



Office of Financial Services

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**Diocese of Erie**

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May 25, 2011

Dear Fellow Members of the Church of Erie:

In a spirit of accountability and transparency, I am pleased to share with you the annual financial statements of the Central Administrative Offices of the Roman Catholic Diocese of Erie. These statements for 2010 have been audited by our certified public accountants and, as specified by Canon Law, have already been presented to the Diocesan Finance Council. The statements include only those activities and programs which are provided through the Central Administrative Offices of the Diocese. They do not include the separate activities of parishes, schools, cemeteries, or other legal entities such as Catholic Charities or The Catholic Foundation.

Once again, the largest source of revenue for supporting our ongoing operations and programs was the Catholic Services Appeal which brought in \$3.7 million for this purpose. (Parishes also realized approximately \$2 million from the Appeal for their own projects.) The revenues from property/casualty and group health insurance premiums are greater in total amount but they are earmarked solely for those programs.

Excluding the insurance programs, expenditures for Catholic Education—including both operating subsidies and tuition assistance—represented the largest expense category. This was followed by Clergy Services expenses which include the funding of the Priests' Retirement Plan and medical insurance and care for retired clergy. Allocations to Catholic Charities agencies—including Catholic Charities Counseling and Adoption Services, St. Martin Center, Prince of Peace Center, and other charitable programs—are another significant ongoing commitment.

The expenses of all ministries and programs falling under the Central Administrative Offices of the Diocese are monitored on a continuing basis and compared with the amounts included in the annual operating budget which has been approved by the Diocesan Finance Council.

As evidenced by the similarity in the total amounts of both support and revenue and expenses, the financial operations of the Central Administrative Offices have been relatively stable over the past two years. For the 2010 calendar year, the "bottom line" indicated that there was an increase of \$2.4 million in net assets bringing that amount to a total of \$23.7 million. While this increase is less than the \$4.1 million reported for the prior year, our investment portfolios, which are comprised primarily of various endowments, represent over eighty percent of total assets. Consequently, the year-to-year change in net assets is

significantly impacted by the return on those investments. The Diocesan Investment Committee, assisted by an independent consultant, meets quarterly to review overall investment strategy as well the performance of the individual managers which the Diocese has engaged for its various asset categories.

Investment return had a similar positive influence on the growth in total assets as reported on the comparative Statement of Financial Position for the past two years. On the liability side, there were noteworthy decreases in outstanding liabilities for both property/casualty and group health insurance claims.

The services and ministries offered through the Central Administrative Offices could not continue without your generous support at the parish level. I am hopeful that the financial statements and these comments may give you a better understanding of how the funds entrusted to the Diocese are being utilized to further the works of the Church. We in the Office of Financial Services are certainly available to respond to any questions which may arise as a result of your review of the statements.

Very truly yours,

A handwritten signature in black ink, reading "David J. Murphy". The signature is written in a cursive style with a large, prominent initial "D".

David J. Murphy  
Chief Financial Officer

**Roman Catholic Diocese of Erie**  
**Central Administrative Offices**

*Financial Statements*

December 31, 2010

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Financial Statements**  
**December 31, 2010**  
**Table of Contents**

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 26
Independent Auditors' Report on the Supplementary Information	27
Supplementary Information	
Schedules of Pastoral Expenses	28
Schedules of Clergy Expenses	28
Schedules of Vocation Expenses	28
Schedules of Educational Expenses	29
Schedules of Evangelization Expenses	29
Schedules of Catholic Charities Expenses	30
Schedules of Financial Services Expenses	30
Schedules of Facilities Management Expenses	30
Schedules of Other Expenses	31



Malin, Bergquist & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report

Most Reverend Donald W. Trautman, STD, SSL  
Bishop of the Roman Catholic Diocese of Erie

We have audited the accompanying statement of financial position of the Central Administrative Offices of the Roman Catholic Diocese of Erie (Diocese) as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Diocesan management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Offices of the Roman Catholic Diocese of Erie at December 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Summarized comparative information is presented as of December 31, 2009 and for the year then ended. This information is presented for comparative purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. The comparative information was extracted from the audited 2009 financial statements, on which we expressed an unqualified opinion dated March 23, 2010.

*Malin, Bergquist & Company, LLP*

Erie, Pennsylvania  
March 25, 2011

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Statements of Financial Position**  
**As of December 31, 2010**  
**(With Comparative Amounts for 2009)**

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents (Note 1)	\$ 6,034,919	\$ 8,864,064
Receivables, net (Notes 1 and 2)	3,750,886	3,741,886
Investments at fair value (Note 3)	38,590,711	32,847,102
Investments held for related affiliates (Note 10)	12,246,881	10,846,867
Prepaid insurance and other expenses	581,371	712,260
Property and equipment (Note 1)	<u>986,354</u>	<u>1,075,654</u>
<b>Total assets</b>	<b>\$ <u>62,191,122</u></b>	<b>\$ <u>58,087,833</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses	\$ 1,590,580	\$ 1,150,915
Insurance claims payable and accrued (Note 1)	758,945	1,473,105
Pension and postretirement benefits liability (Note 5)	10,304,820	10,108,130
Deposits - Parish Deposit and Loan Fund (Note 1)	11,825,224	11,459,014
Unearned revenues (Note 1)	1,092,270	1,080,856
Funds held for others	699,551	715,409
Funds held for related affiliates (Note 10)	<u>12,246,881</u>	<u>10,846,867</u>
<b>Total liabilities</b>	<b><u>38,518,271</u></b>	<b><u>36,834,296</u></b>
Net assets:		
Unrestricted (Note 1)		
Operations and program support	4,635,120	4,676,451
Designated	5,725,460	5,062,599
Priests' retirement designated deficiency	(11,583,210)	(11,297,710)
Funds functioning as endowments	10,699,532	9,777,608
Deposit and Loan Fund	<u>1,832,204</u>	<u>1,196,190</u>
<b>Total unrestricted net assets</b>	<b>11,309,106</b>	<b>9,415,138</b>
Temporarily restricted (Note 1)	6,752,584	6,591,009
Permanently restricted (Note 1)	<u>5,611,161</u>	<u>5,247,390</u>
<b>Total net assets</b>	<b><u>23,672,851</u></b>	<b><u>21,253,537</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>62,191,122</u></b>	<b>\$ <u>58,087,833</u></b>

*The accompanying notes are an integral part of these financial statements.*

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Statements of Activities**  
**Year Ended December 31, 2010**  
**(With Comparative Totals for 2009)**

