gains, net	292,859	241,763
Total earnings from investment activities excluding custodian and similar funds	\$ 870,213	\$ 927,268

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE D - PLEDGES RECEIVABLE AND PAYABLE

Pledges receivable are as follows at June 30, 2005:

	Operating Fund	Annual Appeal Fund	Endowment Fund	Holy Spirit School	Total
Due within one year	\$ 365,780	\$ 1,541,038	\$ -	\$ 188,323	\$ 2,095,141
Due in one to five years	-	-	1,500,000	-	1,500,000
	365,780	1,541,038	1,500,000	188,323	3,595,141
Less discount for present value	-	-	870,420	-	870,420
	365,780	1,541,038	629,580	188,323	2,724,721
Less allowance for doubtful accounts	-	5,000	-	128,009	133,009
	<u>\$ 365,780</u>	<u>\$ 1,536,038</u>	<u>\$ 629,580</u>	<u>\$ 60,314</u>	<u>\$ 2,591,712</u>
Annual and capital campaign pledges payable from CAO to parishes and other organizations at June 30, 2005:	<u>\$ -</u>	<u>\$ 1,548,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,548,079</u>

Pledges receivable are as follows at June 30, 2004:

	Operating Fund	Annual Appeal Fund	Endowment Fund	Holy Spirit School	Total
Due within one year	\$ 35,714	\$ 1,610,959	\$ -	\$ 338,605	\$ 1,985,278
Due in one to five years	375,000	-	1,500,000	-	1,875,000
	410,714	1,610,959	1,500,000	338,605	3,860,278
Less discount for present value	9,220	-	918,948	-	928,168
	401,494	1,610,959	581,052	338,605	2,932,110
Less allowance for doubtful accounts	-	35,000	-	130,159	165,159
	<u>\$ 401,494</u>	<u>\$ 1,575,959</u>	<u>\$ 581,052</u>	<u>\$ 208,446</u>	<u>\$ 2,766,951</u>
Annual and capital campaign pledges payable from CAO to parishes and other organizations at June 30, 2004:	<u>\$ -</u>	<u>\$ 1,557,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,557,084</u>

Pledges receivable are recorded after discounting the future cash flows to present value using discount rates ranging from 5.93-6.20%.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE E – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (DEPOSIT AND LOAN FUND)

Aggregate collections of loans receivable from parishes and schools as of June 30, 2005 and 2004 are as follows:

Year ending June 30,

	2005		2004
2005	-	2005	1,663,632
2006	1,447,661	2006	1,587,344
2007	1,474,061	2007	1,566,633
2008	1,510,597	2008	1,570,762
2009	1,548,159	2009	1,611,390
2010	1,525,346	2010	-
Thereafter	27,015,256	Thereafter	19,672,248
Subtotal	34,551,080		27,672,009
Loans with payment plans pending completion of construction	-		8,975,906
Subtotal	34,551,080		36,647,915
Less allowance for loan losses	2,134,670		2,128,200
Total	\$ 32,416,410		\$ 34,519,715

The majority of the loans receivable are for construction projects at parishes and schools. The CAO advances funds for construction projects to parishes and schools but does not set terms of repayment until these projects are complete. As of June 30, 2005, there are no construction loans outstanding and as of June 30, 2004, there were \$8,975,906 of these loans outstanding at interest rates of 5.00%. Undisbursed commitments to loan were \$320,000 at June 30, 2005 and \$1,415,823 at June 30, 2004.

Activity in the allowance for loan losses for the year ended June 30, 2005 and 2004 follows:

	2005	2004
Balance, beginning of year	\$ 2,128,200	\$ 1,468,770
Loans charged off	-	-
Recoveries	-	-
Provision for loan losses	6,470	659,430
Balance, end of year	\$ 2,134,670	\$ 2,128,200

Impaired loans were \$7,298,877 and \$7,313,131 at June 30, 2005 and 2004, respectively. The average recorded investment in impaired loans during 2005 was \$7,306,004 and during 2004 was \$7,337,678. The allowance for loan losses related to these loans was \$2,134,670 in 2005 and \$2,128,200 in 2004.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE F - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2005:

	Operating Fund	Cemetery Fund	Holy Spirit School	Priest Retirement Fund	Total
Buildings and improvements	\$ 29,077,387	\$ 3,244,452	\$ 11,657,599	\$ -	\$ 43,979,438
Leasehold improvements	-		-	400,058	400,058
Furniture and fixtures	1,437,213	961,016	282,922	-	2,681,151
Vehicles	58,787	1,122,439	-	-	1,181,226
Turf equipment	-	225,297	-	-	225,297
Tools and equipment	-	185,806	-	-	185,806
Office plans	-	275,932	-	-	275,932
Other improvements	-	184,604	-	-	184,604
	<u>30,573,387</u>	<u>6,199,546</u>	<u>11,940,521</u>	<u>400,058</u>	<u>49,113,512</u>
Less accumulated depreciation	<u>7,390,200</u>	<u>3,322,620</u>	<u>1,684,765</u>	<u>400,058</u>	<u>12,797,643</u>
	<u>23,183,187</u>	<u>2,876,926</u>	<u>10,255,756</u>	<u>-</u>	<u>36,315,869</u>
Land					
Sites for future parishes and institutions	2,844,253	-	-	-	2,844,253
Land under operating lease (see Note K)	613,588	-	-	-	613,588
Operating properties	593,207	700,854	-	-	1,294,061
	<u>4,051,048</u>	<u>700,854</u>	<u>-</u>	<u>-</u>	<u>4,751,902</u>
Construction in progress	-	101,155	-	-	101,155
Total	<u>\$ 27,234,235</u>	<u>\$ 3,678,935</u>	<u>\$ 10,255,756</u>	<u>\$ -</u>	<u>\$ 41,168,926</u>

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE F - LAND, BUILDINGS AND EQUIPMENT (continued)

Land, buildings and equipment consist of the following at June 30, 2004:

	Operating Fund	Cemetery Fund	Holy Spirit School	Priest Retirement Fund	Total
Buildings and improvements	\$ 28,699,157	\$ 2,711,337	\$ 11,445,118	\$ -	\$ 42,855,612
Leasehold improvements	-		-	400,058	400,058
Furniture and fixtures	1,437,213	961,016	262,791	-	2,661,020
Vehicles	58,787	1,122,439	-	-	1,181,226
Turf equipment	-	225,297	-	-	225,297
Tools and equipment	-	177,511	-	-	177,511
Office plans	-	35,920	-	-	35,920
Other improvements	-	197,677	-	-	197,677
	<u>30,195,157</u>	<u>5,431,197</u>	<u>11,707,909</u>	<u>400,058</u>	<u>47,734,321</u>
Less accumulated depreciation	6,753,401	3,062,925	1,260,272	400,058	11,476,656
	<u>23,441,756</u>	<u>2,368,272</u>	<u>10,447,637</u>	<u>-</u>	<u>36,257,665</u>
Land					
Sites for future parishes and institutions	2,844,253	-	-	-	2,844,253
Land under operating lease (see Note K)	613,588	-	-	-	613,588
Operating properties	593,208	700,854	-	-	1,294,062
	<u>4,051,049</u>	<u>700,854</u>	<u>-</u>	<u>-</u>	<u>4,751,903</u>
Construction in progress	183,988	184,604	-	-	368,592
Total	<u>\$ 27,676,793</u>	<u>\$ 3,253,730</u>	<u>\$ 10,447,637</u>	<u>\$ -</u>	<u>\$ 41,378,160</u>

NOTE G - DEBENTURES

On December 1, 1999, the CAO concluded the sale of debentures with proceeds totaling \$19,420,000 and issuance costs of \$995,590. Proceeds from the sale of the debentures were used to build Holy Spirit Elementary School, to finance earthquake retrofit improvements at various parish and school facilities, for general corporate purposes and to pay costs of issuance. Principal and interest on the debentures will be paid from contributions.

The first sinking fund category for \$7,525,000 has various maturity dates which began in 2002 and conclude in 2012, with coupon rates ranging from 7% to 8%. The second sinking fund category for \$6,545,000 has various maturity dates which begin in 2012 and conclude in 2017, with a coupon rate of 8%. The third sinking fund category for \$5,350,000 has various maturity dates which begin in 2017 and conclude in 2020, with a coupon rate of 8.25%. The first interest payment date was on June 1, 2000. Thereafter, interest is payable semiannually June 1 and December 1, until the unsecured debentures have been paid in full.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE G - DEBENTURES (continued)

The second and third sinking fund categories are subject to a pro-rata mandatory sinking fund redemption, on June 1, 2012 and June 1, 2017, respectively, and on each June 1 and December 1 thereafter at 100% of the principal amount thereof, plus accrued interest to the redemption date, from mandatory sinking fund payments.

Optional Redemptions

Before December 1, 2004, the first sinking fund category shall not be subject to call or redemption. Beginning December 1, 2004, the debentures of all maturities from 2005 to 2012 shall be subject to call and redemption on a pro-rata basis in inverse chronological order at par plus accrued interest, upon 30 days notice.

The second sinking fund category shall be subject to prior redemption beginning December 1, 2004, at par plus accrued interest upon 30 days notice, provided that all other debentures have been redeemed.

After the issue date, the third sinking fund category shall be subject to call and redemption at par plus accrued interest upon 30 days notice and without penalty from any source other than borrowed funds. Beginning December 1, 2004, the third series shall be subject to call and redemption at par plus accrued interest upon 30 days notice and without penalty from any source.

Covenants

The CAO of the Roman Catholic Diocese of San Jose must comply with covenants including maintenance of specific ratios and timely submission of audited financial statements. The CAO was in compliance with these requirements at June 30, 2005 and 2004.

