

The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2008

McGladrey & Pullen

Certified Public Accountants

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Independent Auditor's Report

To His Eminence
Cardinal Roger M Mahony,
Archbishop of Los Angeles
Los Angeles, California

We have audited the accompanying statements of financial position of the Administrative Office of the Roman Catholic Archdiocese of Los Angeles (the Administrative Office) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Administrative Office's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Administrative Office as of June 30, 2008 and 2007, 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.

McGladrey & Pullen, LLP

Pasadena, California
January 12, 2009

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2008 and 2007
(Note 2)

Assets (Note 15)	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and cash equivalents (Note 17)	\$ 6,577,993	\$ 646,749	\$ 51,113	\$ 7,275,855	\$ -	\$ 2,728,205	\$ -	\$ 2,728,205
Contracts receivable, net (Note 3)	21,509,500	-	-	21,509,500	32,131,925	-	-	32,131,925
Affiliate receivables, net (Note 4)	6,910,853	-	-	6,910,853	11,884,640	-	-	11,884,640
Pledges receivable, net (Notes 5 and 17)	-	2,823,839	-	2,823,839	-	2,487,399	-	2,487,399
Other receivables (Note 13)	26,304,049	31,950	-	26,335,999	343,457,573	162,090	-	343,619,663
Notes receivable, net (Note 6)	33,668,501	-	-	33,668,501	42,903,811	-	-	42,903,811
Investments (Notes 7, 13 and 17)	186,786,995	28,429,959	6,653,902	221,870,856	242,537,516	35,127,144	4,983,982	282,648,642
Properties held for sale (Note 10)	1,602,197	-	-	1,602,197	-	-	-	-
Property and equipment, net (Notes 8 and 10)	57,059,498	-	-	57,059,498	59,785,683	-	-	59,785,683
Other assets	474,683	-	-	474,683	562,794	-	-	562,794
Assets for pension benefits (Note 9)	7,786,000	-	-	7,786,000	5,950,000	-	-	5,950,000
Total assets	\$ 348,680,269	\$ 31,932,497	\$ 6,705,015	\$ 387,317,781	\$ 739,213,942	\$ 40,504,838	\$ 4,983,982	\$ 784,702,762
Liabilities and Net Assets (Note 15)								
Liabilities								
Accounts payable and accrued expenses (Notes 10 and 13)	\$ 14,045,543	\$ -	\$ -	\$ 14,045,543	\$ 19,582,506	\$ -	\$ -	\$ 19,582,506
Payable to affiliates (Note 14)	548,655	-	-	548,655	603,356	-	-	603,356
Deferred revenue, cemetery and mausoleum care funds	9,758,747	-	-	9,758,747	12,225,439	-	-	12,225,439
Insurance claims reserves	20,272,071	-	-	20,272,071	20,662,634	-	-	20,662,634
Liability for pension and postretirement plan benefits (Note 9)	89,689,000	-	-	89,689,000	76,262,000	-	-	76,262,000
Reserve for litigation (Note 13)	103,376,323	-	-	103,376,323	661,425,000	-	-	661,425,000
Deferred revenue (Note 12)	150,307,047	-	-	150,307,047	149,693,835	-	-	149,693,835
Custodial collections (Notes 14 and 17)	4,064,146	18,196,838	-	22,260,984	1,675,469	22,479,639	-	24,155,108
Notes payable (Note 10)	147,556,058	-	-	147,556,058	27,280,466	-	-	27,280,466
Notes payable to affiliates (Note 11)	2,408,465	-	-	2,408,465	-	-	-	-
Total liabilities	542,026,055	18,196,838	-	560,222,893	969,410,705	22,479,639	-	991,890,344
Commitments and Contingencies (Notes 13 and 19)								
Net (deficit) assets (Note 18)	(193,345,786)	13,735,659	6,705,015	(172,905,112)	(230,196,763)	18,025,199	4,983,982	(207,187,582)
Total liabilities and net assets	\$ 348,680,269	\$ 31,932,497	\$ 6,705,015	\$ 387,317,781	\$ 739,213,942	\$ 40,504,838	\$ 4,983,982	\$ 784,702,762

See Notes to Financial Statements.

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations and assessments (Note 14)	\$ 23,923,691	\$ 3,736,350	\$ 121,033	\$ 27,781,074	\$ 27,830,703	\$ 5,662,646	\$ 224,024	\$ 33,717,373
Donations, annual appeal	-	14,303,077	-	14,303,077	-	14,317,735	-	14,317,735
Cemetery sales	28,698,521	-	-	28,698,521	32,919,371	-	-	32,919,371
Investment pool (loss) income, net of expenses (Note 7)	(4,633,933)	(676,223)	-	(5,310,156)	31,060,196	3,053,117	-	34,113,313
Other investment (loss) income (Note 7)	(90,455)	(73,690)	-	(164,145)	2,144,665	88,291	-	2,232,956
Contribution to settlement (Note 13)	52,181,234	-	-	52,181,234	-	-	-	-
Rents, fees and other revenue (Notes 11 and 14)	24,007,747	-	-	24,007,747	30,363,812	-	-	30,363,812
	124,086,805	17,289,514	121,033	141,497,352	124,318,747	23,121,789	224,024	147,664,560
Net assets released from restrictions, satisfaction of program restrictions	19,413,167	(19,413,167)	-	-	15,084,206	(15,084,206)	-	-
Total revenues	143,499,972	(2,123,653)	121,033	141,497,352	139,402,953	8,037,583	224,024	147,664,560
Expenses:								
Program expenses:								
Education and formational services (Note 14)	22,081,773	-	-	22,081,773	25,495,736	-	-	25,495,736
Pastoral and evangelization (Note 14)	14,070,766	-	-	14,070,766	16,985,293	-	-	16,985,293
Social services	1,906,423	-	-	1,906,423	2,093,322	-	-	2,093,322
Pastoral regions	1,306,203	-	-	1,306,203	1,393,043	-	-	1,393,043
Total program expenses	39,365,165	-	-	39,365,165	45,967,394	-	-	45,967,394

See Notes to Financial Statements.

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Activities, Continued
Years Ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Other expenses:								
Priests' support and retirement	\$ 1,644,939	\$ -	\$ -	\$ 1,644,939	\$ 1,714,202	\$ -	\$ -	\$ 1,714,202
Fees to Catholic Conferences and Canon 1271	755,541	-	-	755,541	1,151,265	-	-	1,151,265
Administrative expense (Notes 10, 13 and 14)	18,291,474	-	-	18,291,474	20,456,167	-	-	20,456,167
Cemetery expense	26,844,271	-	-	26,844,271	34,071,451	-	-	34,071,451
Interest expense (Note 10)	5,368,023	-	-	5,368,023	1,415,792	-	-	1,415,792
Pension cost (Note 9)	6,609,605	-	-	6,609,605	(243,331)	-	-	(243,331)
Settlement expense, net of recovery (Note 13)	4,149,912	-	-	4,149,912	310,419,851	-	-	310,419,851
Insurance benefit (Note 14)	(11,972,199)	-	-	(11,972,199)	(7,556,326)	-	-	(7,556,326)
Bad debt expense	4,105,073	-	-	4,105,073	22,070,023	-	-	22,070,023
Fundraising expense	493,755	-	-	493,755	130,862	-	-	130,862
Total other expenses	56,290,394	-	-	56,290,394	383,629,956	-	-	383,629,956
Total expenses	95,655,559	-	-	95,655,559	429,597,350	-	-	429,597,350
Increase (decrease) in net assets before transfers and adoption of FASB Statement No. 158	47,844,413	(2,123,653)	121,033	45,841,793	(290,194,397)	8,037,583	224,024	(281,932,790)
Effect of adoption of recognition and measurement date provisions of FASB Statement No. 158 (Note 9)	-	-	-	-	(1,732,000)	-	-	(1,732,000)
Increase (decrease) in net assets before transfer and other changes	47,844,413	(2,123,653)	121,033	45,841,793	(291,926,397)	8,037,583	224,024	(283,664,790)
Other changes (Note 6)	(11,303,433)	-	-	(11,303,433)	-	-	-	-
Transfer of net assets	309,997	(4,423,914)	1,600,000	(2,513,917)	-	-	-	-
Transfer of restricted net asset from the Seminaries	-	752,207	-	752,207	-	-	-	-
Transfer of investments and change in net assets of Together in Mission	-	1,505,820	-	1,505,820	-	(2,391,901)	-	(2,391,901)
Increase (decrease) in net assets	36,850,977	(4,289,540)	1,721,033	34,282,470	(291,926,397)	5,645,682	224,024	(286,056,691)
Net assets (deficit), beginning of year	(230,196,763)	18,025,199	4,983,982	(207,187,582)	61,729,634	12,379,517	4,759,958	78,869,109
Net assets (deficit), end of year	\$ (193,345,786)	\$ 13,735,659	\$ 6,705,015	\$ (172,905,112)	\$ (230,196,763)	\$ 18,025,199	\$ 4,983,982	\$ (207,187,582)

See Notes to Financial Statements.