	<b>Unrestricted</b>							<b>Totals 2010</b>	<b>Totals 2009</b>
	<b>Operations and Program Support</b>	<b>Designated</b>	<b>Funds Functioning as Endowments</b>	<b>Deposit and Loan Funds</b>	<b>Total Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>		
<b>Support and Revenue</b>									
Diocesan appeal	\$ 3,689,420	\$ -	\$ -	\$ -	\$ 3,689,420	\$ -	\$ -	\$ 3,689,420	\$ 3,690,597
Diocesan assessments	1,565,500	1,883,084	-	-	3,448,584	-	-	3,448,584	3,440,560
Insurance programs revenue	-	7,351,137	-	-	7,351,137	-	-	7,351,137	7,068,332
Program service fees	190,000	340,566	-	-	530,566	-	-	530,566	565,848
Department revenues	786,607	65,731	-	-	852,338	-	-	852,338	777,749
Investment income (Note 3)	920	105,951	228,643	307,414	642,928	289,806	-	932,734	932,579
Contributions and bequests	12,880	29,293	134,946	-	177,119	520,625	334	698,078	1,556,412
Government reimbursements	47,290	-	-	-	47,290	-	-	47,290	45,054
Contributed services (Note 1)	171,468	-	-	-	171,468	-	-	171,468	272,868
Other revenue	22,721	39	1,873	490	25,123	2,283	-	27,406	29,527
<b>Total support and revenue</b>	<b>6,486,806</b>	<b>9,775,801</b>	<b>365,462</b>	<b>307,904</b>	<b>16,935,973</b>	<b>812,714</b>	<b>334</b>	<b>17,749,021</b>	<b>18,379,526</b>

*The accompanying notes are an integral part of these financial statements.*

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Statements of Activities (Continued)**  
**Year Ended December 31, 2010**  
**(With Comparative Totals for 2009)**

	<b>Unrestricted</b>				<b>Total Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Totals 2010</b>	<b>Totals 2009</b>
	<b>Operations and Program Support</b>	<b>Designated</b>	<b>Funds Functioning as Endowments</b>	<b>Deposit and Loan Funds</b>					
Net assets released resulting from satisfaction of donor and program restrictions	1,391,484	90,000	(154,790)	-	1,326,694	(1,326,694)	-	-	-
<b>Total support and revenue</b>	<b>7,878,290</b>	<b>9,865,801</b>	<b>210,672</b>	<b>307,904</b>	<b>18,262,667</b>	<b>(513,980)</b>	<b>334</b>	<b>17,749,021</b>	<b>18,379,526</b>
<b>Expenses</b>									
Pastoral services	831,187	-	-	-	831,187	-	-	831,187	914,187
Clergy services	512,717	1,148,546	-	-	1,661,263	-	-	1,661,263	1,482,840
Vocation	608,954	-	-	-	608,954	-	-	608,954	730,553
Educational services	1,418,158	1,030,885	398,698	-	2,847,741	-	-	2,847,741	3,015,238
Evangelization	482,383	288,128	-	-	770,511	-	-	770,511	850,338
Catholic charities	1,425,262	10,000	-	-	1,435,262	-	-	1,435,262	1,441,845
Tribunal office	346,359	-	-	-	346,359	-	-	346,359	344,612
The Catholic Foundation	209,538	-	-	-	209,538	-	-	209,538	208,520
Financial services	808,871	-	-	-	808,871	-	-	808,871	811,846
Facilities management	720,961	-	-	-	720,961	-	-	720,961	621,604
Fundraising and appeal costs (Note 1)	87,688	-	-	-	87,688	-	-	87,688	74,120
Insurance programs	-	7,333,541	-	-	7,333,541	-	-	7,333,541	7,358,848
Interest expense	-	870	7,440	169,125	177,435	-	-	177,435	277,592
Other expenses	181,555	(27,019)	19,046	3,120	176,702	-	-	176,702	140,362
<b>Total expenses</b>	<b>7,633,633</b>	<b>9,784,951</b>	<b>425,184</b>	<b>172,245</b>	<b>18,016,013</b>	<b>-</b>	<b>-</b>	<b>18,016,013</b>	<b>18,272,505</b>

*The accompanying notes are an integral part of these financial statements.*

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Statements of Activities (Continued)**  
**Year Ended December 31, 2010**  
**(With Comparative Totals for 2009)**

	<u>Unrestricted</u>			Total Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2010	Totals 2009	
	Operations and Program Support	Designated	Funds Functioning as Endowments						Deposit and Loan Funds
Changes in net assets before investment gain	244,657	80,850	(214,512)	135,659	246,654	(513,980)	334	(266,992)	107,021
Non-operating items:									
Net realized/unrealized gains (losses)	<u>(4,254)</u>	<u>119,217</u>	<u>972,314</u>	<u>600,355</u>	<u>1,687,632</u>	<u>675,555</u>	<u>363,437</u>	<u>2,726,624</u>	<u>4,346,597</u>
<b>Total change in net assets</b>	240,403	200,067	757,802	736,014	1,934,286	161,575	363,771	2,459,632	4,453,618
Change in net unrecognized pension costs (Note 5)	-	(40,318)	-	-	(40,318)	-	-	(40,318)	(343,767)
Transfers	(281,734)	217,612	164,122	(100,000)	-	-	-	-	-
Net assets at beginning of year	<u>4,676,451</u>	<u>(6,235,111)</u>	<u>9,777,608</u>	<u>1,196,190</u>	<u>9,415,138</u>	<u>6,591,009</u>	<u>5,247,390</u>	<u>21,253,537</u>	<u>17,143,686</u>
Net assets at end of year	<u>\$ 4,635,120</u>	<u>\$ (5,857,750)</u>	<u>\$ 10,699,532</u>	<u>\$ 1,832,204</u>	<u>\$ 11,309,106</u>	<u>\$ 6,752,584</u>	<u>\$ 5,611,161</u>	<u>\$ 23,672,851</u>	<u>\$ 21,253,537</u>

*The accompanying notes are an integral part of these financial statements.*

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010**  
**(With Comparative Amounts for 2009)**

	<b>2010</b>	<b>2009</b>
<b><u>Cash Flows From Operating Activities</u></b>		
Change in net assets	\$ 2,459,632	\$ 4,453,618
Depreciation expense	115,025	116,088
Donated securities	-	(216,168)
Realized (gains) losses on investments	(244,273)	1,195,606
Unrealized gain on investments	(2,482,351)	(5,542,203)
(Increase) decrease in:		
Receivables (other than Deposit and Loan Fund)	100,972	(39,413)
Prepaid insurance and other expenses	130,889	(80,943)
Increase (decrease) in:		
Accounts payable and accrued expenses, including		
insurance claims	(274,495)	(119,498)
Unearned revenues	11,414	9,713
Change in pension liability, net of adjustment for change in net unrecognized pension costs	156,372	132,405
	<b>(26,815)</b>	<b>(90,795)</b>
<b><u>Cash Flows From Investing Activities</u></b>		
Sale of debt securities	10,079,067	14,796,280
Purchase of debt securities	(10,934,689)	(13,456,996)
Sale of equity securities	14,472,783	9,249,415
Purchase of equity securities	(16,662,241)	(10,202,492)
Purchase of property and equipment	(25,725)	(35,095)
	<b>(3,070,805)</b>	<b>351,112</b>
<b><u>Cash Flows From Financing Activities</u></b>		
Deposit and loan - deposits made	1,737,834	1,563,986
Deposit and loan - deposits withdrawn	(1,371,624)	(2,145,146)
Deposit and loan - loans made	(731,537)	(854,535)
Deposit and loan - principal repayments	621,565	683,517
Special collections and funds held	4,537,429	3,873,106
Net additions (withdrawals) from investments held for others	28,095	(284,767)
Funds held and special collections disbursed	(4,553,287)	(3,920,493)
	<b>268,475</b>	<b>(1,084,332)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,829,145)</b>	<b>(824,015)</b>
Cash and cash equivalents at beginning of year	8,864,064	9,688,079
Cash and cash equivalents at end of year	\$ 6,034,919	\$ 8,864,064

**Supplemental Cash Flow Information**

Cash paid for interest payments on deposits and annuities equaled \$45,009 in 2010 and \$56,303 in 2009.