Aggregate maturities of the debentures as of June 30, 2005 are as follows:

Year ending June 30,

2006	\$ 690,000
2007	730,000
2008	785,000
2009	855,000
2010	910,000
Thereafter	<u>13,410,000</u>
Total	<u>\$ 17,380,000</u>

Refinancing Subsequent to Fiscal Year End

In September 2005 the balance outstanding of \$17,380,000 of the bond was refinanced at an initial variable rate of 3.78%.

To facilitate the refinancing the CAO entered into an agreement with a bank that provides for a letter of credit to be issued that backs the credit of the CAO enabling the CAO to refinance the bond debt in the open market. The letter of credit agreement requires the CAO to provide a deed of trust in certain of its property and to maintain specific ratios and timely submission of audited financial statements.

The credit facility also enables the CAO to borrow an additional \$5,500,000 that will enable it to purchase a fully leased investment office property which it intends to use as office space on termination of its existing leases.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE H - NOTES PAYABLE

Notes payable consist of the following at June 30:

	2005	2004
Non-interest bearing obligation to The Archdiocese of San Francisco, payable in annual installments of \$100,000 through 2021. The fair value of this note has been determined based on an imputed interest rate of 5.5%	<u>\$ 1,087,239</u>	<u>\$ 1,123,846</u>

Aggregate maturities of notes payable as of June 30, 2004 are as follows:

Year ending June 30,

2006	\$ 100,000	
2007	100,000	
2008	100,000	
2009	100,000	
2010	100,000	
Thereafter	1,231,868	
	1,731,868	
Less amount representing imputed interest	(644,629)	
Total	\$ 1,087,239	

During 2005 the CAO obtained an unsecured line of credit from a bank for \$2,500,000 at LIBOR + 2.5% interest rate expiring April 4, 2006. No borrowings were made on this line of credit. Also subsequent to fiscal year end the CAO obtained another unsecured line of credit of \$1,740,000 to finance the construction of a new mausoleum for one of the cemeteries. This facility is at LIBOR + 2.5% and expires February 1, 2007 .

NOTE I - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following as of June 30:

	2005	2004
Current Funds:		
Operating (time and purpose restrictions)	\$ 372,039	\$ 372,519
Fund Raising Funds:		
Annual Appeal programs and general operations (time restriction)	5,273,676	5,012,099
Holy Spirit School		
Endowments for scholarships (time and purpose restrictions)	371,231	244,810
Endowment Fund:		
Trust agreements and scholarships (purpose restrictions)	4,278,442	3,891,573
	<u>\$ 10,295,388</u>	<u>\$ 9,521,001</u>

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE I - RESTRICTED NET ASSETS (continued)

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30:

	<u>2005</u>	<u>2004</u>
Priest retirement and seminarian education	\$ 793,800	\$ 793,808
Scholarships	<u>2,308,432</u>	<u>2,226,724</u>
	<u>\$ 3,102,232</u>	<u>\$ 3,020,532</u>

NOTE J - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions during 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Purpose restrictions accomplished	\$ 406,777	\$ 875,478
Time restrictions expired	<u>4,797,163</u>	<u>4,171,693</u>
Total restrictions released	<u>\$ 5,203,940</u>	<u>\$ 5,047,171</u>

NOTE K - FUTURE MINIMUM RENTAL RECEIPTS

In October 1987, the CAO entered into an 85 year lease which allowed the lessee to build and operate a continuing care retirement home on land owned by the CAO. First year base rent of \$480,000 was paid in October 1987. Base rent of \$600,000 was paid in October 1988, for the second year. Lease payments of \$7,180,000 were received during 1990. Lease payments of \$1,000,000 were due each October 1 from 1995 through 1999. The payments received in 1990 and later years are being recognized as income ratably (approximately \$144,000 annually) over the remaining term of the lease. Amounts to be recognized in future periods are recorded as deferred revenue.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE K - FUTURE MINIMUM RENTAL RECEIPTS (continued)

The CAO is the lessor of certain other rental properties. Future minimum rental receipts from long-term noncancelable operating leases as of June 30, 2005 are as follows:

Year ending June 30,

2006	\$ 72,980
2007	72,980
2008	72,980
2009	<u>30,405</u>
	<u>\$ 249,345</u>

Rental income recognized for 2005 totaled \$303,812 and for 2004 totaled \$221,241.

NOTE L - COMMITMENTS AND CONTINGENCIES

The CAO conducts its operations in leased facilities under operating leases. In addition to the minimum rental payments, the CAO must pay a proportionate share of the operating expenses of the facilities. Rent expense for the years ended June 30 2005 and 2004 was \$918,933 and \$1,011,127, respectively.

Future minimum rental payments are as follows (excluding operating expenses):

Year ending June 30,

2006	\$ 846,777
2007	881,697
2008	919,983
2009	714,062
2010	<u>215,186</u>
Total	<u>\$ 3,577,705</u>

The accompanying statement of activities reflects rent expense on a straight-line basis over the term of the lease obligation with a difference between rent expense and rent paid of \$ 24,278 for 2005 and \$29,194 for 2004.

The CAO has entered into several construction agreements on behalf of various parishes and schools. At June 30, 2005, total commitments are \$2,530,922. The total amount expended as of June 30, 2005 on these commitments was \$772,879. All expenditures incurred with respect to these construction agreements are expenditures of the various parishes and schools and cemeteries.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE L - COMMITMENTS AND CONTINGENCIES (continued)

On August 15, 2001, December 1, 2001 and April 1, 2002, the CAO entered into agreements with Notre Dame High School – San Jose and the Bank of Cherry Creek as a guarantor for the sale of Series 2001A, 2001B and 2002 First Mortgage Bonds (“the Bonds”) with proceeds totaling \$3,375,000, \$4,150,000 and \$2,475,000 and issuance costs of \$92,500, \$83,000 and \$49,500, respectively. The Bonds are unconditionally guaranteed as to principal and interest by the Diocese. Proceeds from the sale of the bonds financed the construction and expansion of the High School, and paid for general corporate purposes of the school and costs of issuance. The principal balance payable on the bonds at June 30, 2005 was \$9,750,000 and at June 30, 2004 was \$10,000,000.

The Diocese was named in a lawsuit filed during fiscal 2003 involving allegations of sexual abuse from several priests, one now deceased. In January 2005, the Diocese was released of all responsibility as regards these allegations by virtue of lack of notification and the occurrence of the alleged abuse prior to formation of the Diocese. The Diocese made no payments with regard to these cases other than for its own defense costs.

The CAO is party to various other litigation matters in the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the financial condition of the CAO.

NOTE M – POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The CAO sponsors a postretirement Medicare supplemental plan for retired priests who are eligible to receive Medicare. The plan pays medical costs not covered by Parts A and B of Medicare. The plan assumes that the priest has full Medicare coverage. In addition, the plan pays 90% of prescription drug costs. The maximum annual payout is \$7,500.

An actuary performs an analysis of per capita claims costs and premiums on a calendar year basis. Since plan experience with regard to claims costs is limited due to the small size of the group, the actuary uses retiree premiums as the basis for estimating future claim costs.

The CAO uses the accrual method of accounting for postretirement benefits based on actuarially determined costs to be recognized over the period the employee provides service to the CAO. SFAS No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions*, requires entities to accrue for expected medical and other postretirement benefits over the years that the employees render the necessary service. Additionally, the CAO follows the disclosure provisions of SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which was revised December 2003. SFAS No. 132, as revised, requires additional employers' disclosures about pension and other postretirement benefit plans.

In fiscal year 2005 the CAO changed its method of recognition of the post retirement benefit obligation to be consistent with the method of amortizing certain losses over future periods as occurs in the Priest Retirement and Supplemental Retirement Plans. In prior years the entire post retirement benefit obligation in excess of plan assets (note that Postretirement Fund assets of \$1,237,415 are not included as a reduction of the benefit obligations because those assets are held in the Deposit and Loan Fund and not under the control of a third party trustee) was accounted for in current income. Now the unrecognized portion of future losses and the total post retirement benefit obligation is shown in the footnotes and only the net periodic postretirement benefit cost is included in income. This treatment is also consistent with the accounting treatment of pension liabilities provided for in SFAS No. 106 and 132.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE M – POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (continued)

Net Periodic Postretirement Benefit Cost

The following items are the components of the net periodic postretirement benefit cost for the plan as a whole for the year ended June 30:

	Fiscal Year Ending <u>June 30, 2005</u>	Fiscal Year Ending <u>June 30, 2004</u>
Service cost-benefits earned during the period	\$ 71,000	\$ 68,000
Interest cost on projected benefit obligation	128,000	113,000
Expected return on plan assets	-	-
Net amortization and deferral	<u>94,000</u>	<u>106,000</u>
Net periodic postretirement benefit cost (before adjustment)	\$ 293,000	\$ <u>\$287,000</u>
Adjustment for June 30, 2005 accounting change	<u>(1,141,000)</u>	N/A
Net periodic postretirement benefit cost (after adjustment)	<u>\$ (848,000)</u>	N/A

Funded Status

The following table sets-forth the plan's funded status at June 30:

	Fiscal Year Ending <u>June 30, 2005</u>	Fiscal Year Ending <u>June 30, 2004</u>
Accumulated postretirement benefit obligation for service rendered to date		
Plan assets at fair value	\$ (2,915,000)	\$ (2,041,000)
	<u>-</u>	<u>-</u>
Accumulated postretirement benefit obligation in excess of plan assets	(2,915,000)	(2,041,000)
Items not yet recognized in earnings:		
Unrecognized transition net obligation	252,000	-
Unrecognized net loss	<u>1,470,000</u>	<u>-</u>
Accrued postretirement benefit cost included in obligations under pension plan	<u>\$ (1,193,000)</u>	<u>\$ (2,041,000)</u>

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE M – POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (continued)

Assumptions

Assumptions Used to Determine Net Periodic Postretirement Benefit Cost

	Fiscal Year Ending <u>June 30, 2005</u>	Fiscal Year Ending <u>June 30, 2004</u>
Discount rate	6.25%	6.00%
Future Health Cost Inflation Rate	5.50%	5.50%

Assumptions Used to Determine Benefit Obligations at Year-End

	Fiscal Year Ending <u>June 30, 2005</u>	Fiscal Year Ending <u>June 30, 2004</u>
Discount rate	5.50%	6.25%
Future Health Cost Inflation Rate	5.50%	5.50%

Cash Flows

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the post retirement plan:

<u>Fiscal Year Ending June 30</u>	<u>Annual Benefits</u>
2006	\$115,000
2007	124,000
2008	134,000
2009	141,000
2010	153,000
2011-2015	886,000

NOTE N – PENSION PLANS

The CAO uses the accrual method of accounting for pension benefits based on actuarially determined costs to be recognized over the period the employee provides service to the CAO. SFAS No. 87, *Employer's Accounting for Pensions*, requires entities to accrue for expected pension benefits over the years that the employees render the necessary service. Additionally, the CAO follows the disclosure provisions of SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which was revised December 2003. SFAS No. 132, as revised, requires additional employers' disclosures about pension and other postretirement benefit plans.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE N – PENSION PLANS (continued)

1. LAY EMPLOYEES

The CAO participates in a defined benefit pension plan operated by the Diocese. All full-time lay employees who have completed at least one year of service are eligible. The plan provides benefits based on the highest final average salary and all years and months of service, counting partial months as whole months.