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Increase (decrease) in net assets before transfers	\$ 45,841,793	\$ (283,664,790)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net realized and unrealized loss (gain) on investments	10,441,517	(27,841,342)
Gain on sale of property and equipment	(4,309,500)	(268,845)
Transfer of net assets	(2,513,917)	-
Transfer of investments and net assets to Together in Mission	1,505,820	(2,391,901)
Transfer of restricted net asset from the Seminaries	752,207	-
Bad debt expense	4,105,073	22,070,023
Depreciation	1,774,755	4,719,755
Contributed property and equipment	(1,314,136)	-
Interest expense converted to notes payable	4,189,407	-
Assets contributed for long-term investments	(121,033)	(224,024)
Decrease (increase) in affiliate receivables	1,575,430	(4,558,369)
Decrease in contracts receivable	8,670,901	6,603,162
Increase in pledges receivable	(475,570)	(1,222,805)
Decrease (increase) in other receivables	317,283,664	(329,858,167)
Increase in overfunded pension benefit obligation	(1,836,000)	(5,950,000)
Decrease in intangible pension asset	-	9,192,000
Decrease (increase) in other assets	88,111	(4,734)
(Decrease) increase in accounts payable and accrued expenses	(5,536,963)	3,655,079
Decrease in affiliate payables	(54,701)	(508,926)
(Decrease) increase in reserve for litigation	(558,048,677)	590,045,000
Decrease in cemetery and mausoleum care funds	(2,466,692)	(9,942,793)
(Decrease) increase in insurance claims reserves	(390,563)	1,702,361
Increase (decrease) in liability for pension and postretirement plan benefits	13,427,000	(1,435,000)
Increase in deferred revenue	613,212	3,227,164
(Decrease) increase in custodial collections	(1,894,124)	1,504,935
Net cash used in operating activities	(168,692,986)	(25,152,217)
Cash Flows from Investing Activities		
Purchase of investments	(212,051,890)	(123,734,097)
Proceeds from maturities or sale of investments	262,388,159	160,214,423
Additions to notes receivable	(4,232,182)	(5,932,920)
Repayments of notes receivable	3,547,997	7,144,274
Purchases of property and equipment	(3,830,537)	(2,232,885)
Proceeds from sale of property and equipment	8,803,406	1,258,836
Net cash provided by investing activities	54,624,953	36,717,631

See Notes to Financial Statements.

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows, Continued
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Financing Activities		
Assets contributed for long-term investments	\$ 121,033	\$ 224,024
Proceeds from issuance of notes payable to affiliates	2,408,465	-
Proceeds from issuance of notes payable	177,861,188	-
Principal payments on notes payable	(61,775,003)	(11,693,246)
Net cash used provided by (used in) financing activities	118,615,683	(11,469,222)
Net increase in cash and cash equivalents	4,547,650	96,192
Cash and Cash Equivalents, beginning of year	2,728,205	2,632,013
Cash and Cash Equivalents, end of year	<u>\$ 7,275,855</u>	<u>\$ 2,728,205</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 785,633</u>	<u>\$ 1,165,754</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Interest on note receivable converted to note	<u>\$ -</u>	<u>\$ 2,029,881</u>
Interest on note payable converted to note	<u>\$ 4,189,407</u>	<u>\$ -</u>
Contributed properties and equipment	<u>\$ 1,314,136</u>	<u>\$ -</u>

See Notes to Financial Statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: The Administrative Office consists of the departments that provide pastoral, educational and administrative support to parishes, schools, seminaries and other institutions in the Roman Catholic Archdiocese of Los Angeles (the Archdiocese). The financial statements of the Administrative Office also include the operations of the Catholic Cemeteries. The supporting departments and programs are fiscally responsible to Cardinal Roger Mahony, Archbishop of Los Angeles. The parishes and schools and certain other institutions and entities in the Archdiocese operate independently and account for their operations separately; therefore, the accompanying financial statements do not reflect the financial position or activities for such organizations and are limited to the financial position and activities of the Administrative Office.

A significant portion of the Administrative Office's revenues is derived from donor gifts as well as assessments obtained from the parishes of the Archdiocese. In addition, the Administrative Office also derives revenue from certain rents and royalties. These revenues are expended by the Administrative Office for the various programs, ministries and needs of the Archdiocese. Administrative services provided include administration of Archdiocesan insurance programs and Archdiocesan pension plans. The Administrative Office provides these services principally to the Parishes and Elementary Schools of the Roman Catholic Archdiocese of Los Angeles, Archdiocesan and Parish High Schools of the Roman Catholic Archdiocese of Los Angeles, Seminaries of the Roman Catholic Archdiocese of Los Angeles and Catholic Charities of Los Angeles, Inc.

A summary of significant accounting policies is as follows:

Basis of accounting: The financial statements of the Administrative Office have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation: The financial statements of the Administrative Office have been presented in accordance with accounting principles applicable to nonprofit organizations generally accepted in the United States of America. These principles state that net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Administrative Office and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets: Includes gifts for which donor-imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

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

Cash and cash equivalents: Cash includes amounts on deposit with banks, as well as cash balances held by investment managers pending investment.

Concentration of credit risk—cash and cash equivalents: The Administrative Office maintains its cash balances at several financial institutions which, at times may exceed federally insured limits. The Administrative Office has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

There have been changes to federal insured bank account limits (FDIC coverage) and money market account balance guarantees since June 30, 2008. The Troubled Assets Relief Program (TARP) became law on October 3, 2008. With the new law the FDIC limits for interest-bearing deposits increased to \$250,000 in insured account coverage at each FDIC-insured bank. The coverage has also been expanded to provide unlimited insurance for a period of time on money in transaction accounts. On any account that does not pay interest, including most checking accounts; the FDIC will provide unlimited insurance. These changes to bank deposit coverage are set to expire on December 31, 2009. On September 19, 2008 the U.S. Treasury also guaranteed the deposits in all participating money market funds with no limit. That guarantee program has been extended until April 30, 2009.

Other receivables: Other receivables include insurance recovery receivables and receivables for legal fee reimbursements (see Note 13).

Notes receivable: Notes receivable consist of loans to affiliates and non-affiliates of the Administrative Office and are stated at the net realizable value. Interest rates on the loans range between 3.00 percent and 8.00 percent. The allowance for doubtful accounts is developed based upon historical write-off experience and any known specific issues, which exist as of the balance sheet date.

Pledges receivable: In accordance with Financial Accounting Standards Board (FASB) Statement No. 116, *Accounting for Contributions Received and Contributions Made*, unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the years in which the promises are received. As all pledges receivable are due within one year, no discount was calculated. Conditional promises to give are not included in pledges receivable until the conditions are met. Pledges deemed uncollectible by management are included in the allowance for uncollectible pledges. If a restriction is fulfilled in the same time period in which the contribution is received, the Administrative Office reports the support as unrestricted.

Contracts receivable: Contracts receivable represent sales contracts entered into for interment/entombment rights, merchandise and services. On new sales beginning in January 2008, interest is charged from the contract inception date at 10 percent annually (8 percent if signed up for ACH payment) over the life of the contract. Prior to that date, contracts under one year are interest free. Contracts over one year are interest free for the first year and then assessed a 7 percent interest rate for all years thereafter. The allowance for doubtful accounts is developed based upon historical write-off experience and the current ability of the patrons to pay the obligation.

Affiliate receivables: Affiliate receivables consist of advances on behalf of related entities in payment of their premiums on medical and other insurance coverage, as well as their pension and self-insurance reserve funding requirements. The Administrative Office also bills all parishes an 8 percent assessment on the respective parish's income based on the prior fiscal year. The allowance for doubtful accounts is developed based upon historical write-off experience and the current ability of the affiliate to pay the obligation.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included in the statement of activities. A majority of the investments are held in the Archdiocesan Investment Pool (the Pool), which is a separate activity within the Archdiocese. Gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations. The Administrative Office is allocated income or loss based upon its allocation of the total return earned on invested equities and debt securities held by the Pool. Investments in pooled funds are carried at market value (see Note 7). Investments in equity securities whose value is not readily determinable are valued through independent appraisal.

Property and equipment: All purchases of property and equipment of the Administrative Office over \$10,000 are capitalized. Purchased property and equipment are stated at cost. Certain assets, for which historical cost information was unavailable, were recorded at replacement cost or nominal value. Donated properties are carried at their estimated fair market value at the date of gift plus subsequent costs of improvements, if applicable. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 60 years. Land, cemetery and mausoleum development costs are amortized as cost of sales (using the weighted-average cost method) as graves, crypts and niches are sold.

Evaluation of long-lived assets: Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of projected undiscounted cash flows from these long-lived assets is less than their carrying value, then the assets are written down to their estimated fair value. For the years ended June 30, 2008 and 2007, management has determined that no impairment of long-lived assets exists.

Insurance claims reserves: The Administrative Office is self-insured for certain risks associated with its operations, including workers' compensation and automobile property damage. Further coverage is provided by a captive mutual insurance company (see Note 14). The Administrative Office assesses each of the participating Archdiocesan entities its portion of estimated insurance expense. These assessments are applied against policy premiums and presented as insurance benefit (cost) in the other expense section of the statement of activities. Total Archdiocesan claims currently payable plus an estimated amount for incurred but not reported claims have been accrued as Administrative Office liabilities. Benefits from insurance assessments are set aside in investments to meet accrued claim liabilities on self-insured programs.

Cemeteries care: Funds for future continuous care of the Cemeteries have been accumulated from fully paid contracts and are carried as accounts in the Investment Pool. For contracts with outstanding receivable balances, a corresponding deferred revenue is recorded for the unfunded portion for continuous care (see Note 13). Total amounts of deferred revenue on the outstanding receivables at June 30, 2008 and 2007, were approximately \$9,759,000 and \$12,225,000, respectively.

Contributions: Contributions are reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. 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 for which the donor-imposed restrictions have been met in the same reporting period are recorded as unrestricted support. Unconditional promises to give (pledges) are recorded as receivables and revenues. Conditional promises to give or intentions to give are not recorded in the financial statements.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Contributed services: Support, arising from contributed services of certain personnel who are paid stipends and hold positions which would otherwise be occupied by laypersons, are not reflected in the accompanying financial statements.

Annual appeal: The Administrative Office administers a special collection program called Together in Mission. The collection is conducted by the parishes and administered exclusively to provide support for certain parishes and elementary schools, which require operating subsidies to meet their needs (see Note 17).

Legal expenses: Legal expenses, net of reimbursements, are included in administrative expenses in the statement of activities. Legal expenses are accrued as they are incurred. Legal reimbursements are recorded when realized.

Functional allocation of expenses: The costs of providing various programs and other activities of the Administrative Office have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and services benefited.