*The accompanying notes are an integral part of these financial statements.*

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

1. **Significant Accounting Policies**

**Nature of Operations**

The financial statements of the Central Administrative Offices (CAO) of the Roman Catholic Diocese of Erie (Diocese) have been prepared in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements include accounts maintained by, and directly under, the administration of the Central Administrative Offices of the Roman Catholic Diocese of Erie. The CAO includes the Bishop's office and staff who oversee the parishes, schools and other entities of the Diocese. The Diocese encompasses thirteen counties in Northwest Pennsylvania. The statements do not include the separate activities of the Diocesan parishes, schools, cemeteries, service agencies, nursing homes, Catholic Charities of the Diocese of Erie, Inc., the Catholic Foundation of the Diocese of Erie, or any institution owned and operated by religious orders of men or women. The aforementioned activities are distinct operating entities, maintain separate accounts, and carry on their own services and programs.

**Basis of Accounting and Presentation**

The financial statements are prepared on the accrual basis of accounting. Net assets are classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. Unconditional promises to give (pledges) are recorded as receivables and revenues. A description of the three net asset categories follows.

**Unrestricted Net Assets**

Unrestricted net assets include the following:

**Operations and Program Support** – Includes the revenues and expenses associated with the principal functions of the Diocese.

Unrestricted net assets also include the land, buildings and improvements of St. Mark Catholic Center, the Priests' retirement home, and the Bishop's residence.

**Designated** – These net assets are currently expendable for designated purposes. The designated net assets of the Diocese as of December 31 consist of the following:

	<u>2010</u>	<u>2009</u>
Self-insurance - property and casualty	\$ 1,996,215	\$ 1,233,754
Group health	1,043,922	1,243,439
Unemployment compensation	809,953	859,752
FAITH Magazine	(24,233)	(45,837)
Catholic school assistance	1,271,000	1,165,424
Capital Stewardship Campaign	<u>628,603</u>	<u>606,067</u>
Designated net assets	5,725,460	5,062,599
Priests' retirement deficiency	<u>(11,583,210)</u>	<u>(11,297,710)</u>
	<u>\$ (5,857,750)</u>	<u>\$ (6,235,111)</u>

Designated assessment revenues in 2010 and 2009 were primarily for self-insurance, priests' retirement and Catholic schools. The deficits mean the liabilities for these net asset categories exceed the designated assets.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

1. **Significant Accounting Policies (Continued)**

**Basis of Accounting and Presentation (Continued)**

The priests' retirement deficiency is the result of the retirement plan liability, the unfunded liability for postretirement benefits, and various expenses associated with the operation of the Priests' Retirement Home.

**Funds Functioning as Endowments** – Includes long-term investments developed from gifts and Bishop designations. Earnings are utilized at the Bishop's discretion.

	<u>2010</u>	<u>2009</u>
Tuition assistance - elementary	\$ 894,158	\$ 852,610
Charitable Endowment Fund	2,386,631	2,250,501
Religious Education Endowment Fund	3,140,020	2,823,999
Bishop's Discretionary Fund	1,778,606	1,572,348
Priests' Retirement Home Endowment Fund	805,099	712,594
Clergy Continuing Education Fund	426,464	394,964
Mission Endowment Fund	675,344	640,430
Donor-advised funds	<u>593,210</u>	<u>530,162</u>
	<u>\$ 10,699,532</u>	<u>\$ 9,777,608</u>

**Deposit and Loan Fund** – The Parish Deposit and Loan Fund is a cooperative investment and lending program established for the mutual benefit of the parishes and other institutions participating in the program. Parishes with excess monies are expected to deposit at least one-half of such reserves with the Diocese. Those parishes and other organizations requiring loans sign demand notes, which bear interest at approximately 1% to 2% above the rate being paid by the fund to its depositors. Amounts on deposit earn interest at amounts determined by the Diocesan Investment Committee. Rates being credited and charged to participants equaled 1.50% and 3.25%, respectively, at December 31, 2010.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met, and trust activity for which the ultimate purpose of the proceeds is not permanently restricted.

Temporarily restricted net assets as of December 31, 2010 and 2009 are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Priestly Formation and Ministry Development	\$ 5,549,089	\$ 5,294,468
Charitable Programs - Other	375,490	353,752
Educational Assistance Programs	16,825	11,632
Communication Programs	553,071	571,425
Clergy Health and Retirement	260,775	359,732
Evangelization	<u>(2,666)</u>	<u>-</u>
	<u>\$ 6,752,584</u>	<u>\$ 6,591,009</u>

Net assets released resulting from satisfaction of donor and program restrictions relate primarily to Catholic Charities Programs, Priestly Formation and Ministry Development, and Educational Assistance Programs.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

1. **Significant Accounting Policies (Continued)**

**Basis of Accounting and Presentation (Continued)**

**Permanently Restricted Net Assets**

Permanently restricted net assets include gifts and trusts which require, by donor restriction, the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Permanently restricted net assets as of December 31, 2010 and 2009 are restricted to:

	<b>2010</b>	<b>2009</b>
Priestly Formation and Ministry Development	\$ 5,583,181	\$ 5,221,935
Mass Intentions and Parish Needs	27,980	25,455
	\$ 5,611,161	\$ 5,247,390

The Diocese has an endowment spending policy which provides for the use of 2 to 7% of the previous three-year average market value of permanently restricted net assets. Investment income in excess of the defined percentage is retained in permanently restricted net assets. The percentage used in the years ended December 31, 2010 and 2009 was 5.00%.

**Property and Equipment**

Property and equipment are recorded at cost. Donated fixed assets are recorded at fair value on the date donated. The Diocese records depreciation of these assets using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Vehicles, office equipment and furniture	5 - 7
Buildings	40
Building improvements	15

Repairs and maintenance are charged to expense when they are incurred, while major replacements and improvements are capitalized.

Property and equipment consist of the following at December 31:

	<b>2010</b>	<b>2009</b>
Land	\$ 204,132	\$ 204,132
Buildings	3,563,040	3,563,040
Building improvements	1,813,435	1,813,435
Vehicles, office equipment and furniture	388,101	396,230
	5,968,708	5,976,837
Less: Accumulated depreciation	(4,982,354)	(4,901,183)
	\$ 986,354	\$ 1,075,654

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

1. **Significant Accounting Policies (Continued)**

**Receivables**

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding, after management has used reasonable collection efforts, are written off through a charge to the valuation allowance and a credit to receivables.

**Contributions**

The Diocese reports gifts of cash and other assets as restricted, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Temporarily restricted contributions whose restrictions are satisfied in the year the contribution is received are recorded as unrestricted contributions.