Although the Diocese is exempt from the funding requirements of ERISA, it has been the Diocese’s practice to make contributions annually to the plan that are not less than the pre-ERISA minimum funding requirement as applicable to churches, and not in excess of the amount that could be deducted for federal income tax purposes, assuming the Diocese was not exempt from taxation. In general, it has been the policy of the Diocese to fund any unfunded past service liability over 30 years.

The CAO administers the plan and assesses each of the participating entities its portion of estimated annual pension cost. Contributions of \$4,360,000 and \$9,950,000 were made to the plan during the years ended June 30, 2004 and June 30, 2005, respectively. Benefit payments of \$2,202,000 and \$2,685,000 were made from the plan during the years ended June 30, 2004 and June 30, 2005, respectively. The Diocese expects to contribute \$9,259,000 to the pension plan during the fiscal year ending June 30, 2006.

Plan Asset Investment Strategy and Allocation

The asset allocation for the pension plan as of June 30, 2005 and June 30, 2004 and the target allocation, by asset category, are:

<u>Asset Category</u>	<u>Policy</u> <u>Asset</u> <u>Allocation</u> <u>Range</u>	<u>Policy</u> <u>Benchmark</u> <u>Asset</u> <u>Allocation</u>	<u>Actual Percentage of</u> <u>Plan Assets at June 30</u>	
			<u>2005</u>	<u>2004</u>
Equities	25-65%	60%	64%	56%
Fixed Income	25-50%	30%	24%	22%
Cash Equivalents	0-50%	10%	12%	22%

The Diocese has adopted an official Statement of Investment Policy for this plan. Pension plan assets are invested by an independent professional investment manager, with the objective of achieving long term growth in assets with reasonable risk as compared to established benchmarks. The investment policy requires high quality investments and adequate diversification. Prohibited investments include options, short sale contracts and limited partnerships. The Diocese regularly monitors the investment manager’s performance relative to short-term and long-term objectives as set forth in the official policy. A compliance audit of the managers’ adherence to policy guidelines is conducted as a component of each performance evaluation. The Statement of Investment Policy includes consideration for social responsibility and Roman Catholic social teaching.

The Diocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For the fiscal years ending June 30, 2004 and June 30, 2005, the expected long-term rate of return used in determining net periodic pension cost was 8%.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE N – PENSION PLANS (continued)

2. PRIESTS

A. Retirement Plan

The CAO also sponsors a defined benefit pension plan for all Diocesan priests who are ordained for or incardinated in the Diocese and in good standing and not on probation. The plan provides benefits based on a flat benefit prorated for years and months of service less than 35 years. Effective July 1, 2005, the benefit formula was increased from \$24,100 per year to \$27,300 per year.

Since the CAO is exempt from the funding requirements of ERISA, it has been the CAO's practice to make contributions annually to the plan based on actuarial principles. In general, it has been the CAO's policy to fund any unfunded past service liability over 30 years.

Contributions of \$475,000 and \$594,000 were made to the plan in the years ended June 30, 2005 and 2004, respectively, by the parishes, schools or other units to which the participating clergy were assigned. Benefit payments of \$560,000 and \$531,000 were made from the plan during the years ended June 30, 2005 and 2004, respectively. The Diocese expects to contribute \$737,000 to the pension plan during the fiscal year ending June 30, 2006.

Plan Asset Investment Strategy and Allocation

The asset allocation for the pension plan as of June 30, 2005 and June 30, 2004 and the target allocation, by asset category, are:

<u>Asset Category</u>	<u>Policy Asset Allocation Range</u>	<u>Policy Benchmark Asset Allocation</u>	<u>Actual Percentage of Plan Assets at June 30</u>	
			<u>2005</u>	<u>2004</u>
Equities	25-65%	60%	59%	64%
Fixed Income	25-60%	30%	39%	35%
Cash Equivalents	0-50%	10%	2%	1%

The Diocese has adopted an official Statement of Investment Policy for this plan. Pension plan assets are invested by an independent professional investment manager, with the objective of achieving long term growth in assets with reasonable risk as compared to established benchmarks. The investment policy requires high quality investments and adequate diversification. Prohibited investments include options, short sale contracts and limited partnerships. The Diocese regularly monitors the investment manager's performance relative to short-term and long-term objectives as set forth in the official policy. A compliance audit of the managers' adherence to policy guidelines is conducted as a component of each performance evaluation. The Statement of Investment Policy includes consideration for social responsibility and Roman Catholic social teaching.

The Diocese employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial and investment consulting firms while incorporating specific asset-class risk factors. For the fiscal years ending June 30, 2004 and June 30, 2005, the expected long-term rate of return used in determining net periodic pension cost was 8%.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE N – PENSION PLANS (continued)

B. Supplemental Plan

The CAO sponsors a nonqualified supplemental defined benefit pension plan for certain priests listed in the Appendix A and B of the plan document.

Benefits for priests in Appendix A are based on the excess of their benefit calculated under the regular retirement plan with additional years of service over their actual retirement plan benefit. Benefits for priests in Appendix B are based on the excess of their benefit calculated according to the formula defined in Appendix B over their actual regular retirement plan benefit. Effective July 1, 2005, the regular plan benefit formula used in Appendix A was increased from \$24,100 per year to \$27,300 per year.

Since the plan is exempt from the funding requirements of ERISA, it has been the CAO's practice to make contributions annually to the plan not less than that required to pay benefits for that year.

Contributions of \$397,000 and \$0 were made to the plan in the years ended June 30, 2005 and 2004, respectively, by the parishes, schools or other units to which the participating clergy were assigned. Benefit payments of \$193,000 and \$180,000 were made from the plan during the years ended June 30, 2005 and 2004, respectively. The Diocese expects to contribute \$227,000 to the pension plan during the fiscal year ending June 30, 2006.

Plan Asset Investment Strategy and Allocation

Plan assets for the supplemental plan are insufficient to necessitate an independent investment policy. As of June 30, 2005, 47% of plan assets were invested in a balanced mutual fund and the balance in cash equivalents. As of June 30, 2004, 98% of plan assets were invested in a balanced mutual fund and the balance in cash equivalents.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE N – PENSION PLANS (continued)

TABLE 1 – NET PERIODIC PENSION COST

The following items are the components of the net periodic pension cost for the plan years ended June 30 are as follows:

	(\$ in thousands)					
	<u>Lay Retirement Plan</u>		<u>Priests Retirement Plan</u>		<u>Priests Supplemental Plan</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Service cost-benefits earned during the period	\$ 5,264	\$ 5,425	\$ 283	\$ 277	\$ -	\$ -
Interest cost on projected benefit obligation	6,587	6,017	579	583	130	
Actual/Expected return on plan assets	(2,096)	(2,740)	(522)	(659)	(12)	(97)
Net amortization and deferral	<u>1,792</u>	<u>4,179</u>	<u>399</u>	<u>595</u>	<u>125</u>	<u>187</u>
Net periodic pension cost	<u>\$ 11,547</u>	<u>\$ 12,881</u>	<u>\$ 739</u>	<u>\$ 796</u>	<u>\$ 243</u>	<u>\$ 199</u>
Allocated portions of net periodic pension cost						
Central Administrative Office	\$ 478	\$ (87)	\$ 739	\$ 796	\$ 243	\$ 199
Cemeteries (lay plan only)	200	(41)	N/A	N/A	N/A	N/A
Holy Spirit School (lay plan only)	339	(51)	N/A	N/A	N/A	N/A

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE N – PENSION PLANS (continued)

TABLE 2 – FUNDED STATUS

The funded status of the plans and the net amount recognized in the statement of financial position at June 30 are as follows:

	(\$ in thousands)					
	<u>Lay Retirement Plan</u>		<u>Priests Retirement Plan</u>		<u>Priests Supplemental Plan</u>	
	2005	2004	2005	2004	2005	2004
Vested benefit obligation	\$ (102,473)	\$ (83,649)	\$ (9,918)	\$ (7,913)	\$ (2,342)	\$ (1,865)
Accumulated benefit obligation	(108,891)	(89,128)	(10,123)	(8,065)	(2,361)	(1,875)
Projected benefit obligation	(127,573)	(106,925)	(12,098)	(9,566)	(2,657)	(2,177)
Plan assets at fair value	<u>51,336</u>	<u>42,164</u>	<u>5,397</u>	<u>5,027</u>	<u>708</u>	<u>496</u>
Funding status of the Plan	(76,237)	(64,761)	(6,701)	4,539	(1,949)	(1,681)
Prepaid pension costs	-	-	-	-	76	-
Accrued pension costs	(57,555)	(46,964)	(4,726)	(3,038)	(1,729)	(1,379)
Intangible asset	<u>-</u>	<u>-</u>	<u>1,737</u>	<u>313</u>	<u>531</u>	<u>287</u>
Net amount recognized	<u>\$ (57,555)</u>	<u>\$ (46,964)</u>	<u>\$ (2,989)</u>	<u>\$ (2,725)</u>	<u>\$ (1,122)</u>	<u>\$ (1,092)</u>
Allocated portions of net amount recognized						
Central Administrative Office	\$ (2,499)	\$ (2,021)	\$ (2,989)	\$ (2,725)	\$ (1,122)	\$ (1,092)
Cemeteries (lay plan only)	(1,027)	(827)	N/A	N/A	N/A	N/A
Holy Spirit School (lay plan only)	(975)	(636)	N/A	N/A	N/A	N/A

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE N – PENSION PLANS (continued)

TABLE 3 – ASSUMPTIONS

	For the fiscal years ending June 30					
	<u>Lay Retirement Plan</u>		<u>Priests Retirement Plan</u>		<u>Priests Supplemental Plan</u>	
	2005	2004	2005	2004	2005	2004
For Net Periodic Pension Cost:						
Discount Rate	6.25%	5.75%	6.25%	5.75%	6.25%	5.75%
Expected long-term rate of return on as	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Salary scale	4.50%	4.00%	N/A	N/A	N/A	N/A
Future Benefit Increases	N/A	N/A	2.00%	2.00%	2.00%	2.00%
For Benefit Obligation						
At Year End:						
Discount Rate	5.50%	6.25%	5.50%	5.50%	5.50%	5.50%
Salary Scale	4.00%	4.50%	N/A	N/A	N/A	N/A
Future Benefit Increases	N/A	N/A	2.00%	2.00%	2.00%	2.00%

TABLE 4 – ESTIMATED FUTURE BENEFIT PAYMENTS

Fiscal Year Ending June 30	<u>Lay Retirement Plan (annual benefits)</u>	<u>Priests Retirement Plan (annual benefits)</u>	<u>Priests Supplemental Plan (annual benefits)</u>
2006	\$ 3,451,000	\$ 746,000	\$ 241,000
2007	3,698,000	712,000	234,000
2008	4,327,000	752,000	229,000
2009	5,036,000	737,000	224,000
2010	5,662,000	750,000	216,000
2011- 2015	38,502,000	3,979,000	1,077,000

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE O - RELATED PARTY TRANSACTIONS

The CAO performs various administrative services, including payroll processing, for several related entities. Fees received for these services were \$411,342 for the year ending June 30, 2005 and \$402,508 for the year ending June 30, 2004.

The CAO paid for the benefit of St. Joseph's Cathedral parish to support the operations of the Cathedral \$317,849 in fiscal year 2005 and \$251,008 in fiscal year 2004.

During 2004, \$80,000 was paid by the CAO to support the operations of Mitty High School.

The CAO, through the Deposit and Loan Funds, makes loans to eligible employees for amounts not exceeding \$10,000 payable by automatic withdrawal over a term of 4 years. The loans are only for purposes indicated in the Employee Loan Policy. The net amounts outstanding at June 30, 2005 were \$352,438 and at June 30, 2004 were \$406,345. The loan rates are the same as those charged for loans to parishes and schools (see Note E).

NOTE P – SELF-INSURED RISK RETENTION GROUPS

The Diocese is self-insured with respect to its general liability coverage through its participation with other dioceses in several western states in a risk retention group, incorporated in Vermont. Membership in the risk retention group requires a minimum participation of five years. Each member's participation in the risk retention group is fully assessable and each member is responsible for its share of the risk retention group's liabilities.

Through June 30, 2005, the Diocese was also self-insured with respect to its earthquake insurance coverage through its participation with other dioceses in the California Interdiocesan Earthquake Insurance pooling agreement. As of July 1, 2005 the Diocese is self-insured with respect to its earthquake insurance coverage through its participation with two other California dioceses in a pooled agreement.

The Diocese is also self-insured with respect to worker's compensation insurance through its participation with other dioceses and institutions in California in an unincorporated association which uses a rent-a-captive insurer to do business in California, re-insures a portion of the risk and self-insures the balance, including the investment of funds (the GAP) to be collateral for unknown losses.

The Diocese is also self-insured with respect to retired priest medical costs and employee dental costs.

**Central Administrative Office of the
Roman Catholic Diocese of San Jose**

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005 and 2004

NOTE Q – FUNCTIONAL EXPENSE AND LOSS CLASSIFICATIONS

The expenses and losses of the CAO for the year ended June 30, 2005 and 2004 are classified on a functional basis among its program and supporting services as follows:

	2005	2004
Expenses		
Program:		
Pastoral	\$ 3,696,507	\$ 3,367,005
Religious and personnel development	2,212,368	1,842,388
Education	4,023,520	3,372,074
Priest retirement	976,800	109,830
Insurance premiums and benefits	15,512,214	14,537,473
Newspaper	450,888	385,153
Cemetery	4,460,219	4,911,927
Deposit and loan activities	2,083,000	2,372,438
	33,415,516	30,898,288
Supporting:		
Administrative, depreciation and other	4,535,445	4,144,609
Fundraising	1,069,655	1,215,946
	5,605,100	5,360,555
Total functional expenses	\$ 39,020,616	\$ 36,258,843

SUPPLEMENTARY INFORMATION

**Report of Independent Certified Public Accountants
on Supplementary Information**

Most Reverend Patrick J. McGrath
The Roman Catholic Bishop of San Jose

Our audits were made for the purpose of forming an opinion on the basic financial statements, taken as a whole, of the Central Administrative Office of the Roman Catholic Diocese of San Jose for the years ended June 30, 2005 and 2004, which are presented in the preceding section of this report. The supplementary information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

San Jose, California
November 4, 2005

Central Administrative Office of the Roman Catholic Diocese of San Jose
BALANCE SHEET - ALL FUNDS

June 30, 2005

	Current Fund	Service Funds	Cemetery Fund	Endowment Fund	Priest Retirement Funds	Pooled Investment Fund	Deposit and Loan Funds	Fundraising Funds	Holy Spirit School	Eliminations	Total
ASSETS											
Cash and cash equivalents	\$ 2,998,246	\$ 671,011	\$ 323,529	\$ 211,565	\$ (465,965)	\$ -	\$ 5,071,500	\$ 5,446,319	\$ 2,105,981	\$ -	\$ 16,362,186
Marketable securities	653,424	-	1,608,063	8,006,738	-	6,389,889	-	-	358,893	-	17,017,007
Receivables											
Parishes and institutions (net of allowance for doubtful accounts of \$297,268)	34,434	640,151	-	-	17,617	-	-	-	-	-	692,202
Pledges (net of allowance for doubtful accounts of \$133,009)	365,780	-	-	629,580	-	-	-	1,536,038	60,314	-	2,591,712
Other (net of allowance for doubtful accounts of \$486,848)	247,444	2	105,209	63,128	-	-	352,438	-	11,123	-	779,344
Inventory	-	-	6,708,711	-	-	-	-	-	45,682	-	6,754,393
Loans receivable from parishes and institutions (net of allowance for doubtful accounts of \$2,134,670)	-	-	-	-	-	-	45,924,842	-	-	(13,508,431)	32,416,411
Debtenture issuance costs (net of amortization of \$277,936)	-	-	-	-	-	-	717,654	-	-	-	717,654
Deposits and prepaid expenses	2,216	546,248	-	-	-	-	-	-	18,811	-	567,275
Investment in real estate	-	-	607,144	232,072	-	-	-	-	-	-	839,216
Assets held in trust	915,187	-	-	-	-	-	-	-	-	-	915,187
Interest bearing intrafund deposits	1,332,204	2,264,200	6,780,007	788,079	1,237,415	-	-	10,000	(15,997)	(12,395,908)	-
Land, buildings and equipment (net of accumulated depreciation)	27,234,235	-	3,678,935	-	-	-	-	-	10,255,756	-	41,168,926
Total assets	\$ 33,783,170	\$ 4,121,612	\$ 19,811,598	\$ 9,931,162	\$ 789,067	\$ 6,389,889	\$ 52,066,434	\$ 6,992,357	\$ 12,840,563	\$ (25,904,339)	\$ 120,821,513
LIABILITIES & NET ASSETS											
Liabilities											
Accounts payable	\$ 500,679	\$ 31,645	\$ 170,755	\$ 56,673	\$ 7,456	\$ -	\$ 353,488	\$ 24,541	\$ 13,619	\$ -	\$ 1,158,856
Pledges payable to parishes and others	-	-	-	-	-	-	-	1,548,079	-	-	1,548,079
Accrued liabilities	3,446,082	587,092	1,257,408	6,082	5,303,271	-	115,521	387,130	1,245,560	-	12,348,146
Deposits payable	-	-	-	-	-	-	36,193,347	-	-	(12,395,908)	23,797,439
Debtentures payable	-	-	-	-	-	-	17,380,000	-	-	-	17,380,000
Notes payable	-	-	1,087,239	-	-	-	-	-	13,508,431	(13,508,431)	1,087,239
Trust assets held for parish	915,187	-	-	-	-	-	-	-	-	-	915,187
Held for parishes and Institutions	3,060,247	-	-	-	-	6,389,889	-	-	-	-	9,450,136
Deferred revenue	9,610,011	-	1,275,414	-	-	-	-	-	845,263	-	11,730,688
Due to (from) other funds	(373,651)	(667,956)	97,795	1,031,212	(87,400)	-	-	-	-	-	-
Total liabilities	17,158,555	(49,219)	3,888,611	1,093,967	5,223,327	6,389,889	54,042,356	1,959,750	15,612,873	(25,904,339)	79,415,770
Net assets (deficit)											
Unrestricted											
Undesignated	15,472,261	4,065,099	10,163,261	-	(4,434,260)	-	(1,975,922)	(241,069)	(3,812,374)	-	19,236,996
Designated	780,315	105,732	1,679,188	1,854,917	-	-	-	-	270,437	-	4,690,589
Funds functioning as endowment											
- Cemetery endowment care	-	-	4,080,538	-	-	-	-	-	-	-	4,080,538
Temporarily restricted	372,039	-	-	4,278,442	-	-	-	5,273,676	371,231	-	10,295,388
Permanently restricted	-	-	-	2,703,836	-	-	-	-	398,396	-	3,102,232
Total net assets (deficit)	16,624,615	4,170,831	15,922,987	8,837,195	(4,434,260)	-	(1,975,922)	5,032,607	(2,772,310)	-	41,405,743
Total liabilities and net assets	\$ 33,783,170	\$ 4,121,612	\$ 19,811,598	\$ 9,931,162	\$ 789,067	\$ 6,389,889	\$ 52,066,434	\$ 6,992,357	\$ 12,840,563	\$ (25,904,339)	\$ 120,821,513