Contribution to settlement: As of June 30, 2008, the Administrative Office has received \$52,181,234 in contributions from affiliated organizations to assist in the funding of the settlement. The contributions are in part derived from the sale of properties.

Retirement and postretirement benefits: The Administrative Office sponsors a defined benefit pension plan for lay employees, a defined benefit pension plan for priests and a retiree welfare benefits plan for priests. The defined benefit pension plan for lay employees covers substantially all full-time lay employees who have completed at least one year of service and have reached age 25. The defined benefit pension plan for priests is divided into a qualified plan and a supplemental plan and covers all priests who are ordained and incardinated in the Archdiocese, are in good standing and not on probation. The benefits are based on years of service. The retiree welfare benefits plan provides automobile insurance benefits and Medicare supplements for participants who are eligible to receive Medicare. The policy of the Administrative Office is to fund the plans as required by applicable regulations in addition to such amounts as the Administrative Office determines to be appropriate from time to time. Plan assets are invested in fixed income and equity securities (see Note 9).

In accordance with Statement of Financial Accounting (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132 (R)*, the Administrative Office reduced its pension obligation related to its defined benefit pension plan for lay employees by \$10,962,000 as of June 30, 2007. The pension obligation related to the defined benefit pension plan for priests was increased by \$5,725,000 and the obligation for the retiree welfare benefits plan was increased by \$6,969,000 as of June 30, 2007. Overall, the impact of the adoption of the recognition and measurement date provisions of SFAS No. 158 was an increase in pension obligation by \$1,732,000.

Income taxes: The Administrative Office is exempt from federal income and California franchise taxes under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Use of estimates: In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, including allocations to various program costs during the reporting period. Actual results could differ from those estimates. Administrative Office management considers the allowance for doubtful accounts on contract receivables, pledge receivables, note receivables and affiliate receivables to be such an estimate. Additionally, the litigation reserve and revalued property and equipment constitute such estimates.

Revenue recognition—cemeteries and mausoleums: Sales are generated through two sales programs: “At-need” and “Pre-need” programs, with each contract carrying the same terms and conditions. At-need sales are made by cemetery-employed arrangement counselors and pre-need sales are made by an outside agency. Sales and costs of sales related to at-need sales contracts, and grave plots, crypts and niches for pre-need sales contracts are recognized at the time of the sale. The sales and cost of sales related to resale products and services are deferred and recognized at fulfillment. Cost of sales is calculated by allocating total construction costs to the number of inventory units developed at a cemetery. Revenue related to predevelopment sales is deferred until construction begins, or “ground is broken.”

Fundraising expenses: Fundraising activities of the Administrative Office consist mainly of the campaign for the Together in Mission program of the Archdiocese of Los Angeles. Expenses incurred to administer and manage that campaign are applied against the proceeds generated through the campaign. Net proceeds of the campaign are classified as temporarily restricted assets and as a liability to the beneficiaries of the program.

Derivative Instruments: The Administrative Office accounts for an interest rate swap agreement in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, SFAS No. 133 requires all entities, including not-for-profit organizations, to recognize all derivatives as either assets or liabilities in their statement of financial position and to measure such instruments at fair value.

Reclassifications: Certain amounts in the prior year’s statements of financial position, activities and cash flows have been reclassified to conform to the current year presentation with no effect on ending net assets or changes in net assets.

Recent accounting pronouncements: SFAS No. 157, *Fair Value Measurements*, provides guidance for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity’s own data. The provisions of SFAS No. 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On December 1, 2007, the FASB has proposed a one-year deferral for this Statement. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, to partially defer FASB Statement No. 157, *Fair Value Measurements*. This FSP defers the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

On October 10, 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active*. This FSP amends FASB No. 157 and clarifies its application in an inactive market. This FSP specifically states that the guidance in it is consistent with the joint guidance issued by the SEC and the FASB on September 30, 2008. This FSP is effective as of its date of issuance (October 10, 2008) and is also effective for prior periods for which financial statements have not been issued (e.g., September 30, 2008) as of the date of its issuance. Revisions to fair value estimates resulting from the adoption of this FSP must be accounted for as a change in accounting estimate under FASB Statement No. 154, *Accounting Changes and Error Corrections*.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*, was issued in February 2007 and permits an entity to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. Management is currently evaluating the impact of adopting this statement.

In August 2008, the FASB issued FSP No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC, formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. This Staff Position is effective for fiscal years ending after December 15, 2008. Management is currently evaluating the impact of adopting this Staff Position on the Administrative Office's net asset classifications.

Notes to Financial Statements

Note 2. Management Plans

As part of the global settlement reached in July 2007 related to the lawsuits for claims of sexual misconduct by certain individuals (see Note 13), the Archdiocese contributed \$250 million toward the settlement. This liability was accrued as of June 30, 2007, and subsequently paid in December 2007. The payment was funded by loan proceeds of \$175 million (see Litigation Related Loan - Note 10) and \$75 million in Administrative Office resources. In addition, the Administrative Office also accrued a liability for \$74 million related to defendants and insurers that did not participate in the global settlement (the Unfunded Settlement Liability). This amount, to the extent that all or part of it is not recovered by the plaintiffs, will be the responsibility of the Archdiocese and payable in five years. As a result of the above, the Administrative Office's liabilities as of June 30, 2008 and June 30, 2007 exceed its assets by approximately \$170 million and \$207 million, respectively.

The Archdiocesan leadership has developed plans to address the financial impact of the settlement on its operations, provide for the recovery of its investment portfolio and the repayment of the Litigation Related Loan as well as the portion of the Unfunded Settlement Liability that the Archdiocese may be required to pay. Management's plans include the following:

- Sale of non-mission critical property whose fair market value is significantly higher than the historical cost reflected in the financial statements. Proceeds from the sale of these assets will be used to repay the Litigation Related Loan. As of June 30, 2008, the Archdiocese has sold 15 properties. The aggregate net escrow proceeds from these sales were \$57 million and were applied to reduce the \$175 million loan balance to \$118 million.
- Engage a new company to provide and accelerate a pre-need sales program to generate cash to offset the impact of the debt service costs of the Litigation Related Loan, rebuild the investment portfolio and contribute to the payment of the Litigation Related Loan and the portion of the Unfunded Settlement Liability that is not recovered within five years from nonparticipating defendants and insurers.
- Increase the assessment charged to the parishes of the Archdiocese to assist in the preservation of vital programs and support currently provided by the Administrative Office to parishes, schools, seminaries and other institutions in the Archdiocese.
- Solicit support from parishes in the form of either contributions or loans to assist in the payment of the Litigation Related Loan. As of June 30, 2008, the Administrative Office had received \$4 million in contributions and \$2 million in loans from parishes.
- Continued reductions in non-essential Administrative Office services

Archdiocesan leadership believes that the plan outlined above, in conjunction with continued efforts to identify additional revenue sources and cost reduction opportunities, will be sufficient to preserve the ability of the Administrative Office to deliver the essential services and programs to its constituents and also allow it to meet its financial obligations in a timely manner.

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Notes to Financial Statements

Note 3. Contracts Receivable

Contracts receivable represent sales contracts entered into for interment/entombment rights, merchandise and services. At-need contracts are predominantly paid in cash at the time of purchase, but some can range between 30 and 90 days if the patron's insurance is to pay the costs. Pre-need contracts range between one month and 60 months, with the predominant contract length being 60 months. Beginning in January 2008, interest is charged from the contract inception date at 10 percent (8 percent if sign up for ACH payment) over the life of the contract. Prior to that date, contracts under one year are interest free, and contracts over one year are interest free for the first year and then assessed a 7 percent interest rate for all years thereafter.

Contracts receivable consist of the following for June 30:

	<u>2008</u>	<u>2007</u>
Cemetery	\$ 17,445,312	\$ 25,433,023
Mausoleum	11,361,296	16,920,481
	<u>28,806,608</u>	<u>42,353,504</u>
Allowance for uncollectible accounts	(7,297,108)	(10,221,579)
Contracts receivable, net	<u>\$ 21,509,500</u>	<u>\$ 32,131,925</u>

Note 4. Affiliate Receivables

The Administrative Office advances money on behalf of its related entities in payment of its premiums on medical and other insurance coverage, as well as its pension and self-insurance reserve funding requirements. The ability of the entities to repay these obligations depends significantly on its continued ability to generate cash flows from normal operating activities.

To collect these obligations, the Administrative Office bills its affiliates on a monthly basis. The Administrative Office also bills all parishes an 8 percent assessment on their ordinary income based on the prior fiscal year. Affiliate receivables include the uncollected portion of the billings.

Affiliate receivables also include cash advances for the payment of operating expenses and construction projects for certain affiliates in addition to accrued interest on affiliate notes receivable and advances to affiliates.

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Notes to Financial Statements

Note 4. Affiliate Receivables, Continued

Affiliate receivables at June 30 consist of the following:

	2008	2007
Parishes	\$ 11,936,173	\$ 11,326,024
Elementary schools	10,068,654	10,068,228
High schools	1,623,663	1,848,197
Education & Welfare Corporation	299,261	768,463
Cathedral of Our Lady of the Angels	335,213	1,478,759
Together in Mission	622,938	3,888,290
St. John's Seminary College	687,438	1,657,385
St. John's Seminary of California	1,845,187	-
Catholic Education Foundation	63,902	948,235
Other	509,040	502,849
	<u>27,991,469</u>	<u>32,486,430</u>
Allowance for uncollectible accounts	(21,080,616)	(20,601,790)
Affiliate receivables, net	<u>\$ 6,910,853</u>	<u>\$ 11,884,640</u>

Note 5. Pledges Receivable

Pledges receivable at June 30 consist of the following:

	2008				
	Gross	Discount	Net of Discount	Allowance for Uncollectibles	Net of Discount and Allowance
Annual appeal	\$ 2,056,736	\$ -	\$ 2,056,736	\$ 304,397	\$ 1,752,339
Villa San Guiseppe	1,000,000	-	1,000,000	-	1,000,000
Knights of St. Gregory	71,500	-	71,500	-	71,500
	<u>\$ 3,128,236</u>	<u>\$ -</u>	<u>\$ 3,128,236</u>	<u>\$ 304,397</u>	<u>\$ 2,823,839</u>
	2007				
	Gross	Discount	Net of Discount	Allowance for Uncollectibles	Net of Discount and Allowance
Annual appeal	\$ 1,652,666	\$ -	\$ 1,652,666	\$ 165,267	\$ 1,487,399
Villa San Guiseppe	1,000,000	-	1,000,000	-	1,000,000
University Catholic Center	-	-	-	-	-
	<u>\$ 2,652,666</u>	<u>\$ -</u>	<u>\$ 2,652,666</u>	<u>\$ 165,267</u>	<u>\$ 2,487,399</u>

All pledges receivable outstanding at June 30, 2008 and 2007 mature within one year.