The Diocese records gifts of land, buildings and equipment at fair market value determined at the date of donation. Donated assets are reported as unrestricted, unless donor stipulations specify how the assets must be used. Gifts of long-lived assets, with explicit restrictions that specify how the assets are to be used, are reported as restricted. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Diocese reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Contributed Services**

Contributions of services are recognized as revenues if the services received (a) create or enhance non-financial assets (primarily property or other tangible or intangible assets) or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services donated to the Diocese generally include management functions performed by members of the clergy and of various religious communities. The value of their service is measured based on pay rates currently being provided to lay employees performing similar functions. These services are recorded as revenues and are charged to the appropriate program benefited.

**Cash Equivalents**

Cash equivalents include short-term investments with maturities of three months or less, and various money market funds. Balances in accounts frequently exceed FDIC insured limits. The Diocese has not incurred losses in the past as a result of this concentration.

**Unearned Revenues**

Unearned revenues represent insurance assessments billed but not yet earned as of December 31, 2010 and 2009.

**Subsequent Events**

The Diocese evaluated its December 31, 2010 financial statements for subsequent events through March 25, 2011, the date the financial statements were available to be issued. The Diocese is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

1. **Significant Accounting Policies (Continued)**

**Income Taxes**

The Diocese is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Insurance**

The Financial Services Office of the CAO manages insurance programs on behalf of parishes and other institutions within the Diocese through a combination of self-insurance retentions, participation in a liability risk retention group with other Dioceses, and the purchase of excess insurance coverage above the self-insured levels.

The Diocese is self-insured on physical injury, workers' compensation and property damage claims up to \$200,000 per occurrence. The Diocese is also self-insured for general liability claims of up to \$250,000 per occurrence. Beginning May 1, 2009, there is no aggregate loss limit for claims incurred. Losses are recorded as expense when incurred. The Diocese includes as a liability at December 31 claims outstanding and payable, including losses incurred but not reported. Such liabilities are necessarily based on estimates and, while the Diocese believes the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the financial statements. The recorded liability for outstanding claims is \$717,945 and \$1,095,105 at December 31, 2010 and 2009, respectively.

Beginning in 2005, the Diocese elected to retain risks related to providing group health insurance for its priests and the lay employees of the parishes, schools, and CAO. Those risks were subject to stop loss insurance purchased by the Diocese from Highmark Casualty Insurance Company. The insurance had a specific deductible of \$160,000 per covered person and a minimum aggregate annual deductible of \$5,895,231. Claims were administered by Highmark Blue Cross / Blue Shield. The recorded liability for outstanding claims for December 31, 2010 and 2009 was \$41,000 and \$378,000, respectively.

Effective July 1, 2010, the Diocese elected to insure the risks related to providing group health insurance to Highmark Blue Cross / Blue Shield.

**Fundraising and Appeal Costs**

Fundraising and appeal costs are expensed as incurred. The expense was \$87,688 and \$74,120 in 2010 and 2009, respectively.

**Reclassifications**

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 financial statement presentation, with no effect on overall net assets.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

1. **Significant Accounting Policies (Continued)**

**Fair Value Measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Diocese. Unobservable inputs are inputs that reflect the Diocese’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the Diocese has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted market prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted market prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2010 and 2009.

- *U.S. Treasury Notes and Equity Securities* – These investments are valued at the closing price reported in the active market in which the individual security is traded.
- *Mutual Funds and Common/Collective Trusts* – These investments are public investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Where the NAV is a quoted price in a market that is active, it is classified within Level 1 of the hierarchy. Where the NAV is a quoted price in an inactive market, it is classified within Level 2 of the hierarchy.
- *Bonds and Mortgage Backed or CDO* – Fair value is estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. They are classified within Level 2 of the valuation hierarchy.
- *Certificates of Deposit* – These investments are cash on deposit with financial institutions. Fair value is determined by an estimate of the accrued interest.
- *Preferred Securities and Privately Held Equity* – These investments are equity that is not traded in an active market. Fair value is estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

1. **Significant Accounting Policies (Continued)**

**Fair Value Measurement (Continued)**

The following table represents the fair value measurements for the Diocese's marketable debt and equity securities by level of input as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury Notes	\$ 2,828,982	\$ -	\$ -	\$ 2,828,982
Equity securities				
Industrials	1,320,262	-	-	1,320,262
Consumer discretionary	1,583,363	-	-	1,583,363
Consumer staples	996,743	-	-	996,743
Energy	731,484	-	-	731,484
Financial	1,958,071	-	-	1,958,071
Materials	640,261	-	-	640,261
Information technology	2,220,324	-	-	2,220,324
Utilities	292,388	-	-	292,388
Health care	1,444,610	-	-	1,444,610
Telecommunication services	359,815	-	-	359,815
Other	141,574	-	-	141,574
Mutual funds				
Growth and value	6,449,922	-	-	6,449,922
Index	654,353	-	-	654,353
Total return	4,315,160	36,523	-	4,351,683
Income	5,368,890	-	-	5,368,890
Corporate bonds	-	6,886,582	-	6,886,582
Municipal bonds	-	221,449	-	221,449
Government agency bonds	-	3,675,758	-	3,675,758
Mortgage backed or CDO	-	720,479	-	720,479
Common/collective trusts	-	7,756,734	-	7,756,734
Preferred securities	-	11,020	-	11,020
Privately held equity	-	222,845	-	222,845
	<u>\$ 31,306,202</u>	<u>\$ 19,531,390</u>	<u>\$ -</u>	<u>\$ 50,837,592</u>

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

1. **Significant Accounting Policies (Continued)**

**Fair Value Measurement (Continued)**

The following table represents the fair value measurements for the Diocese's marketable debt and equity securities by level of input as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury Notes	\$ 1,898,275	\$ -	\$ -	\$ 1,898,275
Equity securities				
Industrials	893,780	-	-	893,780
Consumer discretionary	1,415,616	-	-	1,415,616
Consumer staples	588,148	-	-	588,148
Energy	905,965	-	-	905,965
Financial	1,913,033	-	-	1,913,033
Materials	580,433	-	-	580,433
Information technology	1,875,664	-	-	1,875,664
Utilities	272,907	-	-	272,907
Health care	1,130,204	-	-	1,130,204
Telecommunication services	248,751	-	-	248,751
Other	86,091	-	-	86,091
Mutual funds				
Growth and value	6,361,123	-	-	6,361,123
Index	689,139	-	-	689,139
Total return	3,584,211	33,074	-	3,617,285
Income	1,519,732	-	-	1,519,732
Corporate bonds	-	5,838,954	-	5,838,954
Municipal bonds	-	272,579	-	272,579
Government agencies	-	5,992,787	-	5,992,787
Mortgage backed or CDO	-	600,687	-	600,687
Common/collective trusts	-	6,734,784	-	6,734,784
Certificate of deposit	-	30,568	-	30,568
Preferred securities	-	11,296	-	11,296
Privately held equity	-	216,168	-	216,168
	<u>\$ 23,963,072</u>	<u>\$ 19,730,897</u>	<u>\$ -</u>	<u>\$ 43,693,969</u>

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

2. **Receivables and Concentrations of Credit Risk**

Receivables consist of the following at December 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Assessments and Diocesan Appeal	\$ 2,628,564	\$ 2,844,080
Loans and notes - Deposit and Loan Fund	2,426,582	2,316,610
Other receivables and loans	526,784	510,240
	5,581,930	5,670,930
Less allowance for estimated uncollectible receivables	(1,831,044)	(1,929,044)
	\$ 3,750,886	\$ 3,741,886

Assessments relate primarily to parishes and other Diocesan affiliates for insurance, priests' retirement, schools and Diocesan programs and operations. Receivables totaling \$2,953,366 at December 31, 2010 are long-term receivables, which are not expected to be collected in the following year.