**Central Administrative Office of the Roman Catholic Diocese of San Jose
BALANCE SHEET - ALL FUNDS**

June 30, 2004

ASSETS	Current Funds	Service Funds	Cemetery Fund	Endowment Fund	Priest Retirement Fund	Pooled Investment Fund	Fundraising Fund	Deposit and Loan Fund	Holy Spirit School	Elimination	Total
Cash and cash equivalents	\$ 3,185,982	\$ 90,967	\$ 463,440	\$ 130,793	\$ (120,158)	\$ -	\$ 5,045,534	\$ 677,568	\$ 1,536,547	\$ -	\$ 11,010,673
Marketable securities	337,147	-	1,379,916	7,409,510	-	6,166,515	-	-	288,328	-	15,581,416
Receivables											
Parishes and institutions (net of allowance for doubtful accounts of \$248,349)	-	747,290	-	-	-	-	-	-	-	-	747,290
Mortgages and notes (net of allowance for doubtful accounts of \$0)	277,250	-	-	-	-	-	-	-	-	-	277,250
Pledges (net of allowance for doubtful accounts of \$165,169)	401,494	-	-	581,052	-	-	1,575,959	-	208,446	-	2,766,951
Other (net of allowance for doubtful accounts of \$445,649)	22,736	-	272,198	54,809	-	-	-	406,345	25,770	-	781,858
Deposits and prepaid expenses	20,461	989,568	-	-	-	-	(680)	-	18,581	-	1,027,930
Inventories	-	-	6,824,755	-	-	-	-	-	30,691	-	6,855,446
Loans receivable from parishes and institutions (net of allowances for doubtful accounts of \$2,128,200)	-	-	-	-	-	-	-	48,324,955	-	(13,805,240)	34,519,715
Debtore issuance costs (net of accumulated amortization of \$228,157)	-	-	-	-	-	-	-	767,433	-	-	767,433
Investment in real estate	-	-	607,144	232,072	-	-	-	-	-	-	839,216
Assets held in trust	934,512	-	-	-	-	-	-	-	-	-	934,512
Interest bearing intrafund deposits	1,290,163	2,176,416	6,116,709	750,244	977,405	-	-	-	-	(11,310,937)	-
Land, buildings and equipment (net of accumulated depreciation)	27,676,793	-	3,253,730	-	-	-	-	-	10,447,637	-	41,378,160
Total assets	\$ 34,146,538	\$ 4,004,241	\$ 18,917,892	\$ 9,158,480	\$ 857,247	\$ 6,166,515	\$ 6,620,813	\$ 50,176,301	\$ 12,556,000	\$ (25,116,177)	\$ 117,487,850
LIABILITIES AND NET ASSETS											
Liabilities											
Accounts payable	\$ 327,126	\$ 30,619	\$ 335,272	\$ 52,086	\$ 23,891	\$ -	\$ 17,647	\$ 115,230	\$ 16,962	\$ -	\$ 918,833
Pledges payable to parishes and others	-	-	-	-	-	-	1,557,084	-	-	-	1,557,084
Accrued liabilities	3,396,542	806,101	1,326,728	-	6,474,910	-	278,032	119,358	1,564,273	-	13,965,944
Debentures payable	-	-	-	-	-	-	-	18,015,000	-	-	18,015,000
Notes payable	-	-	1,123,846	-	-	-	-	-	13,805,240	(13,805,240)	1,123,846
Deposits payable	-	-	-	-	-	-	-	32,568,409	-	(11,310,937)	21,257,472
Trust assets held for parish	934,512	-	-	-	-	-	-	-	-	-	934,512
Held for parishes and institutions	3,063,797	-	-	-	-	6,166,515	-	-	-	-	9,230,312
Deferred revenue	9,754,519	-	1,079,202	-	-	-	-	-	767,412	-	11,601,133
Due to (from) other funds	(124,039)	(667,956)	125,757	722,485	(56,247)	-	-	-	-	-	-
Total liabilities	17,352,457	168,764	3,990,805	774,571	6,442,554	6,166,515	1,852,763	50,817,997	16,153,887	(25,116,177)	78,604,136
Net assets (deficit)											
Unrestricted											
Undesignated	15,600,943	3,763,090	9,563,236	-	(5,585,307)	-	(244,049)	(641,696)	(4,174,097)	-	18,282,120
Designated	820,619	72,387	1,679,188	1,790,500	-	-	-	-	12,704	-	4,375,398
Funds functioning as											
endowment - cemetery endowment care	-	-	3,684,663	-	-	-	-	-	-	-	3,684,663
Temporarily restricted	372,519	-	-	3,891,573	-	-	5,012,099	-	244,810	-	9,521,001
Permanently restricted	-	-	-	2,701,836	-	-	-	-	318,696	-	3,020,532
Total net assets (deficit)	16,794,081	3,835,477	14,927,087	8,383,909	(5,585,307)	-	4,768,050	(641,696)	(3,597,887)	-	38,883,714
Total liabilities and net assets	\$ 34,146,538	\$ 4,004,241	\$ 18,917,892	\$ 9,158,480	\$ 857,247	\$ 6,166,515	\$ 6,620,813	\$ 50,176,301	\$ 12,556,000	\$ (25,116,177)	\$ 117,487,850

Central Administrative Office of the Roman Catholic Diocese of San Jose
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - ALL FUNDS

Year ended June 30, 2005

	Current Fund	Service Funds	Cemetery Fund	Endowment Fund	Priest			Holy Spirit School	Eliminations	Total
					Retirement Funds	Deposit and Loan Funds	Fundraising Funds			
Revenues										
Gifts, bequests and collections	\$ 467,365	\$ -	\$ -	\$ -	\$ 22,549	\$ -	\$ 5,252,169	\$ 1,101,215	\$ -	\$ 6,843,298
Fees and expense reimbursements	528,500	411,342	-	-	927,537	-	-	-	-	1,867,379
Diocesan assessments	2,632,547	-	-	-	-	-	-	-	-	2,632,547
Education revenues	917,423	-	-	-	-	-	2,874,176	-	-	3,791,599
Rental income	151,358	-	79,474	72,980	-	-	-	-	-	303,812
Investment income	220,967	82,397	299,899	588,146	51,009	(5,387)	-	48,263	(415,083)	870,211
Interest income from loans	-	-	-	-	-	1,229,005	-	-	-	1,229,005
Insurance premiums	-	16,323,531	-	-	-	-	-	-	-	16,323,531
Newspaper income	340,168	-	-	-	-	-	-	-	-	340,168
Cemetery revenues	-	-	5,235,575	-	-	-	-	-	-	5,235,575
Other income	27,037	24,075	-	-	-	-	43,708	-	-	94,820
Total revenues	5,285,365	16,841,345	5,614,948	661,126	1,001,095	1,223,618	5,252,169	4,067,362	(415,083)	39,531,945
Expenses										
Pastoral	3,696,508	-	-	-	-	-	-	-	-	3,696,508
Religious and personnel development	2,212,368	-	-	-	-	-	-	-	-	2,212,368
Education	1,087,729	-	-	-	-	-	2,935,790	-	-	4,023,519
Pension, priest retirement	-	-	-	-	976,800	-	-	-	-	976,800
Administrative	1,814,443	1,002,699	-	(47,553)	-	117,577	-	331,053	-	3,218,219
Depreciation	625,377	2,313	259,694	-	-	-	5,349	424,492	-	1,317,225
Interest expense	81	(5,387)	63,122	-	-	2,440,267	-	-	(415,083)	2,083,000
Insurance premiums and benefits	-	15,512,211	-	-	-	-	-	-	-	15,512,211
Newspaper	450,888	-	-	-	-	-	-	-	-	450,888
Cemetery	-	-	4,460,219	-	-	-	-	-	-	4,460,219
Fundraising	-	-	-	-	-	-	935,498	134,157	-	1,069,655
Total expenses	9,887,394	16,511,836	4,783,035	(47,553)	976,800	2,557,844	940,847	3,825,492	(415,083)	39,020,612
Change in net assets before other gains and cummulative effect of change in accounting	(4,602,029)	329,509	831,913	708,679	24,295	(1,334,226)	4,311,322	241,870	-	511,333
Other gains										
Gain on discontinuing development	46,490	-	-	-	-	-	-	-	-	46,490
Gain on re-allocation of lay pension liability	65,432	5,845	163,987	-	-	-	4,235	583,707	-	823,206
Total other gains	111,922	5,845	163,987	-	-	-	4,235	583,707	-	869,696
Change in net assets before cumulative effect of change for post retirement benefits	(4,490,107)	335,354	995,900	708,679	24,295	(1,334,226)	4,315,557	825,577	-	1,381,029
Cummulative effect of change in accounting for post retirement benefits	-	-	-	-	1,141,000	-	-	-	-	1,141,000
Change in net assets before transfers	(4,490,107)	335,354	995,900	708,679	1,165,295	(1,334,226)	4,315,557	825,577	-	2,522,029
Transfers										
Annual appeal transfer	4,051,000	-	-	-	-	-	(4,051,000)	-	-	-
Annual appeal distribution	45,400	-	-	-	(45,400)	-	-	-	-	-
Other transfers	224,240	-	-	(255,392)	31,152	-	-	-	-	-
Total transfers	4,320,640	-	-	(255,392)	(14,248)	-	(4,051,000)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(169,467)	335,354	995,900	453,287	1,151,047	(1,334,226)	264,557	825,577	-	2,522,029
Net assets (deficit) at beginning of the year	16,794,082	3,835,477	14,927,087	8,383,908	(5,585,307)	(641,696)	4,768,050	(3,597,887)	-	38,883,714
Net assets (deficit) at end of year	\$ 16,624,615	\$ 4,170,831	\$ 15,922,987	\$ 8,837,195	\$ (4,434,260)	\$ (1,975,922)	\$ 5,032,607	\$ (2,772,310)	\$ -	\$ 41,405,743