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Notes to Financial Statements

Note 6. Notes Receivable

Notes receivable at June 30 consist of the following:

	2008	2007
Parishes, high schools and elementary schools	\$ 19,519,584	\$ 18,942,743
St. John's Seminary	4,152,573	13,806,021
St. John's Seminary College	-	4,091,868
Cathedral of Our Lady of the Angels	10,000,000	27,182,668
Other nonaffiliated entities	3,567,030	3,793,583
	<u>37,239,187</u>	<u>67,816,883</u>
Allowance for uncollectible accounts	(3,570,686)	(24,913,072)
Notes receivable, net	<u>\$ 33,668,501</u>	<u>\$ 42,903,811</u>

Aggregate maturities of notes receivable for the five years following June 30, 2008 and thereafter are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2009	\$ 10,147,496
2010	968,862
2011	2,983,038
2012	2,607,452
2013	535,651
Thereafter	19,996,688
	<u>\$ 37,239,187</u>

On April 22, 2008 and June 30, 2008, the Administrative Office entered into debt forgiveness agreements with two affiliated entities whereby outstanding receivable balances of approximately \$34 million were written off. Since approximately \$23 million of these receivable balances were already reserved for in prior years, the effect on the statement of activities in the current year was a decrease in the change of net assets of approximately \$11 million. The Administrative Office continues to evaluate its affiliate receivable and notes receivable balances and will enter into such debt forgiveness agreements from time to time.

Note 7. Investments and Subsequent Events

In November 1986, the Archdiocese established an investment pool, which administers assets in trust, as agent and through independent custodial arrangements for the benefit of the various entities of the Archdiocese. The funds deposited by or on behalf of each participant are the sole property of that participant and are processed by the investment pool service providers and the Archdiocese as agents, custodians and trustees for the participants. During the year ended June 30, 2004, the servicing and custodial arrangements for the investment pool were enhanced to allow for direct fund access and reporting for all participants. These enhancements continue to be updated to provide better participant services. The investment pool has two separate pools, the Balanced Pool and the Income Pool.

Notes to Financial Statements

Note 7. Investments and Subsequent Events, Continued

The Balanced Pool was established for participants with long-term objectives of capital appreciation combined with capital preservation. Assets of the Balanced Pool, as of June 30, 2008 and 2007, are invested 68 percent and 69 percent in equities, 29 percent and 28 percent in fixed income securities, 2 percent and 2 percent in cash and cash equivalents and 1 percent and 1 percent in other assets, respectively.

The Income Pool was established to provide short-term objectives of current income with low risk of fluctuation in principal value. Assets of the Income Pool as of June 30, 2008 and 2007 are invested 88 percent and 75 percent in fixed income securities, 5 percent and 10 percent in notes receivable, 6 percent and 14 percent in cash and cash equivalents and 1 percent and 1 percent in other investments, respectively.

The investments in both funds are carried at market value. The pool is operated under the total return concept, under which each participant is allocated income (loss) based upon the total return earned on invested funds, including realized and unrealized gains and losses. Participant allocation of income earned and realized, and unrealized gains and losses in the Balanced Pool and Income Pool are to be based upon the time and dollar-weighted method under which participants are assigned a weighted value for the time that the funds have been held in the respective pools.

There are approximately 550 entities participating in the Pool which track separately their investment balances between the Balanced Pool and the Income Pool. Many of the entities have more than one Pool account in order to identify separately their restricted and unrestricted funds. The funds deposited on behalf of these entities are solely their property and are processed by the Archdiocese in its capacity as agent and trustee. Participants have direct reporting access which is accessible through secure internet protocols.

The average annual return on the investment pool for the years ended June 30 is as follows:

	<u>2008</u>	<u>2007</u>
Balanced pool	(7.00)%	16.90%
Income pool	2.30%	5.50%

The Administrative Office of
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Notes to Financial Statements

Note 7. Investments and Subsequent Events, Continued

Investments at June 30 consist of the following:

	2008	2007
Investment pool investments:		
Balanced pool	\$ 118,066,133	\$ 191,428,273
Income pool	92,613,746	79,069,439
Total investment pool investments	<u>210,679,879</u>	<u>270,497,712</u>
Nonpooled investments, at fair value:		
Watson Land Company Securities (all equities)	<u>8,200,045</u>	<u>8,174,180</u>
Charitable Remainder Trust		
Equities	1,612,863	1,833,797
Fixed income	1,216,544	1,365,572
	<u>2,829,407</u>	<u>3,199,369</u>
Other (all equities)	<u>161,525</u>	<u>777,381</u>
Total nonpooled investments	<u>11,190,977</u>	<u>12,150,930</u>
	<u>\$ 221,870,856</u>	<u>\$ 282,648,642</u>

The fair value of the Watson Land Company Securities was based primarily on the net asset values of Watson Land Company's land holdings and comparisons with publicly traded Real Estate Investment Trusts.

Investment pool income, net of expenses, for the years ended June 30 consists of the following:

	2008	2007
Interest and dividend income:		
Balanced pool	\$ 2,548,227	\$ 5,842,128
Income pool	3,241,812	4,193,431
Total interest and dividend income	<u>5,790,039</u>	<u>10,035,559</u>
Net realized and unrealized (loss) gain:		
Balanced pool	(9,005,662)	25,066,932
Income pool	(1,271,710)	542,223
Total net realized and unrealized (loss) gain	<u>(10,277,372)</u>	<u>25,609,155</u>
Investment expenses	(822,823)	(1,531,401)
Total investment (loss) income, net	<u>\$ (5,310,156)</u>	<u>\$ 34,113,313</u>

Other investment income for the years ended June 30 consists of the following:

	2008	2007
Net realized and unrealized gain	<u>\$ (164,145)</u>	<u>\$ 2,232,956</u>

The Administrative Office of
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Notes to Financial Statements

Note 7. Investments and Subsequent Events, Continued

Temporarily restricted investments represent gifts and bequests for which donor-imposed restrictions have not been met. Permanently restricted investments represent permanent endowments established by donor-restricted gifts and bequests. Of the total investments, temporarily restricted and permanently restricted investments consist of the following at June 30:

	2008	
	Temporarily Restricted	Permanently Restricted
Donor-restricted gifts	\$ 28,429,959	\$ 6,653,902
	2007	
	Temporarily Restricted	Permanently Restricted
Donor-restricted gifts	\$ 35,127,144	\$ 4,983,982

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the investments of the Administrative Office have likely incurred a significant decline in fair value since June 30, 2008.

Note 8. Property and Equipment

The composition of property and equipment at June 30 is as follows:

	2008	2007
Land	\$ 23,498,824	\$ 28,358,499
Cemetery and mausoleum developments	90,178,616	87,055,038
Buildings and improvements	8,661,322	7,631,447
Yard and yard buildings	4,848,534	4,801,251
Construction in progress	1,499,847	2,608,977
Furniture, fixtures and equipment	13,424,269	17,210,373
	142,111,412	147,665,585
Less accumulated depreciation	(85,051,914)	(87,879,902)
	\$ 57,059,498	\$ 59,785,683

The Administrative Office of
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Notes to Financial Statements

Note 9. Pension Plans and Other Postretirement Plan

Lay employees: The Archdiocese sponsors a defined benefit pension plan covering substantially all full-time lay employees (except for Catholic Charities and Rancho San Antonio, which participate in their own joint plan) who have completed at least one year of service and have reached age 25. The Administrative Office administers the plan and assesses each of the participating entities its portion of estimated annual pension cost. Contributions of \$11,190,000 and \$14,259,000 were made to the plan during the years ended June 30, 2008 and 2007, respectively. Benefit payments of \$9,736,000 and \$7,390,000 were made from the plan during the years ended June 30, 2008 and 2007, respectively. All contributions to the plan are made by the Archdiocese; there are no employee contributions to the plan.

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

	2008	2007
Service cost, benefits earned during the period	\$ 12,302,000	\$ 12,025,000
Interest cost on projected benefit obligation	13,303,000	12,110,000
Actual return on plan assets	10,432,000	(22,081,000)
Net amortization and deferral	(20,703,000)	15,757,000
Net periodic pension cost	<u>\$ 15,334,000</u>	<u>\$ 17,811,000</u>
Effect of adoption of SFAS No. 158		<u>\$ (10,962,000)</u>

The Administrative Office's assessed portion of the foregoing included in pension cost in the accompanying statement of activities was approximately \$990,340 and \$899,600 for the years ended June 30, 2008 and 2007, respectively.