3. **Investments**

Investments are professionally managed by unrelated third parties under the supervision of the CAO.

Investments are recorded at fair value. The cost of debt securities is net of premiums and discounts, and the cost of equity securities is the original purchase price. Investment income, including realized and unrealized gains, is recorded in the Statements of Activities.

The following is a summary of the Diocesan investments as of December 31, 2010:

	<b>Fair Value</b>	<b>Cost</b>	<b>Net Unrealized Gains (Losses)</b>
U. S. Treasuries and other governmental	\$ 3,931,200	\$ 3,905,496	\$ 25,704
Corporate debt securities and fixed income funds	17,365,563	16,853,736	511,827
Common stocks and equity funds	29,540,829	27,006,612	2,534,217
	\$ 50,837,592	\$ 47,765,844	\$ 3,071,748

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

3. **Investments (Continued)**

The following is a summary of the Diocesan investments as of December 31, 2009:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Gains (Losses)</u>
U. S. Treasuries and other governmental	\$ 10,162,393	\$ 9,924,723	\$ 237,670
Corporate debt securities and fixed income funds	9,748,839	9,392,804	356,035
Common stocks and equity funds	<u>23,782,737</u>	<u>24,815,704</u>	<u>(1,032,967)</u>
	<u>\$ 43,693,969</u>	<u>\$ 44,133,231</u>	<u>\$ (439,262)</u>

Investment and endowment income (loss) consists of the following during the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Loan interest	\$ 67,692	\$ 75,705
Investment interest	668,060	632,559
Dividends	380,734	384,802
Net realized gains (losses)	244,273	(1,195,606)
Net unrealized gains (losses)	2,482,351	5,542,203
Less investment fees	<u>(183,752)</u>	<u>(160,487)</u>
Total investment and endowment income (loss)	<u>\$ 3,659,358</u>	<u>\$ 5,279,176</u>

4. **Endowment**

The Diocesan endowments consist of individual funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Bishop and the Diocesan Finance Council to function as endowments. The purpose of these endowments is to provide financial support to the Diocese for current operations and other programs. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The current relevant law for the investment and distribution of restricted endowment and trust funds in the Commonwealth of Pennsylvania is PA Act 141 (Act 141). Act 141 requires an organization to adopt and follow a "total return" investment policy to seek the best total return on the principal whether from capital appreciation, earnings, or both. If Act 141 is applicable and elected by an organization, the board is required to make an annual "spending" election of between 2% and 7% of the value of endowment assets. For purposes of this provision, the value of the trust principal is the fair market value of the trust assets averaged over the past three or more years. In addition to the use of Act 141 for donor-restricted endowment funds, the Bishop and Diocesan Finance Council use Act 141 as a framework for its unrestricted board-designated endowment funds.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

4. **Endowment (Continued)**

**Interpretation of Relevant Law (Continued)**

In accordance with Act 141, the Diocese considers the following factors in making a determination to spend or accumulate donor-restricted and board-designated endowment funds:

- (1) The duration and preservation of the funds
- (2) The purposes of the endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Diocese
- (7) The investment policies of the Diocese

**Endowment by Net Asset Class**

Endowment net asset composition by type of fund as of December 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 5,549,089	\$ 5,611,161	\$ 11,160,250
Diocesan-designated endowment funds	<u>10,699,532</u>	<u>-</u>	<u>-</u>	<u>10,699,532</u>
	<u>\$ 10,699,532</u>	<u>\$ 5,549,089</u>	<u>\$ 5,611,161</u>	<u>\$ 21,859,782</u>

Endowment net asset composition by type of fund as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 5,294,468	\$ 5,247,390	\$ 10,541,858
Diocesan-designated endowment funds	<u>9,777,608</u>	<u>-</u>	<u>-</u>	<u>9,777,608</u>
	<u>\$ 9,777,608</u>	<u>\$ 5,294,468</u>	<u>\$ 5,247,390</u>	<u>\$ 20,319,466</u>

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

4. **Endowment (Continued)**

**Endowment Reconciliation**

Changes in endowment net assets for the year ended December 31, 2010 were as follows:

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Beginning endowment net assets	\$ 9,777,608	\$ 5,294,468	\$ 5,247,390	\$ 20,319,466
Contributions	134,946	1,112	334	136,392
Investment income, net of fees	228,643	136,761	123,607	489,011
Net appreciation (realized and unrealized)	972,314	441,463	498,989	1,912,766
Other revenue	1,873	-	1,084	2,957
Expenditures	(425,184)	(324,715)	(260,243)	(1,010,142)
Transfers	9,332	-	-	9,332
Ending endowment net assets	<u>\$ 10,699,532</u>	<u>\$ 5,549,089</u>	<u>\$ 5,611,161</u>	<u>\$ 21,859,782</u>

Changes in endowment net assets for the year ended December 31, 2009 were as follows:

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Beginning endowment net assets	\$ 8,394,035	\$ 4,586,517	\$ 4,561,318	\$ 17,541,870
Contributions	157,997	3,624	95,786	257,407
Investment income, net of fees	224,061	130,858	129,216	484,135
Net appreciation (realized and unrealized)	1,456,699	890,233	745,525	3,092,457
Other revenue	682	-	-	682
Expenditures	(619,058)	(316,764)	(284,455)	(1,220,277)
Transfers	163,192	-	-	163,192
Ending endowment net assets	<u>\$ 9,777,608</u>	<u>\$ 5,294,468</u>	<u>\$ 5,247,390</u>	<u>\$ 20,319,466</u>

**Funds with Deficiencies**

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Diocese to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2010 and 2009.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

4. **Endowment (Continued)**

**Return Objectives and Risk Parameters**

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include donor-restricted endowment funds, as well as funds designated by the Bishop and Diocesan Finance Council. Under this policy, the primary objective of the endowment assets is the long-term growth of principal with generation of income, without an undue exposure to risk. Assets are invested in a manner that is intended to achieve results that meet or exceed appropriate market indices, which are monitored by the Diocesan Finance Council throughout the year. Actual returns in any given year may vary.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Diocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Diocese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Diocese has a policy of appropriating for distribution each year 5 percent or less of its endowment fund's average fair value over the prior three years through June 30 of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Diocese considered the long-term expected return on its endowment. Accordingly, over the long term, the Diocese expects the current spending policy to allow its endowment to grow. This is consistent with the Diocesan objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