Central Administrative Office of the Roman Catholic Diocese of San Jose
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - ALL FUNDS

Year ended June 30, 2004

	Current Funds	Service Funds	Cemetery Fund	Endowment Fund	Priest Retirement Fund	Pooled Investment Fund	Deposit and Loan Funds	Fundraising Fund	Holy Spirit School	Eliminations	Total
Revenues											
Gifts, bequests and collections	\$ 393,930	\$ -	\$ -	\$ 20,786	\$ 57,170	\$ -	\$ -	\$ 5,029,354	\$ 484,376	\$ -	\$ 5,985,616
Fees and expense reimbursements	542,490	402,508	-	-	777,434	-	-	-	-	-	1,722,432
Diocesan assessments	2,139,348	-	-	-	-	-	-	-	-	-	2,139,348
Education	982,544	-	-	-	-	-	-	2,450,433	-	-	3,432,977
Rental income	152,262	-	-	68,979	-	-	-	-	-	-	221,241
Investment income	78,489	67,853	311,828	484,828	39,504	-	27,041	-	16,839	(99,114)	927,268
Interest income from loans	-	-	-	-	-	-	2,753,143	-	-	(985,868)	1,767,275
Insurance premiums	-	14,793,823	-	-	-	-	-	-	-	-	14,793,823
Newspaper income	362,018	-	-	-	-	-	-	-	-	-	362,018
Cemetery revenues	-	-	5,777,992	-	-	-	-	-	-	-	5,777,992
Other income	23,166	4,767	-	270	-	-	-	-	20,600	-	48,803
Total revenues	4,674,247	15,268,951	6,089,820	574,863	874,108	-	2,780,184	5,029,354	2,972,248	(1,084,982)	37,178,793
Expenses											
Pastoral	3,367,005	-	-	-	-	-	-	-	-	-	3,367,005
Religious personnel development	1,842,388	-	-	-	-	-	-	-	-	-	1,842,388
Education	1,089,343	-	-	-	-	-	-	-	2,282,731	-	3,372,074
Pension, priest retirement	-	-	-	-	109,830	-	-	-	-	-	109,830
Administrative	1,253,468	488,307	-	17,224	-	-	711,443	119,152	248,723	-	2,838,317
Depreciation expense	595,966	4,384	249,298	-	-	-	-	8,955	418,791	-	1,277,394
Interest expense	9,031	2,531	65,971	114	407	-	2,393,498	-	985,868	(1,084,982)	2,372,438
Insurance premiums and benefits	-	14,537,473	-	-	-	-	-	-	-	-	14,537,473
Newspaper expense	385,153	-	-	-	-	-	-	-	-	-	385,153
Cemetery expense	-	-	4,911,927	-	-	-	-	-	-	-	4,911,927
Fundraising expense	-	-	-	-	-	-	-	1,010,378	205,568	-	1,215,946
Other	-	-	-	-	28,749	-	149	-	-	-	28,898
Total expenses	8,542,354	15,032,695	5,227,196	17,338	138,986	-	3,105,090	1,138,485	4,141,681	(1,084,982)	36,258,843
Cost of discontinuing development	100,433	-	-	-	-	-	-	-	-	-	100,433
Excess (deficiency) of revenues and other additions over expenses and other deductions before transfers	(3,968,540)	236,256	862,624	557,525	735,122	-	(324,906)	3,890,869	(1,169,433)	-	819,517
Transfers											
Annual appeal transfer	3,402,399	-	-	-	-	-	-	(3,402,399)	-	-	-
Annual appeal distribution	60,739	-	-	-	(60,739)	-	-	-	-	-	-
Other	281,623	-	-	13,059	84,262	-	-	(378,943)	-	-	-
Total transfers	3,744,761	-	-	13,059	23,523	-	-	(3,781,342)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(223,779)	236,256	862,624	570,584	758,645	-	(324,906)	109,527	(1,169,433)	-	819,517
Net assets (deficit) at beginning of year	17,017,861	3,599,221	14,064,463	7,813,325	(6,343,952)	-	(316,790)	4,658,523	(2,428,454)	-	38,064,197
Net assets (deficit) at end of year	\$ 16,794,082	\$ 3,835,477	\$ 14,927,087	\$ 8,383,909	\$ (5,585,307)	\$ -	\$ (641,696)	\$ 4,768,050	\$ (3,597,887)	\$ -	\$ 38,883,714

Central Administrative Office of the Roman Catholic Diocese of San Jose

BALANCE SHEETS
CURRENT FUNDS
 June 30,

ASSETS	2005			2004		
	Operating Fund	Newspaper		Operating Fund	Newspaper	
		Fund	Total		Fund	Total
Cash and cash equivalents	\$ 3,853,531	\$ (855,285)	\$ 2,998,246	\$ 3,947,026	\$ (761,044)	\$ 3,185,982
Marketable securities	653,424	-	653,424	337,147	-	337,147
Receivables			-			-
Parishes and institutions	34,434	-	34,434	-	-	-
Pledges	365,780	-	365,780	401,494	-	401,494
Other receivables	218,696	28,748	247,444	3,323	19,413	22,736
Mortgages and notes	-	-	-	277,250	-	277,250
Deposits and prepaid expenses	2,216	-	2,216	20,461	-	20,461
Assets held in trust	915,187	-	915,187	934,512	-	934,512
Land, buildings and equipment	27,234,235	-	27,234,235	27,676,793	-	27,676,793
Interest bearing intrafund deposits	1,332,204	-	1,332,204	1,290,163	-	1,290,163
Total assets	<u>\$ 34,609,707</u>	<u>\$ (826,537)</u>	<u>\$ 33,783,170</u>	<u>\$ 34,888,169</u>	<u>\$ (741,631)</u>	<u>\$ 34,146,538</u>
LIABILITIES AND NET ASSETS (DEFICIT)						
Accounts payable	\$ 496,725	\$ 3,954	\$ 500,679	323,268	3,858	327,126
Accrued liabilities	3,212,047	234,035	3,446,082	3,190,978	205,564	3,396,542
Trust assets held for parish	915,187	-	915,187	934,512	-	934,512
Held for parishes and institutions	3,060,247	-	3,060,247	3,063,797	-	3,063,797
Deferred revenue	9,610,011	-	9,610,011	9,754,519	-	9,754,519
Due to (from) other funds	(898,059)	524,407	(373,652)	(648,446)	524,407	(124,039)
Total liabilities	16,396,158	762,397	17,158,555	16,618,628	733,829	17,352,457
Net assets (deficit)						
Unrestricted						
Undesignated	17,061,195	(1,588,934)	15,472,261	17,076,403	(1,475,460)	15,600,943
Designated	780,315	-	780,315	820,619	-	820,619
Temporarily restricted	372,039	-	372,039	372,519	-	372,519
Total net assets (deficit)	<u>18,213,549</u>	<u>(1,588,934)</u>	<u>16,624,615</u>	<u>18,269,541</u>	<u>(1,475,460)</u>	<u>16,794,081</u>
Total liabilities and net assets (deficit)	<u>\$ 34,609,707</u>	<u>\$ (826,537)</u>	<u>\$ 33,783,170</u>	<u>\$ 34,888,169</u>	<u>\$ (741,631)</u>	<u>\$ 34,146,538</u>

Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
CURRENT FUND
Year ended June 30,