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

	2008	2007
Accumulated benefit obligation for service rendered to date, including vested benefits of \$210,629,000 and \$203,909,000 respectively	<u>\$ (219,542,000)</u>	<u>\$ (213,630,000)</u>
Projected benefit obligation for service rendered to date	\$ (219,542,000)	\$ (213,630,000)
Plan assets at fair value	147,998,000	157,363,000
Funded status at end of year	<u>(71,544,000)</u>	<u>(56,267,000)</u>
Liability for pension benefits	<u>\$ (71,544,000)</u>	<u>\$ (56,267,000)</u>

The Administrative Office of
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Notes to Financial Statements

Note 9. Pension Plans and Other Postretirement Plan, Continued

Amounts recognized in the statement of financial position consist of:

	<u>2008</u>	<u>2007</u>
Noncurrent liabilities	<u>\$ 71,544,000</u>	<u>\$ 56,267,000</u>

Amounts recognized in unrestricted net assets consist of:

	<u>2008</u>	<u>2007</u>
Net loss	<u>\$ 48,393,000</u>	<u>\$ 37,260,000</u>

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.25 percent for the years ended June 30, 2008 and 2007 was used. The assumed rate of increase in future compensation levels was 4.25 percent and the expected long-term rate of return on plan assets was 8.00 percent for the years ended June 30, 2008 and 2007.

The Archdiocese employs a methodical process to determine the estimates of the 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, 2008 and 2007, the expected long-term rate of return used in determining net periodic pension cost was 8 percent.

The asset allocation for the lay employee pension plan as of June 30, 2008 and 2007 and the target allocation by asset category are:

<u>Asset Category</u>	Archdiocesan Finance Council Approved Asset Allocation	Policy Benchmark Asset Allocation	Actual Percentage of Plan Assets at June 30,	
			<u>2008</u>	<u>2007</u>
Equities	60-80%	70%	64%	69%
Fixed income	25-35%	30%	36%	31%

The pension plan has a diversified investment program, utilizing a variety of asset classes, that balances risk with return opportunities. It utilizes highly qualified external investment managers that have demonstrated skill in a particular asset class. The Archdiocese regularly monitors each investment manager's performance and the overall fund relative to benchmarks and also regularly reviews the asset allocation and makes appropriate changes accordingly. Prohibited investments include short sales, selling on margin and writing options other than covered options. Investment decisions include consideration for corporate social responsibility and Roman Catholic social teaching.

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Notes to Financial Statements

Note 9. Pension Plans and Other Postretirement Plan, Continued

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2009	\$ 7,691,000
2010	8,604,000
2011	9,627,000
2012	11,210,000
2013	12,806,000
2014–2018	85,907,000
	<u>\$ 135,845,000</u>

The Archdiocese expects to contribute \$16,000,000 to the pension plan during the fiscal year ending June 30, 2009.

Priests:

Defined benefit pension plan—qualified and supplemental plans: The Archdiocese sponsors a defined benefit pension plan covering all priests who are ordained or incardinated in the Archdiocese and in good standing and not on probation. Benefits are based on years of service.

The Qualified Plan provides a basic benefit for all eligible priests. The Supplemental Plan provides additional benefits to priests not living in a rectory, as well as other miscellaneous benefits.

Contributions of \$4,861,000 and \$6,927,000 to the Qualified Plan and \$645,000 and (\$38,000) to the Supplemental Plan were made during the years ended June 30, 2008 and 2007, respectively. Benefit payments of \$1,880,000 and \$1,822,000 from the Qualified Plan and \$835,000 and \$863,000 from the Supplemental Plan were made during the years ended June 30, 2008 and 2007, respectively.

The following items are the components of the net periodic pension cost for the Qualified and Supplemental Plans for the years ended June 30:

	<u>2008</u>		<u>2007</u>	
	<u>Qualified Plan</u>	<u>Supplemental Plan</u>	<u>Qualified Plan</u>	<u>Supplemental Plan</u>
Service cost, benefits earned during the period	\$ 343,000	\$ 173,000	\$ 343,000	\$ 171,000
Interest cost on projected benefit obligation	1,320,000	628,000	1,273,000	648,000
Actual return on plan assets	1,493,000	(135,000)	(3,180,000)	(390,000)
Net amortization and deferral	(3,134,000)	562,000	2,174,000	798,000
Net periodic pension cost	<u>\$ 22,000</u>	<u>\$ 1,228,000</u>	<u>\$ 610,000</u>	<u>\$ 1,227,000</u>
Effect of adoption of SFAS No. 158			<u>\$ 1,275,000</u>	<u>\$ 4,450,000</u>

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Notes to Financial Statements

Note 9. Pension Plans and Other Postretirement Plan, Continued

The following table sets forth the funded status of the Qualified and Supplemental Plan on June 30:

	2008		2007	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Vested benefit obligation for service rendered to date	\$ (20,395,000)	\$ (9,514,000)	\$ (20,667,000)	\$ (9,021,000)
Accumulated benefit obligation for service rendered to date	\$ (20,657,000)	\$ (9,871,000)	\$ (21,033,000)	\$ (10,702,000)
Projected benefit obligation for service rendered to date	\$ (20,657,000)	\$ (9,871,000)	\$ (21,033,000)	\$ (10,702,000)
Plan assets at fair value	28,443,000	2,943,000	26,983,000	3,048,000
Funded status as of end of year	7,786,000	(6,928,000)	5,950,000	(7,654,000)
Asset (liability) for pension benefits	\$ 7,786,000	\$ (6,928,000)	\$ 5,950,000	\$ (7,654,000)

Amounts recognized in the statement of financial position consist of:

	2008		2007	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Noncurrent assets	\$ 7,786,000	\$ -	\$ 5,950,000	\$ -
Noncurrent liabilities	-	(6,928,000)	-	(7,654,000)
	\$ 7,786,000	\$ (6,928,000)	\$ 5,950,000	\$ (7,654,000)

Amounts recognized in unrestricted net assets consist of:

	2008		2007	
	Qualified Plan	Supplemental Plan	Qualified Plan	Supplemental Plan
Net gain	\$ (2,230,000)	\$ (2,874,000)	\$ (6,013,000)	\$ (2,298,000)
Net transition obligation	3,203,000	2,939,000	3,736,000	3,588,000
Prior service cost	3,305,000	3,076,000	3,552,000	3,160,000
	\$ 4,278,000	\$ 3,141,000	\$ 1,275,000	\$ 4,450,000

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.25 percent was used for the years ended June 30, 2008 and 2007. The assumed rate of increase in the expected long-term rate of return on plan assets was 8.00 percent for the years ended June 30, 2008 and 2007.

The Administrative Office of
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Notes to Financial Statements

Note 9. Pension Plans and Other Postretirement Plan, Continued

The Archdiocese employs a methodical process to determine the estimates of the 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, 2008 and 2007, the expected long-term rate of return used in determining net periodic pension cost and net periodic postretirement benefit cost was 8 percent.

The Archdiocese expects to contribute \$5,000,000 to the pension plan during the fiscal year ending June 30, 2009.

Retiree welfare benefits plan: The Archdiocese sponsors a retiree welfare benefits plan for retired priests. This plan provides automobile insurance benefits and Medicare supplements for participants eligible to receive Medicare. The plan pays medical costs not covered by Parts A and B of Medicare. The plan also reimburses a priest's contribution for Part B expenses. Contributions of \$798,000 and \$(48,000) were made in the years ended June 30, 2008 and 2007, respectively. Benefit payments of \$674,000 and \$695,000 were made from the plan during the years ended June 30, 2008 and 2007, respectively.

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

	2008	2007
Service cost, benefits earned during the period	\$ 442,000	\$ 410,000
Interest cost on projected benefit obligation	840,000	847,000
Actual return on plan assets	(99,000)	(275,000)
Net amortization and deferral	337,000	546,000
Net periodic pension cost	<u>\$ 1,520,000</u>	<u>\$ 1,528,000</u>
Effect of adoption of SFAS No. 158		<u>\$ 6,969,000</u>

The Administrative Office's assessed portion of net periodic pension cost for the priests' pension and retiree welfare benefits plans included in priests' support and retirement in the accompanying statement of activities was approximately \$2,007,722 and \$2,008,704 for the years ended June 30, 2008 and 2007, respectively.

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

	2008	2007
Accumulated postretirement benefit obligation for service rendered to date	<u>\$ (13,505,000)</u>	<u>\$ (14,441,000)</u>
Projected benefit obligation for service rendered to date	\$ (13,505,000)	\$ (14,441,000)
Plan assets at fair value	2,288,000	2,100,000
Funded status as of end of year	<u>(11,217,000)</u>	<u>(12,341,000)</u>
Liability for postretirement benefits	<u>\$ (11,217,000)</u>	<u>\$ (12,341,000)</u>

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 9. Pension Plans and Other Postretirement Plan, Continued

Amounts recognized in the statement of financial position consist of:

	<u>2008</u>	<u>2007</u>
Noncurrent liabilities	<u>\$ (11,217,000)</u>	<u>\$ (12,341,000)</u>

Amounts recognized in unrestricted net assets consist of:

	<u>2008</u>	<u>2007</u>
Net loss	<u>\$ 5,123,000</u>	<u>\$ 6,969,000</u>

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.78 percent was used for the years ended June 30, 2008 and 2007. The expected rate of increase in the expected long-term rate of return on plan assets was 8.00 percent for the years ended June 30, 2008 and 2007. For the retiree welfare benefits plan, future expected health costs are assumed to increase 5.50 percent per year. The ultimate healthcare cost trend rate is also 5.50 percent.

Plan assets for the priest defined benefit pension plan and retiree welfare benefits plan are combined in a single trust account. The asset allocation of the trust as of June 30, 2008 and 2007 and the target allocation by asset category are:

<u>Asset Category</u>	Archdiocesan Finance Council Approved Asset Allocation	Policy Benchmark Asset Allocation	Actual Percentage of Plan Assets at June 30	
			<u>2008</u>	<u>2007</u>
Equities	60-80%	70%	48%	50%
Fixed income	25-35%	30%	52%	50%

The priest plan has a diversified investment program, utilizing a variety of asset classes that balances risk with return opportunities. It utilizes highly qualified external investment managers that have demonstrated skill in a particular asset class. The Archdiocese regularly monitors each investment manager's performance and the overall fund relative to benchmarks and also regularly reviews the asset allocation and makes appropriate changes accordingly. Prohibited investments include short sales, selling on margin and writing options other than covered options. Investment decisions include consideration for corporate social responsibility and Roman Catholic social teaching.