5. **Pension Plans**

The Diocese has a defined benefit pension plan covering all Diocesan priests. Contributions to the plan are received by the Diocese from the various parishes and other employers within the Diocese and remitted to an investment management company for purposes of funding. The benefits are based on years of service. Annual contributions are made in amounts to be sufficient for minimum funding requirements, plus such additional amounts as may be determined to be appropriate.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

5. **Pension Plans (Continued)**

Investment policies and strategies for the Erie Diocesan Priests' Retirement Plan are developed through communications between the Office of Financial Services and the investment fund managers. Long-term strategic investment objectives include preserving the funded status of the trust and balancing risk and return. During the year ended December 31, 2009, assets for the pension plan were transferred from ING Investment Management, Inc. to PNC Investments, Inc. A multi-asset investment program is currently in use. As of December 31, 2010, the CAO and Diocesan investment consultant oversee this investment process which includes recommending asset classes, monitoring asset allocations, and performing periodic asset-liability studies. Target allocation ranges are guidelines, not limitations, and occasionally the plan fiduciaries may approve allocations above or below a target range.

	<b>Target Allocation</b>	<b>Actual Allocation</b>
Equity securities	45.0%-75.0%	67.2%
Fixed income	25.0%-45.0%	29.2%
Cash	0.0%-10.0%	3.6%

Information about this plan follows for the years ended December 31:

	<b>2010</b>	<b>2009</b>
<b>Net pension cost</b>		
Service cost	\$ 67,710	\$ 68,323
Interest cost	739,893	740,158
Expected return on plan assets	(407,508)	(371,358)
Amortization of prior service cost	213,987	213,987
Amortization of (gain) or loss	57,940	54,160
Net pension cost	\$ 672,022	\$ 705,270
<b>Fair value of plan assets</b>		
Fair value of plan assets at January 1	\$ 5,683,855	\$ 5,203,917
Actual gain on plan assets	671,190	835,108
Employer contributions	580,000	591,000
Benefits paid	(950,670)	(946,170)
Fair value of plan assets at December 31	\$ 5,984,375	\$ 5,683,855
<b>Change in benefit obligation</b>		
Benefit obligation at January 1	\$ 12,428,298	\$ 11,948,999
Service cost	67,710	68,323
Interest cost	739,893	740,158
Actuarial (gain) loss	340,149	616,988
Benefits paid	(950,670)	(946,170)
Benefit obligation at December 31	\$ 12,625,380	\$ 12,428,298
<b>Funded status</b>		
Pension liability at December 31	\$ (6,641,005)	\$ (6,744,443)

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

5. **Pension Plans (Continued)**

The assumptions used to determine the actuarial present value of the projected benefit obligations were:

	<u>2010</u>	<u>2009</u>
Discount rate used to determine benefit obligations	5.75%	6.25%
Discount rate used to determine net periodic benefit cost	6.25%	6.50%
Expected return on plan assets	8.00%	8.00%

To determine the expected long-term rate of return on pension plan assets, the Diocese considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets.

Prior service costs and actuarial gains and losses are amortized over the estimated average service period (16 years).

The monthly benefit to participants was \$1,250 during 2009 and 2010 for priests with at least 30 years of service.

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

2011	\$ 1,049,000
2012	1,027,000
2013	990,000
2014	963,000
2015	996,000
2016 - 2020	4,485,000

The Diocese expects to contribute approximately \$500,000 to its pension plan during 2011.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

5. **Pension Plans (Continued)**

The Diocese accounts for and discloses its fair value measurements for plan assets in accordance with accounting principles generally accepted in the U.S. as defined in Note 1. The assets held by the defined benefit plan as of December 31, 2010 are classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities				
Industrials	\$ 153,062	\$ -	\$ -	\$ 153,062
Consumer discretionary	150,141	-	-	150,141
Consumer staples	140,665	-	-	140,665
Energy	147,803	-	-	147,803
Financial	190,644	-	-	190,644
Materials	47,608	-	-	47,608
Information technology	264,643	-	-	264,643
Utilities	35,713	-	-	35,713
Health care	140,783	-	-	140,783
Telecommunication services	33,494	-	-	33,494
Money market	-	193,322	-	193,322
Corporate bonds	-	1,766,837	-	1,766,837
Index mutual funds	-	2,719,660	-	2,719,660
	<u>\$ 1,304,556</u>	<u>\$ 4,679,819</u>	<u>\$ -</u>	<u>\$ 5,984,375</u>

The assets held by the defined benefit plan as of December 31, 2009 are classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash	\$ 1,551	\$ -	\$ -	\$ 1,551
Equity securities				
Industrials	120,937	-	-	120,937
Consumer discretionary	96,450	-	-	96,450
Consumer staples	120,676	-	-	120,676
Energy	114,949	-	-	114,949
Financial	165,333	-	-	165,333
Materials	48,319	-	-	48,319
Information technology	245,073	-	-	245,073
Utilities	51,021	-	-	51,021
Health care	143,801	-	-	143,801
Telecommunication services	29,653	-	-	29,653
Money market	-	518,945	-	518,945
Corporate bonds	-	1,668,279	-	1,668,279
Index mutual funds	-	2,358,868	-	2,358,868
	<u>\$ 1,137,763</u>	<u>\$ 4,546,092</u>	<u>\$ -</u>	<u>\$ 5,683,855</u>

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

5. **Pension Plans (Continued)**

**Lay Employees' 401(k) Retirement Plan and Deferred Compensation Plan**

The Diocese has a 401(k) plan for its employees. The plan covers certain employees of parishes, schools, offices, and agencies of the Diocese. Employee deferrals under the plan are available at 3% of compensation, up to the maximum amount allowed by the IRS. The Diocese provides a contribution of 6% of compensation for all employees of the CAO who are participants in the plan.

The expense to the CAO for the plan was \$108,554 and \$109,002 in 2010 and 2009, respectively.

The Diocese established a deferred compensation plan for the Chief Financial Officer in 2005. The expense for 2010 and 2009 was \$42,921 and \$42,022, respectively. The total liability as of December 31, 2010 and 2009 was \$245,016 and \$202,096, respectively, and is included in accounts payable and accrued expenses.

**Priest Postretirement Benefits**

The Diocese provides supplemental health insurance, along with optical, dental and prescription drug coverage to retired priests. Costs of future benefits are accrued during an employee's active working career. The Diocese funds benefits on a "pay-as-you-go" basis. It is an unfunded plan.