	2005			2004		
	Newspaper		Total	Operating	Newspaper	
	Operating Fund	Fund		Fund	Fund	Total
Revenues						
Gifts, bequests and collections	\$ 467,365	\$ -	\$ 467,365	\$ 393,930	\$ -	\$ 393,930
Fees and expense reimbursements	528,500	-	528,500	542,490	-	542,490
Diocesan assessments	2,632,547	-	2,632,547	2,139,348	-	2,139,348
Education revenues	917,423	-	917,423	982,544	-	982,544
Rental income	151,358	-	151,358	152,262	-	152,262
Investment income	220,967	-	220,967	78,489	-	78,489
Newspaper income	-	340,168	340,168	-	362,018	362,018
Other income	26,829	208	27,037	22,883	283	23,166
Total revenues	4,944,989	340,376	5,285,365	4,311,946	362,301	4,674,247
Expenses						
Pastoral	3,696,508	-	3,696,508	3,367,005	-	3,367,005
Religious and personnel development	2,212,368	-	2,212,368	1,842,388	-	1,842,388
Education	1,087,729	-	1,087,729	1,089,343	-	1,089,343
Administrative	1,814,443	-	1,814,443	1,253,468	-	1,253,468
Depreciation	616,913	8,464	625,377	587,640	8,326	595,966
Interest expense	81	-	81	9,031	-	9,031
Newspaper	-	450,888	450,888	-	385,153	385,153
Total expenses	9,428,042	459,352	9,887,394	8,148,875	393,479	8,542,354
Change in net assets before other gains (losses)	(4,483,053)	(118,976)	(4,602,029)	(3,836,929)	(31,178)	(3,868,107)
Other gains (losses)						
Gain (loss) on discontinuing development	46,490	-	46,490	(100,433)	-	(100,433)
Gain on re-allocation of lay pension liability	59,930	5,502	65,432	-	-	-
Total other gains (losses)	106,420	5,502	111,922	(100,433)	-	(100,433)
Change in net assets before transfers	(4,376,633)	(113,474)	(4,490,107)	(3,937,362)	(31,178)	(3,968,540)
Transfers						
Annual appeal transfer	4,051,000	-	4,051,000	3,402,399	-	3,402,399
Annual appeal distribution	45,400	-	45,400	56,739	-	56,739
Other transfers	224,240	-	224,240	285,622	-	285,622
Total transfers	4,320,640	-	4,320,640	3,744,760	-	3,744,760
DECREASE IN NET ASSETS	(55,993)	(113,474)	(169,467)	(192,602)	(31,178)	(223,780)
Net assets (deficit) at beginning of the year	18,269,542	(1,475,460)	16,794,082	18,462,144	(1,444,282)	17,017,862
Net assets (deficit) at end of year	\$ 18,213,549	\$ (1,588,934)	\$ 16,624,615	\$ 18,269,542	\$ (1,475,460)	\$ 16,794,082

Central Administrative Office of the Roman Catholic Diocese of San Jose

BALANCE SHEETS
SERVICE FUNDS

June 30,

ASSETS	2005				2004			
	Payroll Fund	Benefit Fund	Comprehensive Insurance Fund	Total	Payroll Fund	Benefit Fund	Comprehensive Insurance Fund	Total
Cash and cash equivalents	\$ (190,968)	\$ 997,973	\$ (135,994)	\$ 671,012	\$ (284,886)	\$ 836,742	\$ (460,889)	\$ 90,967
Receivables								
Parishes and institutions (net of allowance for doubtful accounts of \$227,067 in 2005 and \$0 in 2004)	419,192	135,560	85,399	640,151	651,949	52,328	43,013	747,290
Other receivables	-	2	-	2	-	-	-	-
Deposits and prepaid expenses	-	-	546,248	546,248	(996)	-	990,564	989,568
Interest bearing intrafund deposits	-	1,343,327	920,873	2,264,200	-	1,293,243	883,173	2,176,416
Total assets	<u>\$ 228,224</u>	<u>\$ 2,476,862</u>	<u>\$ 1,416,526</u>	<u>\$ 4,121,612</u>	<u>\$ 366,067</u>	<u>\$ 2,182,313</u>	<u>\$ 1,455,861</u>	<u>\$ 4,004,241</u>
LIABILITIES AND NET ASSETS								
Accounts payable	\$ 7,375	\$ 4,620	\$ 19,650	\$ 31,645	\$ -	\$ 7,460	\$ 23,159	\$ 30,619
Accrued liabilities	59,502	181,848	345,742	587,092	53,128	187,677	565,296	806,101
Due to (from) other funds	-	(667,956)	-	(667,956)	-	(667,956)	-	(667,956)
Total liabilities	66,877	(481,488)	365,392	(49,219)	53,128	(472,819)	588,455	168,764
Net assets								
Unrestricted								
Undesignated	161,347	2,958,350	1,051,134	4,170,831	312,939	2,582,745	867,406	3,763,090
Designated	-	-	-	-	-	72,387	-	72,387
Total net assets	<u>161,347</u>	<u>2,958,350</u>	<u>1,051,134</u>	<u>4,170,831</u>	<u>312,939</u>	<u>2,655,132</u>	<u>867,406</u>	<u>3,835,477</u>
Total liabilities and net assets	<u>\$ 228,224</u>	<u>\$ 2,476,862</u>	<u>\$ 1,416,526</u>	<u>\$ 4,121,612</u>	<u>\$ 366,067</u>	<u>\$ 2,182,313</u>	<u>\$ 1,455,861</u>	<u>\$ 4,004,241</u>

Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
SERVICE FUNDS
Year ended June 30,

	2005				2004			
	Payroll Fund	Benefit Fund	Comprehensive Insurance Fund	Total	Payroll Fund	Benefit Fund	Comprehensive Insurance Fund	Total
Revenues								
Fees and expense reimbursements	\$ 411,342	\$ -	\$ -	\$ 411,342	\$ 402,508	\$ -	\$ -	\$ 402,508
Investment income	-	50,084	32,313	82,397	770	38,102	28,981	67,853
Insurance premiums	-	11,208,017	5,115,514	16,323,531	-	10,340,975	4,452,848	14,793,823
Other income	-	2,520	21,555	24,075	-	-	4,767	4,767
Total revenues	411,342	11,260,621	5,169,382	16,841,345	403,278	10,379,077	4,486,596	15,268,951
Expenses								
Administrative	336,079	89,790	576,830	1,002,699	250,097	(82,365)	320,575	488,307
Depreciation	1,133	645	535	2,313	1,540	1,147	1,697	4,384
Interest expense	-	-	(5,387)	(5,387)	-	2,531	-	2,531
Insurance premiums and benefits	226,945	10,868,162	4,417,104	15,512,211	215,517	10,265,485	4,056,471	14,537,473
Total expenses	564,157	10,958,597	4,989,082	16,511,836	467,154	10,186,798	4,378,743	15,032,695
Change in net assets before other gains	(152,815)	302,024	180,300	329,509	(63,876)	192,279	107,853	236,256
Other gains								
Gain on re-allocation of lay pension liability	1,223	1,194	3,428	5,845	-	-	-	-
Total other gains	1,223	1,194	3,428	5,845	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(151,592)	303,218	183,728	335,354	(63,876)	192,279	107,853	236,256
Net assets at beginning of the year	312,939	2,655,132	867,406	3,835,477	376,815	2,462,853	759,553	3,599,221
Net assets at end of year	\$ 161,347	\$ 2,958,350	\$ 1,051,134	\$ 4,170,831	\$ 312,939	\$ 2,655,132	\$ 867,406	\$ 3,835,477

Central Administrative Office of the Roman Catholic Diocese of San Jose

BALANCE SHEETS
PRIEST RETIREMENT FUNDS
 June 30,

ASSETS	2005				2004			
	Priest Retirement Fund	Supplemental Plan Fund	Post Retirement Fund	Total	Priest Retirement Fund	Supplemental Plan Fund	Post Retirement Fund	Total
Cash and cash equivalents	\$ (197,889)	\$ (48,602)	\$ (219,474)	\$ (465,965)	\$ (88,715)	\$ 141,300	\$ (172,743)	\$ (120,158)
Receivables								
Parishes and institutions (net of allowance for doubtful accounts of \$12,293 in 2005 and \$0 in 2004)	17,617	-	-	17,617	-	-	-	-
Interest bearing intrafund deposits	-	-	1,237,415	1,237,415	-	-	977,405	977,405
Total assets	<u>\$ (180,272)</u>	<u>\$ (48,602)</u>	<u>\$ 1,017,941</u>	<u>\$ 789,067</u>	<u>\$ (88,715)</u>	<u>\$ 141,300</u>	<u>\$ 804,662</u>	<u>\$ 857,247</u>
LIABILITIES AND NET DEFICIT								
Accounts payable	\$ 6,869	\$ -	\$ 587	\$ 7,456	\$ 21,930	\$ -	\$ 1,961	\$ 23,891
Accrued liabilities	2,988,561	1,121,710	1,193,000	5,303,271	3,031,941	1,401,969	2,041,000	6,474,910
Due to (from) other funds	(87,400)	-	-	(87,400)	(56,247)	-	-	(56,247)
Total liabilities	2,908,030	1,121,710	1,193,587	5,223,327	2,997,624	1,401,969	2,042,961	6,442,554
Net deficit								
Unrestricted								
Undesignated	(3,088,302)	(1,170,312)	(175,646)	(4,434,260)	(3,086,339)	(1,260,669)	(1,238,299)	(5,585,307)
Total net deficit	(3,088,302)	(1,170,312)	(175,646)	(4,434,260)	(3,086,339)	(1,260,669)	(1,238,299)	(5,585,307)
Total liabilities and net deficit	<u>\$ (180,272)</u>	<u>\$ (48,602)</u>	<u>\$ 1,017,941</u>	<u>\$ 789,067</u>	<u>\$ (88,715)</u>	<u>\$ 141,300</u>	<u>\$ 804,662</u>	<u>\$ 857,247</u>

Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PRIEST RETIREMENT FUNDS
Year ended June 30,