The Administrative Office of
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Notes to Financial Statements

Note 9. Pension Plans and Other Postretirement Plan, Continued

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the qualified, supplemental and retiree welfare benefits plan:

Years Ending June 30,	Qualified Plan	Supplemental Plan	Retiree Welfare Benefits Plan
2009	\$ 2,050,000	\$ 819,000	\$ 785,000
2010	1,991,000	826,000	806,000
2011	1,908,000	817,000	813,000
2012	1,864,000	829,000	833,000
2013	1,848,000	840,000	866,000
2014-2018	8,693,000	4,139,000	4,706,000
	\$ 18,354,000	\$ 8,270,000	\$ 8,809,000

The Archdiocese expects to contribute \$785,000 to the retiree welfare benefits plan during the year ending June 30, 2009.

403(b) workplace retirement savings plan: On May 9, 2006, the Archdiocese implemented a 403(b) workplace retirement savings plan (the 403(b) Plan), a voluntary defined contribution plan. Under the 403(b) Plan, priests within the Archdiocese can defer and invest a portion of their salaries with Fidelity Investments. The moneys that are deferred, and any moneys contributed by the Archdiocese, are not considered assets or liabilities of the Archdiocese. The Administrative Office of the Archdiocese contributed and expensed \$76,200 and \$82,450 to the 403(b) Plan during the year ended June 30, 2008 and 2007, respectively.

Note 10. Notes Payable and Subsequent Events

Notes payable at June 30 consist of the following:

	2008	2007
Litigation related loan	\$ 122,589,407	\$ -
Church construction loans	23,450,000	21,563,812
Mausoleum construction loans	1,516,651	5,716,654
	\$ 147,556,058	\$ 27,280,466

Note 10. Notes Payable and Subsequent Events, Continued

Litigation related loan: On November 29, 2007, the Roman Catholic Archbishop of Los Angeles, a corporation sole (RCALA), entered into a loan arrangement with Allied Irish Bank which provides newly consolidated loan facilities of up to \$256 million to the Archdiocese. The loan involves new facilities and incorporates and amends current facilities and loans from the bank to the RCALA. Included in the new arrangements are \$175 million in principal to fund a portion of the RCALA's obligation in the settlement of the abuse litigation, an additional \$25 million facility that can be used to fund interest on the \$175 million, \$35 million in a new revolving line of credit for corporate needs and \$21 million which reflects the consolidation of previous loans and credit facilities to the RCALA for existing real estate projects at schools and parishes in the Archdiocese, including approximately \$5 million which is outstanding on the loan to the Cathedral of Our Lady of the Angels and which was fully discharged on November 20, 2008.

On the date of the loan, the RCALA borrowed \$175 million under the new facility and used it to partially fund the \$250 million advanced by the RCALA to resolve the global settlement of the Clergy I Litigation (see Note 13).

The Archdiocese of Los Angeles Education & Welfare Corporation (E&W) has guaranteed these loans. In addition, the bank required real estate security for the loans equal to 80 percent of the loan advances. To accommodate this requirement, (a) the RCALA has provided deeds of trust on non-parish real estate owned by it with a valuation of approximately \$53.6 million, including property reserved for future cemetery use which was the subject of an existing deed of trust to the bank to secure the existing line of credit, and (b) to secure its guaranty, E&W provided deeds of trust on six Archdiocesan high school physical plants with a valuation of approximately \$155.0 million.

The loans and the revolving line of credit mature in three years and bear interest at an overall rate of 1 percent above LIBOR on the outstanding balance. At the maturity date, the RCALA will have an option to convert up to \$50 million of the remaining loan balances into a 10-year term loan with interest at 1 percent above LIBOR. The revolving line of credit is subject to a 0.5 percent fee per annum on any unadvanced portion payable quarterly in arrears.

In conjunction with this loan, the Administrative Office entered into an interest rate swap agreement with the lender. The purpose of this agreement is to swap the variable interest rate on \$60 million of the underlying debt for a fixed rate of 4.15 percent for the term of the debt. Under SFAS No. 133, the instrument's fair value and changes therein must be measured in the Administrative Office's net assets. The value of the swap instrument represents the estimated cost to the Administrative Office to cancel the agreement at the reporting date, which is based on pricing models that consider risks and market factors. A liability in the amount of \$736,691 was included in accounts payable and accrued expenses and the corresponding expense was included in administrative expense as of June 30, 2008.

The RCALA intends to repay the \$175 million borrowed under the new facilities principally from the sale of real estate, including approximately \$16 million which was funded in December 2007 from the sale of the land underlying Rancho San Antonio to Catholic Charities and approximately \$30 million which was funded in January 2008 from the sale of the Archdiocesan Administrative Offices, which were owned by an affiliate, to a third party. As of June 30, 2008, the amount outstanding on this loan arrangement was \$122,589,407.

The Administrative Office continues to market and sell real estate in order to repay this loan. As of June 30, 2008, four properties with a total cost basis of \$1,602,197 were reclassified to properties held for sale and subsequently sold. As of June 30, 2008 an impairment loss of \$650,298 was realized on two of those properties as they were sold below cost. The impairment loss is netted against rents, fees and other income on the statement of activities.

Notes to Financial Statements

Note 10. Notes Payable and Subsequent Events, Continued

Church construction loans: On November 20, 1998, the Administrative Office issued an interest-bearing \$70,000,000 note to a lender, the proceeds of which were applied to the construction of the Cathedral of Our Lady of the Angels. The note was due on November 20, 2008, with interest payable monthly at the rate of 5.95 percent. Payments of \$39,000,000, \$20,000,000 and \$6,000,000 were made on this note in fiscal years 2004, 2006 and 2007, respectively, leaving a balance of \$5,000,000 at June 30, 2008 and 2007. The Cathedral is obligated to repay these amounts, including accrued interest, to the Administrative Office which, in turn, repays the lender. Accordingly, interest income and interest expense of \$301,632 and \$517,815 is reflected in the statement of activities as of June 30, 2008 and 2007, respectively. On December 22, 2005, the Administrative Office entered into a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing with a lender for certain real property located in the County of Los Angeles to serve as collateral for this term loan note. On November 29, 2007, this loan was made part of the new consolidated loan facilities as noted above. This loan was repaid on November 20, 2008 (See Note 19).

On October 15, 2001, the Archdiocese, on behalf of the Holy Trinity Parish of San Pedro, obtained a loan of \$6,500,000 from a lender to finance construction projects at the parish. The note is due on October 15, 2011, with interest payable monthly and principal payable in 40 equal quarterly installments. This loan was originally carried on the books of the parish only; however, as the Archdiocese is the primary obligated party to the lender, this loan is recorded on the ledger of the Administrative Office. As payments of interest and principal are made by the parish, interest income and interest expense of \$126,241 and \$168,750 are reflected in the statement of activities of the Administrative Office for the years ended June 30, 2008 and 2007, respectively. The outstanding balance of the note payable was \$1,950,000 and \$2,925,000 as of June 30, 2008 and 2007, respectively. On November 29, 2007, this loan was made part of the new consolidated loan facilities, as noted above.

On March 3, 2004, the Administrative Office signed an unsecured line-of-credit agreement with a lender to fund construction of a new high school at Mary Star of the Sea in San Pedro and a new church and parish center for St. Mary's parish in Palmdale. Under the terms of the agreement, the bank agreed to make advances to the Archdiocese from time to time up to and including March 3, 2006, not to exceed \$20,000,000. The line is divided between St. Mary's and Mary Star of the Sea in the amounts of \$11,500,000 and \$8,500,000, respectively. The line of credit has a term-out option on the \$11,500,000 portion of the debt for up to five years from the date of term-out, amortized over 15 years. The outstanding principal balance of the line of credit will bear an interest rate of eighty-five hundredths above LIBOR. If a term-out option for conversion to a five-year loan is exercised, the outstanding principal balance will accrue interest at the rate of eighty-five hundredths above LIBOR for periods up to one year. For interest rate periods longer than one year, all outstanding principal amounts would accrue interest at the rate quoted by the lender equal to the funding rate on the date the contract is initiated plus eighty five basis points. The outstanding balance of the credit line was \$8,638,812 as of June 30, 2007. On June 30, 2008 this line of credit was converted to a note with an outstanding principal amount of \$11,500,000 and a term of five years. Payments on the note will be amortized over 15 years resulting in monthly payments of \$102,879 with a bullet principal payment of \$8,911,940 due on June 30, 2013. The loan bears interest at 6.87 percent. This loan is a part of the new consolidated loan facilities as noted above. The \$8,500,000 line of credit relating to Mary Star of the Sea in San Pedro expired in February 2008.

On October 1, 1999, the Administrative Office obtained a loan of \$5,000,000 from a lender to be used in the construction of the Cathedral of Our Lady of the Angels. Upon fulfillment of certain contingencies, the loan will be forgiven in increments of \$1,000,000 per year, starting in fiscal year 2014. Interest is payable quarterly at the rate of 3 percent. The Cathedral reimburses the Administrative Office for the interest costs; therefore, interest income and interest expense of \$150,000 is reflected in the statement of activities for the years ended June 30, 2008 and 2007.