Postretirement benefit expense in 2010 and 2009 includes the following:

	<u>2010</u>	<u>2009</u>
<b>Net benefit cost</b>		
Postretirement benefits earned during the year	\$ 56,711	\$ 50,200
Interest cost on obligation	203,699	180,877
Amortization of prior service cost	(36,229)	(36,229)
Amortization of (gain)/loss	<u>23,554</u>	<u>-</u>
	<u>\$ 247,735</u>	<u>\$ 194,848</u>
<b>Change in benefit obligation</b>		
Benefit obligation at January 1	\$ 3,363,687	\$ 2,886,876
Service cost	56,711	50,200
Interest cost	203,699	180,877
Actuarial (gains) losses	223,103	422,447
Benefits paid	<u>(183,385)</u>	<u>(176,713)</u>
Benefit obligation at December 31	<u>\$ 3,663,815</u>	<u>\$ 3,363,687</u>
<b>Funded status</b>		
Postretirement benefit liability at December 31	<u>\$ (3,663,815)</u>	<u>\$ (3,363,687)</u>

The assumptions used to determine the actuarial present value of the projected benefit obligations were:

	<u>2010</u>	<u>2009</u>
Discount rate used to determine benefit obligations	5.75%	6.25%
Discount rate used to determine net periodic benefit cost	6.25%	6.50%
Health care cost trend rate	5.00%	5.00%

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

5. **Pension Plans (Continued)**

**Priest Postretirement Benefits (Continued)**

A 1% increase in health care cost rates would increase the current year obligation by \$348,741, and would increase the 2010 expense by \$32,331.

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

2011	\$ 224,000
2012	231,000
2013	230,000
2014	238,000
2015	261,000
2016 - 2020	1,368,000

GAAP requires the Diocese to recognize the funded status (the difference between the fair value of plan assets and the projected benefit obligation or accumulated postretirement benefit obligation) of the plans on the Statement of Financial Position, with a corresponding adjustment reported on the Statement of Activities, in a separate line item apart from expenses. The adjustment reported on the Statement of Activities represents the net unrecognized actuarial losses, unrecognized transition obligations, and unrecognized prior service costs, which were netted against the plans' funded status in the Diocese' Statement of Financial Position pursuant to the recognition and amortization provisions of GAAP. The adjustment, which is recorded as an increase (decrease) in net assets of \$(40,318) and \$(343,767), is recorded on the Statement of Activities for the year ended December 31, 2010 and 2009, respectively.

Net periodic pension and severance benefit cost for the year ended December 31, 2011 will include unrecognized actuarial losses of \$96,849 and unrecognized prior service cost of \$250,216.

6. **Notes Payable**

The Diocese has a \$3,500,000 line of credit available with PNC Bank. There were no borrowings outstanding as of December 31, 2010 and 2009. At December 31, 2010, there was \$2,100,000 in Letters of Credit outstanding as an offset. The Letters of Credit consisted of \$1,100,000 for workers' compensation and \$1,000,000 for automobile insurance. As of December 31, 2010, \$1,400,000 was available from the line of credit.

7. **Contingencies**

The Bishop of the Diocese is cosigner and guarantor of loans and loan commitments to certain parishes and institutions which fall under his jurisdiction. These commitments were made to assist the Diocesan entities in their projects. To the best of the Diocese's belief, payments on these obligations have been made by the local parishes and institutions in accordance with their individual loan agreements. There were no known defaults or delinquencies. The balance outstanding of guaranteed loans as of December 31, 2010 is approximately \$19.2 million. No liability has been recorded by the Diocese for these commitments. According to the guarantee agreement with the lenders, the Diocese is required to adhere to certain covenants, including a financial loan covenant. Management believes they are in compliance with this financial loan covenant as of December 31, 2010.

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

8. **Deferred Annuities**

The Diocese receives funds under various forms of annuity arrangements. Generally, individuals give the Diocese monies, which are to be used to provide a fixed annuity to the individuals during their lifetime. The present value of future annuity payments under these various arrangements is recorded as a liability. Contribution revenues are recognized in the year of gift. The contribution equals the money received, less the present value of expected future annuity payments. The following is a table of activity for all annuities in 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Annuity obligation at the beginning of the year	\$ 114,244	\$ 46,913
Receipts	-	3,140
Interest (rates range from 6.6% to 8.8%)	8,310	3,130
Change in value of split interest agreements	-	81,732
Annuity payments	<u>(20,979)</u>	<u>(20,671)</u>
Annuity obligation at the end of the year included in accounts payable on Statements of Financial Position	<u>\$ 101,575</u>	<u>\$ 114,244</u>

9. **Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses, according to natural classification incurred during the years ended December 31, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Salaries and benefits - clergy, religious and lay	\$ 5,028,925	\$ 5,114,313
Insurance claims and reinsurance - property	1,541,641	1,855,631
Insurance claims and reinsurance - health	5,781,100	5,489,762
Allocations to related agencies and institutions	1,535,173	1,497,089
Education, training and ministry support	1,117,800	1,061,185
Clergy personnel development and support	380,333	424,316
Facilities and maintenance	268,304	162,793
Occupancy expense - utilities, rent and insurance	221,842	226,237
Interest expense	177,434	277,592
Depreciation	115,025	116,088
External services and affiliations	1,264,154	1,449,722
Postage, printing, supplies and office expenses	510,464	510,338
Other costs	<u>73,818</u>	<u>87,439</u>
	<u>\$ 18,016,013</u>	<u>\$ 18,272,505</u>

**Roman Catholic Diocese of Erie Central Administrative Offices**  
**Notes to Financial Statements**  
**December 31, 2010**

10. **Release of Assets to Diocesan Affiliates**

The Endowment Care Fund of the Erie Diocesan Cemeteries is under the care, custody and control of the Roman Catholic Diocese of Erie, which oversees its investment and all financial transactions. This fund is derived from Erie Diocesan Cemeteries' revenues and is used exclusively for maintaining the Cemeteries' properties. The fund is accounted for as a liability on the Statement of Financial Position of the Diocese, and the Diocese continues to hold the assets and administer the fund.

Certain investments of Catholic Charities of the Diocese of Erie, Inc. (Catholic Charities) are under the care, custody and control of the Roman Catholic Diocese of Erie, which oversees its investment and all financial transactions. This fund is derived from Catholic Charities revenues and is used exclusively for maintaining the Catholic Charities activities. The fund is accounted for as a liability on the Statement of Financial Position of the Diocese, and the Diocese continues to hold the assets and administer the fund.

Certain assets of the Catholic Foundation of the Diocese of Erie (Catholic Foundation) are under the care, custody, and control of the Roman Catholic Diocese of Erie, which oversees its investments and all financial transactions. The funds were derived from the Diocesan capital campaign and subsequent gifts and are used exclusively for the Catholic Foundation's activities. The fund is accounted for as a liability on the Statement of Financial Position of the Diocese, and the Diocese continues to hold the assets and administer the fund.