	2005				2004			
	Priest Retirement	Supplemental Plan Fund	Post Retirement	Total	Priest Retirement	Supplemental Plan Fund	Post Retirement	Total
Revenues								
Gifts, bequests and collections	\$ 15,014	\$ 7,535	\$ -	\$ 22,549	\$ 51,170	\$ 6,000	\$ -	\$ 57,170
Fees and expense reimbursements	927,196	341	-	927,537	777,264	170	-	777,434
Investment income	-	-	51,009	51,009	1,852	81	37,571	39,504
Total revenues	<u>942,210</u>	<u>7,876</u>	<u>51,009</u>	<u>1,001,095</u>	<u>830,286</u>	<u>6,251</u>	<u>37,571</u>	<u>874,108</u>
Expenses								
Pension, priest retirement	471,925	126,519	378,356	976,800	(414,574)	302,625	221,779	109,830
Interest expense	-	-	-	-	390	17	-	407
Other	-	-	-	-	25,680	3,069	-	28,749
Total expenses	<u>471,925</u>	<u>126,519</u>	<u>378,356</u>	<u>976,800</u>	<u>(388,504)</u>	<u>305,711</u>	<u>221,779</u>	<u>138,986</u>
Change in net assets before cumulative effect of change for post retirement benefits	470,285	(118,643)	(327,347)	24,295	1,218,790	(299,460)	(184,208)	735,122
Cumulative effect of change in accounting for post retirement benefits	-	-	1,141,000	1,141,000	-	-	-	-
Change in net assets before transfers	<u>470,285</u>	<u>(118,643)</u>	<u>813,653</u>	<u>1,165,295</u>	<u>1,218,790</u>	<u>(299,460)</u>	<u>(184,208)</u>	<u>735,122</u>
Transfers								
Annual appeal distribution	(55,400)	-	10,000	(45,400)	(60,739)	4,000	-	(56,739)
Other transfers	(416,848)	209,000	239,000	31,152	(246,838)	120,000	207,100	80,262
Total transfers	<u>(472,248)</u>	<u>209,000</u>	<u>249,000</u>	<u>(14,248)</u>	<u>(307,577)</u>	<u>124,000</u>	<u>207,100</u>	<u>23,523</u>
INCREASE (DECREASE) IN NET ASSETS	(1,963)	90,357	1,062,653	1,151,047	911,213	(175,460)	22,892	758,645
Net deficit at beginning of the year	<u>(3,086,339)</u>	<u>(1,260,669)</u>	<u>(1,238,299)</u>	<u>(5,585,307)</u>	<u>(3,997,552)</u>	<u>(1,085,209)</u>	<u>(1,261,191)</u>	<u>(6,343,952)</u>
Net deficit at end of year	<u>\$ (3,088,302)</u>	<u>\$ (1,170,312)</u>	<u>\$ (175,646)</u>	<u>\$ (4,434,260)</u>	<u>\$ (3,086,339)</u>	<u>\$ (1,260,669)</u>	<u>\$ (1,238,299)</u>	<u>\$ (5,585,307)</u>

Central Administrative Office of the Roman Catholic Diocese of San Jose

BALANCE SHEETS
FUNDRAISING FUNDS
June 30,

ASSETS	2005			2004		
	Annual Appeal Fund	Fundraising Fund	Total	Annual Appeal Fund	Fundraising Fund	Total
Cash and cash equivalents	\$ 5,365,741	\$ 80,578	\$ 5,446,319	\$ 5,059,814	\$ (14,280)	\$ 5,045,534
Receivables						
Pledges (net of allowance for doubtful accounts of \$5,000 in 2005 and \$35,000 in 2004)	1,536,038	-	1,536,038	1,575,959	-	1,575,959
Other receivables	-	-	-	-	(680)	(680)
Interest bearing intrafund deposits	-	10,000	10,000	-	-	-
Total assets	\$ 6,901,779	\$ 90,578	\$ 6,992,357	\$ 6,635,773	\$ (14,960)	\$ 6,620,813
LIABILITIES AND NET ASSETS (DEFICIT)						
Accounts payable	\$ 6,222	\$ 18,319	\$ 24,541	\$ 12,486	\$ 5,161	\$ 17,647
Pledges payable to parishes and others	1,548,079	-	1,548,079	1,557,084	-	1,557,084
Accrued liabilities	73,802	313,328	387,130	54,103	223,929	278,032
Held for parishes and institutions	-	-	-	1	(1)	-
Total liabilities	1,628,103	331,647	1,959,750	1,623,674	229,089	1,852,763
Net assets (deficit)						
Unrestricted						
Undesignated	-	(241,069)	(241,069)	-	(244,049)	(244,049)
Temporarily restricted	5,273,676	-	5,273,676	5,012,099	-	5,012,099
Total net assets (deficit)	5,273,676	(241,069)	5,032,607	5,012,099	(244,049)	4,768,050
Total liabilities and net assets (deficit)	\$ 6,901,779	\$ 90,578	\$ 6,992,357	\$ 6,635,773	\$ (14,960)	\$ 6,620,813

Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FUNDRAISING FUNDS
Year ended June 30,

	2005			2004			
	Fundraising Fund	Annual Appeal Fund	Total	Fundraising Fund	Campaign Fund	Annual Appeal Fund	Total
Revenues							
Gifts, bequests and collections	\$ 193,430	\$ 5,058,739	\$ 5,252,169	\$ 135,296	\$ -	\$ 4,894,058	\$ 5,029,354
Total revenues	193,430	5,058,739	5,252,169	135,296	-	4,894,058	5,029,354
Expenses							
Administrative	-	-	-	-	158,693	(39,541)	119,152
Depreciation	787	4,562	5,349	8,955	-	-	8,955
Fundraising	428,215	507,283	935,498	568,210	-	442,168	1,010,378
Total expenses	429,002	511,845	940,847	577,165	158,693	402,627	1,138,485
Change in net assets before other gains (losses)	(235,572)	4,546,894	4,311,322	(441,869)	(158,693)	4,491,431	3,890,869
Other gains							
Gain on re-allocation of lay pension liability	552	3,683	4,235	-	-	-	-
Total other gains	552	3,683	4,235	-	-	-	-
Change in net assets before transfers	(235,020)	4,550,577	4,315,557	(441,869)	(158,693)	4,491,431	3,890,869
Transfers							
Annual appeal transfer	-	(4,051,000)	(4,051,000)	-	-	(3,402,399)	(3,402,399)
Annual appeal distribution	238,000	(238,000)	-	366,667	-	(366,667)	-
Other	-	-	-	(14,600)	(364,343)	-	(378,943)
Total transfers	238,000	(4,289,000)	(4,051,000)	352,067	(364,343)	(3,769,066)	(3,781,342)
NET INCREASE (DECREASE) IN NET ASSETS	2,980	261,577	264,557	(89,802)	(523,036)	722,365	109,527
Net assets (deficit) at beginning of the year	(244,049)	5,012,099	4,768,050	(154,247)	523,036	4,289,734	4,658,523
Net assets (deficit) at end of year	<u>\$ (241,069)</u>	<u>\$ 5,273,676</u>	<u>\$ 5,032,607</u>	<u>\$ (244,049)</u>	<u>\$ -</u>	<u>\$ 5,012,099</u>	<u>\$ 4,768,050</u>

Central Administrative Office of the Roman Catholic Diocese of San Jose

BALANCE SHEETS
DEPOSIT AND LOAN FUNDS
June 30,

ASSETS	2005			2004		
	Loan and Deposit Fund	Employee Loan Fund	Total	Loan and Deposit Fund	Employee Loan Fund	Total
Cash and cash equivalents	\$ 4,846,994	\$ 224,506	\$ 5,071,500	\$ 487,992	\$ 189,576	\$ 677,568
Receivables						
Other receivables (net of allowance for doubtful accounts of \$221,442 in 2005 and \$189,312 in 2004)	-	352,438	352,438	-	406,345	406,345
Loans receivable from parishes and institutions (net of allowance for doubtful accounts of \$2,134,670 in 2005 and \$2,128,200 in 2004)	45,924,842	-	45,924,842	48,324,955	-	48,324,955
Bond issue costs (net of accumulated amortization of \$277,936 in 2005 and \$228,157 in 2004)	717,654	-	717,654	767,433	-	767,433
Total assets	\$ 51,489,490	\$ 576,944	\$ 52,066,434	\$ 49,580,380	\$ 595,921	\$ 50,176,301
LIABILITIES AND NET ASSETS (DEFICIT)						
Accounts payable	\$ 350,757	\$ 2,731	\$ 353,488	\$ 115,230	\$ -	\$ 115,230
Accrued liabilities	115,521	-	115,521	119,358	-	119,358
Deposits payable	36,193,347	-	36,193,347	32,568,409	-	32,568,409
Notes payable	17,380,000	-	17,380,000	18,015,000	-	18,015,000
Total liabilities	54,039,625	2,731	54,042,356	50,817,997	-	50,817,997
Net assets (deficit)						
Unrestricted						
Undesignated	(2,550,135)	574,213	(1,975,922)	(1,237,617)	595,921	(641,696)
Total net assets (deficit)	(2,550,135)	574,213	(1,975,922)	(1,237,617)	595,921	(641,696)
Total liabilities and net assets (deficit)	\$ 51,489,490	\$ 576,944	\$ 52,066,434	\$ 49,580,380	\$ 595,921	\$ 50,176,301

Central Administrative Office of the Roman Catholic Diocese of San Jose

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
DEPOSIT AND LOAN FUNDS

Year ended June 30,

	2005			2004		
	Deposit and Loan Fund	Employee Loan Fund	Total	Deposit and Loan Fund	Employee Loan Fund	Total
Revenues						
Investment income	\$ (5,387)	\$ -	\$ (5,387)	\$ 574	\$ 26,467	\$ 27,041
Interest income from loans	1,207,197	21,808	1,229,005	2,753,143	-	2,753,143
Total revenues	1,201,810	21,808	1,223,618	2,753,717	26,467	2,780,184
Expenses						
Administrative	74,061	43,516	117,577	711,443	-	711,443
Interest expense	2,440,267	-	2,440,267	2,393,498	-	2,393,498
Fundraising	-	-	-	-	149	149
Total expenses	2,514,328	43,516	2,557,844	3,104,941	149	3,105,090
NET INCREASE (DECREASE) IN NET ASSETS	(1,312,518)	(21,708)	(1,334,226)	(351,224)	26,318	(324,906)
Net assets (deficit) at beginning of the year	(1,237,617)	595,921	(641,696)	(886,393)	569,603	(316,790)
Net assets (deficit) at end of year	\$ (2,550,135)	\$ 574,213	\$ (1,975,922)	\$ (1,237,617)	\$ 595,921	\$ (641,696)