Note 10. Notes Payable and Subsequent Events, Continued

Mausoleum construction loans: On May 1, 2002, the Archdiocese, on behalf of the Cemeteries, signed a loan agreement with a lender to advance \$3,500,000 to the Archdiocese on May 1, 2002 and an additional \$3,500,000 on May 1, 2003. The loan is payable in 60 equal principal payments, beginning on June 1, 2004. The loan bears interest at 6.75 percent. The outstanding balance of the note was \$1,283,318 and \$2,683,321 as of June 30, 2008 and 2007, respectively. On December 22, 2005, the Administrative Office entered into a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing with a lender for certain real property located in the County of Los Angeles to serve as collateral for this term loan agreement. On November 29, 2007, this loan was made part of the new consolidated loan facilities as noted above.

On October 12, 2001, the Archdiocese, on behalf of the Cemeteries, signed a line-of-credit agreement with a lender for purposes of mausoleum construction. Under the terms and conditions of the agreement, the lender agreed to make advances to the Archdiocese from time to time up to and including July 15, 2003, not to exceed \$14,000,000. Effective July 15, 2003, the line-of-credit agreement was converted into a term loan. Commencing August 15, 2003, the principal balance outstanding under the term commitment is to be repaid in 60 equal monthly installments of \$233,333. The outstanding principal balance of the term commitment bears interest either (i) at a fluctuating rate per annum one percent below the Prime Rate in effect from time to time, or (ii) at a fixed rate per annum determined by the lender to be ninety-five hundredths percent above LIBOR in effect on the first day of the applicable Fixed Rate Term. The proceeds of the note are being used for the construction of a new mausoleum at the Calvary Cemetery in Los Angeles. The outstanding balance of the note payable was \$233,333 and \$3,033,333 as of June 30, 2008 and 2007, respectively.

Other: On December 22, 2005, the Administrative Office entered into a line-of-credit agreement with a lender for a revolving line of credit of up to \$35,000,000 with a term of two years from the date of the agreement. The outstanding principal balance of the line of credit will bear an interest rate of LIBOR plus one hundred basis points for the first year. For interest rate periods longer than one year, all outstanding principal amounts will accrue interest at the rate quoted by the lender equal to the funding rate on the date the contract was initiated plus 100 basis points. A fee of 0.5 percent will be charged on any unused portion of the line of credit payable quarterly in arrears. On December 22, 2005, the Administrative Office entered into a Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing with a lender for certain real property located in the County of Los Angeles to serve as collateral for this line of credit. As of June 30, 2008 and 2007, no amounts were outstanding under this line of credit. On November 29, 2007 this line of credit was renegotiated when the Archdiocese entered into a new loan arrangement with Allied Irish Bank.

On November 28, 2007, E&W entered into a 20-year secured loan in the principal amount of \$8 million on behalf of and for the benefit of Mary Star of the Sea High School in San Pedro (MSSHS). The loan is secured by the newly constructed MSSHS real and personal property and other operating assets of MSSHS, and is guaranteed by the RCALA. The proceeds of the loan are defraying \$8 million of the approximately \$14.5 million spent to prepare the site and to plan, build, furnish and equip the new high school which opened in fall 2007. The principal and interest at 5.81 percent per annum are to be repaid monthly by MSSHS. The Corporation and RCALA advanced the construction funding during the construction phase and are the record borrower and guarantor solely on behalf of MSSHS, which is obligated to repay the loan.

Notes to Financial Statements

Note 10. Notes Payable and Subsequent Events, Continued

In December 2007, the RCALA entered into a bank revolving line of credit for \$1 million on behalf of and for the benefit of St. Philip the Apostle church in Pasadena to fund certain unfunded capital improvements and renovation costs until existing pledges are paid and the capital campaign is completed. The line of credit is for one year, subject to extension for four additional one-year periods. The loan is guaranteed by a third-party individual who has supported the renovation and capital improvements at the parish. In December 2007, approximately \$225,000 of the line was drawn and the amount drawn as of June 30, 2008 was \$241,015. Amounts outstanding under the loan bear interest at the bank's prime rate, subject to the right of the borrower under certain conditions to elect to have interest at LIBOR, plus 1.5 percent. The line of credit was closed in October 2008.

Aggregate maturities of long-term debt for the five years following June 30, 2008 and thereafter are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2009	\$ 7,247,300
2010	1,126,588
2011	123,750,347
2012	870,775
2013	9,561,048
Thereafter	5,000,000
	<u>\$ 147,556,058</u>

Note 11. Notes Payable to Affiliates

Notes payable to affiliates consist of amounts received from affiliated organizations to be used in the funding of the global settlement. As of June 30, 2008, the amount outstanding on these notes was \$2,408,465. The notes have a term of up to 10 years with interest ranging from 0 percent to 3.29 percent over the term of the notes.

Note 12. Deferred Revenue

Deferred revenue consisted of the following at June 30, 2008:

Resale products and services: Cemetery sales related to resale products and services are deferred and recognized at fulfillment. Deferred revenues amounted to \$147,507,067 and \$147,827,058, net of estimated cancellations of \$2,026,974 and \$2,839,327 at June 30, 2008 and 2007, respectively.

Predevelopment sales: Cemetery revenue for predevelopment sales is deferred until ground has been broken on the construction of mausoleums. As of June 30, 2008 and 2007, predevelopment sales amounted to \$534,085 and \$90,470, respectively, and consisted of sales deferred for three mausoleums.

Notes to Financial Statements

Note 12. Deferred Revenue, Continued

Patrons' deposits: The Cemeteries have the right to cancel any installment purchase agreement on which payment has not been received. In this event, or on cancellation by the patron, any principal payment made, less any accrued interest, will be deposited into the patron's deposit account. The patron has up to one year to access these funds, either in the form of a credit towards a new purchase or as a refund. If this period expires, the patron loses all rights to a refund and the money returns to the Cemeteries. If a patron elects a refund, approximately 25 percent of the gross sale is retained to cover any contract processing costs. Patrons' deposits include deposits from canceled contracts and credits based on estimated cancellations. Patrons' deposits amounted to \$2,265,895 and \$1,776,307 at June 30, 2008 and 2007, respectively.

Note 13. Commitments and Contingencies and Subsequent Events

Litigation

Sexual misconduct claims: The Archdiocese was involved in numerous lawsuits related to claims of sexual misconduct by certain individuals. The cases involved claims naming the Archdiocese, the Roman Catholic Archbishop of Los Angeles, a corporation sole (RCALA), other corporations and operating entities in the Archdiocese, as well as other dioceses, various religious orders of priests and religious men and women, and lay individuals. Most of the claims were the result of the enactment of a California statute effective January 1, 2003, which provided a one-year period for claimants to file suits that might have previously been barred by applicable statutes of limitations. The claims were coordinated in the Superior Court of California as the Clergy I coordinated proceedings and were administered in the Los Angeles Superior Courts (Clergy I Litigation). As of July 1, 2007, approximately 600 claims naming the Archdiocese alone or with other defendants were outstanding.

In December 2006, the Archdiocese settled 45 claims (representing 46 persons), which constituted substantially all of the claims in the Clergy I Litigation alleging abuse during periods either prior to the fall of 1953 (years for which insurance policies were found in Archdiocesan records) or since 1986, when the Archdiocese became a member of and participated in a liability risk retention group formed with other dioceses in the western United States. These claims totaled \$60 million, of which approximately \$10 million was funded by the risk retention group, approximately \$8 million was funded by the other defendants and their insurers, and the balance of approximately \$42 million was funded by the Archdiocese. The estimated liabilities and recovery assets were recorded at June 30, 2006.

Also in December 2006, 34 other Clergy I Litigation claims were settled, including 32 which had a religious order as the principal defendant and two which had the Archdiocese as the principal defendant. To reach the settlement in the 32 claims, the Archdiocese contributed a total of \$1,820,000 of which \$445,000 was funded by its insurers. In the two claims where the Archdiocese was the principal defendant, an aggregate settlement of \$760,000 was reached, of which \$750,000 was funded by the risk retention group. The estimated liabilities and recovery assets were recorded at June 30, 2006.

On July 16, 2007, the Archdiocese reached an agreement in principle to reach a global settlement of the remaining and then outstanding Clergy I Litigation claims, including claims against both the Archdiocese and non-Archdiocesan parties, for a total settlement amount of \$660 million. Certain non-Archdiocesan parties agreed to participate in July and other non-Archdiocesan parties became participants between then and the effective date of November 30, 2007. One religious order with 17 claims against it did not participate by the effective date but the claims against the

Note 13. Commitments and Contingencies and Subsequent Events, Continued

Archdiocese and the other defendants were included in the settlement at the effective date. The religious order settled the claims against it in June 2008 and it is included in the global settlement references herein. Since the global settlement and through October 31, 2008, eight additional claims had been filed naming the Archdiocese and other defendants and including allegations of misconduct by clergy or lay persons that may or may not be timely under the applicable statute of limitations. For administrative convenience, the Court has continued to coordinate and oversee these matters under the title of the Clergy I Litigation.

Initial funding of the 517 cases included in the July 2007 global settlement, occurred on December 3, 2007. The specific settlement amount paid to each of the claimants was determined under a court-supervised process involving counsel for the claimants and the Court. The Archdiocese and the other defendants were not involved in the determination of the particular amounts paid to each claimant. The settlement amount was accrued in the June 30, 2007 financial statements.

The Archdiocese and the other defendants, as well as their respective insurers, were required to fund at least \$504 million on December 3, 2007, the initial funding date. On December 3 and 4, 2007, approximately \$530 million was paid into escrow and distributed to the various plaintiff attorneys for allocation to the plaintiffs and the plaintiff attorneys. Of this amount, the Archdiocese contributed \$250 million (consisting of \$175 million in loan proceeds and \$75 million from Administrative Office resources); other defendants and their insurers contributed \$82.4 million and the Archdiocese's insurers contributed \$197.6 million.

From December 5, 2007 to June 30, 2008, and from June 30, 2008 to October 31, 2008, respectively, additional amounts of approximately \$31.2 million and \$31.1 million were funded (net of payments for certain obligations for continuing litigation) by Archdiocesan insurers and defendants, other than the Archdiocese, including the order that settled in June, 2008. As of November 1, 2008, other defendants continue to be obligated to fund approximately \$ 6.7 million and one defendant has a contingent obligation to provide up to \$4 million in additional funding if certain properties are appraised or sold at certain levels by November 2012.