The balances of funds held for each organization at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Erie Diocesan Cemeteries	\$ 5,468,413	\$ 4,987,701
Catholic Charities	410,041	141,831
Catholic Foundation of the Diocese of Erie	<u>6,368,427</u>	<u>5,717,335</u>
	<u>\$ 12,246,881</u>	<u>\$ 10,846,867</u>

The Diocese is compensated for the investment and accounting services provided to all three affiliates. Total support and revenue received from each organization during the years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Erie Diocesan Cemeteries	\$ 118,000	\$ 118,000
Catholic Charities	32,000	30,000
Catholic Foundation of the Diocese of Erie	<u>45,540</u>	<u>50,214</u>
	<u>\$ 195,540</u>	<u>\$ 198,214</u>



**Malin, Bergquist & Company, LLP**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditors' Report on the Supplementary Information

Most Reverend Donald W. Trautman, STD, SSL  
Bishop of the Roman Catholic Diocese of Erie

Our report on our audit of the financial statements of the Central Administrative Offices of the Roman Catholic Diocese of Erie as of December 31, 2010, and for the year then ended, appears on page 1. We previously expressed an unqualified audit opinion dated March 23, 2010 on the 2009 financial statements. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The attached Schedules of Pastoral Expenses, Schedules of Clergy Expenses, Schedules of Vocation Expenses, Schedules of Educational Expenses, Schedules of Evangelization Expenses, Schedules of Catholic Charities Expenses, Schedules of Financial Services Expenses, Schedules of Facilities Management Expenses and Schedules of Other Expenses (supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information which follows for the years ended December 31, 2010 and 2009 has been subjected to the auditing 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.

*Malin, Bergquist & Company, LLP*

Erie, Pennsylvania  
March 25, 2011

**Roman Catholic Diocese of Erie Central Administrative Offices  
Years Ended December 31, 2010 and 2009**

**Schedules of Pastoral Expenses**

	<u>2010</u>	<u>2009</u>
Office of Bishop	\$ 143,059	\$ 135,572
Offices of Regional Vicars	101,082	101,097
Inter-Church Ministries	4,000	4,000
Vicar for Religious	48,953	59,292
Black Apostolate	-	400
Hispanic Apostolate	49,486	44,230
Spiritual Apostolate	8,006	7,596
Specialized Ministries	3,489	3,526
Office for the Protection of Children and Youth	35,794	28,941
Special Events	2,722	4,439
United States Conference of Catholic Bishops	35,608	37,796
Pennsylvania Catholic Conference	82,956	81,648
Holy See Contribution	42,000	42,000
Chancery	106,089	98,230
Diocesan Archives	9,253	66,296
Ecclesia Ministry	53,654	69,883
Pastoral Outreach Services	105,036	129,241
	<u>\$ 831,187</u>	<u>\$ 914,187</u>

**Schedules of Clergy Expenses**

	<u>2010</u>	<u>2009</u>
Clergy Personnel Office	\$ 35,075	\$ 33,901
Emmaus Program	22,736	31,197
Clergy Continuing Education and Formation	140,017	134,880
Clergy Subsidies and Medical Expenses	314,888	151,912
Priests' Retirement Plan	692,371	734,165
Retired Priests' Medical Care Expenses	300,948	238,394
Priests' Retirement Home Expenses	155,228	158,391
	<u>\$ 1,661,263</u>	<u>\$ 1,482,840</u>

**Schedules of Vocation Expenses**

	<u>2010</u>	<u>2009</u>
Vocation Office	\$ 28,386	\$ 46,158
Permanent Diaconate	49,180	47,099
Tuitions – Major Seminaries	277,778	332,241
St. Mark Formation Program	173,122	162,445
Seminarian Grants and Other	55,420	84,817
Other Restricted Distributions	25,068	57,793
	<u>\$ 608,954</u>	<u>\$ 730,553</u>

*See Accompanying Independent Auditors' Report on the Supplementary Information.*

**Roman Catholic Diocese of Erie Central Administrative Offices  
Years Ended December 31, 2010 and 2009**

**Schedules of Educational Expenses**

	<b>2010</b>	<b>2009</b>
Vicar for Education	\$ 143,143	\$ 135,609
Catholic Schools Office	283,187	293,940
Natural Family Planning Program	37,939	34,093
Youth Athletics Program	99,334	94,211
Secondary Tuition Assistance Program	264,028	265,085
Secondary School Subsidy Program	561,354	580,904
Elementary Tuition Assistance Program	250,368	422,443
Elementary School Subsidy Program	469,032	496,978
Religious Education	408,114	408,071
Campus Ministry Program	74,013	76,667
Media Resource Center	30,591	30,721
Educational Grants	226,638	176,516
	\$ 2,847,741	\$ 3,015,238

**Schedules of Evangelization Expenses**

	<b>2010</b>	<b>2009</b>
Office of Worship	\$ 102,802	\$ 98,727
Office of Communications	325,313	373,449
FAITH Magazine	288,128	321,753
Millcreek Mall Chapel	26,470	28,992
Inner City Evangelization	27,798	27,417
	\$ 770,511	\$ 850,338

*See Accompanying Independent Auditors' Report on the Supplementary Information.*

**Roman Catholic Diocese of Erie Central Administrative Offices  
Years Ended December 31, 2010 and 2009**

**Schedules of Catholic Charities Expenses**

	<u>2010</u>	<u>2009</u>
Office of the Executive Director	\$ 166,034	\$ 162,004
Charities Development Office	41,352	34,773
Family Ministries Office	77,778	70,622
Parish Social Ministries/Justice and Peace/Respect Life	76,192	75,958
Spiritual Ministries for People with Disabilities	45,189	38,889
Office of Refugee Ministries	-	32,696
Rainbow Program	11,881	10,979
Mission Office	58,973	58,054
Yucatan Mission	82,789	78,304
St. Martin Center	172,039	172,039
Prince of Peace Center	139,189	129,189
Catholic Charities Counseling and Adoption Services	283,653	293,653
State Chaplaincy Services	46,682	43,467
Good Samaritan Center	66,120	65,777
Rural Ministries Program	65,000	65,000
St. Elizabeth Center	30,288	30,222
Operation Rice Bowl Distributions	17,967	31,483
Campaign for Human Development Distributions	44,136	48,736
Maria House Project Grant	10,000	-
	<u>\$ 1,435,262</u>	<u>\$ 1,441,845</u>

**Schedules of Financial Services Expenses**

	<u>2010</u>	<u>2009</u>
Finance Office	\$ 639,910	\$ 646,491
Computer Services Office	24,826	25,844
Office of Stewardship and Annual Giving	118,287	115,816
Human Resources Office	25,848	23,695
	<u>\$ 808,871</u>	<u>\$ 811,846</u>

**Schedules of Facilities Management Expenses**

	<u>2010</u>	<u>2009</u>
Office Support Services	\$ 121,789	\$ 121,641
Facilities and Risk Management	70,922	72,925
Property Management	64,780	79,718
St. Mark Catholic Center	408,481	262,423
Repairs and Maintenance	48,429	78,151
Unallocated Property Costs	6,560	6,746
	<u>\$ 720,961</u>	<u>\$ 621,604</u>

*See Accompanying Independent Auditors' Report on the Supplementary Information.*

**Roman Catholic Diocese of Erie Central Administrative Offices  
Years Ended December 31, 2010 and 2009**

**Schedules of Other Expenses**

	<u>2010</u>	<u>2009</u>
Uncollectible Account Expense	\$ 54,927	\$ 46,907
Grants and Awards	3,300	19,500
Professional Services	17,346	16,221
Miscellaneous	<u>101,129</u>	<u>57,734</u>
	<u>\$ 176,702</u>	<u>\$ 140,362</u>

*See Accompanying Independent Auditors' Report on the Supplementary Information.*