An estimated \$60 million of the total settlement of \$660 million is expected to remain outstanding until 2012 will be the obligation of the Archdiocese, payable in 2012, with interest at the Archdiocese's best bank borrowing rate, determined and agreed to under the settlement documents at December 1 of each year and calculated in negotiations under the settlement agreement on amounts outstanding, until payment, from December 4, 2007. At June 30, 2008, an interest obligation, of \$3 million was accrued to cover this obligation for the period then ended.

In connection with inclusion of certain defendants who were not participants in the July 2007 global settlement, an additional \$900,000 was paid in March 2008 from Administrative reserves under the settlement agreement to cover negotiated amounts due in connection with discovery and other proceedings in the particular claims.

Under Canon Law, payment of all of the 2006 and 2007 settlement amounts and certain aspects of the financing arrangements required approval of specified Archdiocesan groups and of the Holy See (Vatican), all of which approvals were obtained in 2006 and 2007.

Notes to Financial Statements

Note 13. Commitments and Contingencies and Subsequent Events, Continued

In connection with the global settlement of the Clergy I Litigation, the claimants, all of the Archdiocesan entities, the defendants, their respective insurers, and other participating parties and certain of their respective related entities dismissed and released each other from all claims against the other. This included dismissals of the principal claims, dismissals of the litigation pending between the Archdiocese and certain of its insurers and a release by the Archdiocese of all future claims against its insurers (other than the risk retention group) for any claims that are brought alleging childhood sexual abuse during periods covered by policies with those insurers, generally the years 1953 to 1986.

For 2006 and 2007 settlements in the Clergy I litigation, the Administrative Office financial statements include accruals of a liability of \$103.4 million and \$661.4 million as of June 30, 2008 and 2007, respectively, and a receivable of \$25.6 million and \$336.0 million at June 30, 2008 and 2007, respectively, after giving effect to the contributions by insurers, the risk retention group and by the religious orders and other parties named in some of the claims. The amounts accrued in 2008 and 2007, respectively, were paid or funded as described above.

Additional claims, that may or may not be timely, continue to be asserted or filed alleging sexual misconduct by individuals. As noted above, for administrative purposes, the Court has continued the Clergy I litigation for filed litigated matters and at October 31, 2008, eight such matters were pending and in the early stages of litigation. No accrual has been made for these claims. The effect of these claims is not expected to be material.

In addition, between July 1, 2007 and June 30, 2008, six claims involving allegations of minor or adult abuse by clergy that were not in litigation and were not part of the Clergy I Litigation were settled by the Archdiocese. A total of \$1.1 million was paid in the settlements, of which \$775,000 was funded by the risk retention group. Since June 30, 2008, five additional claims, involving allegations of minor or adult abuse of clergy that were not in litigation and were not part of the Clergy I litigation were settled for a total of \$225,500, of which \$35,000 is being funded by the risk retention group. The June 30, 2008 financial statements include accruals of a liability of \$225,500 and a receivable of \$35,000 for these claims. Other claims may be brought or asserted in the future. No accrual has been made for those claims. The effect of any future claims is not expected to be material.

The Archdiocese incurred expenses of approximately \$12.9 million and \$21.8 million for legal fees and other costs related to sexual abuse claims during fiscal years ended June 30, 2008 and 2007, respectively. The Archdiocese received or accrued approximately \$3.6 million and \$12.7 million in reimbursement of such legal fees and other costs from certain insurers and the risk retention group during fiscal years ended June 30, 2008 and 2007, respectively. The Archdiocese will continue to be eligible to receive reimbursements, when appropriate, from the risk retention group for claims arising after January 1, 2007. The Archdiocese expects to incur some future non-reimbursed charges related to the implementation of the global settlement.

Other litigation: The Archdiocese is subject to various other lawsuits and claims, including general litigation, which arise in the general course of the operations of the Archdiocese and its parishes, schools and other activities. Various lawsuits and claims, not related to the sexual misconduct claims, are pending against the Archdiocese. The majority of these claims, the Archdiocese believes, are subject to coverage under the Archdiocese's insurance programs. The Archdiocese accrues for uninsured amounts related to these legal matters if it is probable that a liability has been incurred and an amount can be reasonably estimated.

Notes to Financial Statements

Note 13. Commitments and Contingencies and Subsequent Events, Continued

Cemeteries perpetual care and commodities commitments: Cemetery and Mausoleum sales contracts require the Archdiocese to maintain funds for the general care and maintenance of cemetery properties in perpetuity. Amounts are assessed on all sales of graves, crypts and niches. In addition, a commodities fund has been established for the obligation to provide for future purchases of fulfillable items (resale products). The contributions to the perpetual care and commodities funds are made at a fixed rate of 15 percent of the sales prices on all interment rights sales. Obligations for this perpetual care and commodities commitment have not been depicted as liability in the financial statements; however, funds related to these commitments have been set aside as accounts in the Investment Pool funds. At June 30, 2008 and 2007, investments related to the cemeteries perpetual care and commodities commitments amounted to approximately \$17,790,175 and \$130,354,069, respectively. In October 2007, \$114,986,000 was appropriated from the perpetual care fund for purposes of funding the global settlement reached in July 2007 related to the lawsuits for claims of sexual misconduct by certain individuals. Management plans to repay these appropriated funds from future cemetery sales of graves, crypts and niches.

Mortuaries property lease: Commencing on September 15, 1997, the Archdiocese entered into a contract with a third party to lease land to the third party for 40 years. The third party will build and operate nine mortuaries on certain Cemetery properties. Upon completion of the mortuaries, the rights of ownership to the mortuary buildings will transfer to the Archdiocese. Buildings are constructed and paid for by the third-party operator, who capitalizes these buildings on its financial statements. These buildings are therefore not capitalized on the books of the Administrative Office. As of June 30, 2008, six mortuaries have been completed. The Cemeteries will account for this lease of properties as an operating lease. Rental income amounted to \$795,525 and \$695,634 for the years ended June 30, 2008 and 2007, respectively.

Lease commitment: On January 10, 2008, the RCALA entered into a lease agreement with a third party for the rental of office space to be occupied by the Administrative Office and other affiliates of the Archdiocese. This office space was previously owned by and leased from an affiliate at a rate of \$1 per year.

The lease term is for an initial period of five years, with the option to renew for an additional 15 consecutive one-year periods. Lease payments are \$68,400 per month for year 1, \$69,540 per month for year 2, \$71,250 per month for year 3, \$72,390 per month for year 4 and \$74,100 per month for year 5. The Administrative Office will record rent expense on the straight-line basis over the initial five-year term.

Minimum lease commitments on a cash basis for the following fiscal years in effect at June 30, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2009	\$ 821,940
2010	836,190
2011	856,140
2012	870,390
2013	481,650
	<u>\$ 3,866,310</u>

A deferred lease liability in the amount of \$292,282 is included in accounts payable and accrued expenses. Rent expense for the year ended June 30, 2008 was \$360,682.

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Notes to Financial Statements

Note 14. Related Parties

The Archdiocese is a member of and participates in a risk retention group, with certain other Roman Catholic dioceses in the western United States, which primarily provides general and auto liability coverage to its members. Members may give 18 months' notice of their intent to withdraw. The risk retention group recognizes liability on a claims-made basis. During that notice period, the withdrawing member's premiums will be adjusted to cover the losses projected through the withdrawal date. Members have made an initial investment in and pay premiums to the risk retention group.

The Archdiocese is a Trustor of and participates in a multiemployer health plan, with various other nonprofit religious organizations of the Roman Catholic Church. In order to maintain minimum reserve requirements in the trust fund, the plan adjusts the premium that it charges to participants.

Other related parties of the Administrative Office include corporations owned by the Roman Catholic Archbishop of Los Angeles and Parishes of the Archdiocese. In addition to balances and activities described in Notes 4 and 6, the Administrative Office had a payable to affiliates of \$548,655 and \$603,356 as of June 30, 2008 and 2007, respectively. Parish assessments and interest on affiliate loans contributed \$15,302,556 and \$16,307,967 to revenues for the years ended June 30, 2008 and 2007, respectively. The Administrative Office manages leases of certain properties which are owned by the Archdiocese of Los Angeles Education and Welfare Corporation. Proceeds from leases of these properties are collected by the Administrative Office and accounted for as a contribution to other income from the Archdiocese of Los Angeles Education & Welfare Corporation. Corresponding contribution expense to the Administrative Office is recorded by the Archdiocese of Los Angeles Education & Welfare Corporation on its financial statements. Total such contribution to other income amounted to \$559,718 and \$608,587 for the years ended June 30, 2008 and 2007, respectively.

Expenses incurred on behalf of related parties consist of subsidy and insurance program benefit. Subsidy is provided through a number of programs and for a variety of activities. Subsidy supports the work of the Church by providing funding for sacraments, ministries, Catholic education, service programs and construction of facilities throughout the Archdiocese. Most often, subsidy is provided to parishes and schools whose sources of revenues do not meet operating needs. The largest of all Archdiocesan subsidy programs is Together in Mission, an annual appeal that facilitates support to 32 parishes and 46 elementary schools that do not have the means to continue their ministries without subsidy. The Administrative Office also provides construction subsidy to Archdiocesan schools by administering funds donated from various foundations and restricted to construction spending. A significant amount of operating subsidy is also provided to eight high schools directly through the budget of the Administrative Office. Finally, a certain amount of subsidy is provided to other corporations owned by the Roman Catholic Archbishop of Los Angeles. Total expenses incurred on behalf of related parties amounted to \$12,113,391 and \$24,638,137 for the years ended June 30, 2008 and 2007, respectively.

Note 15. Fair Value of Financial Instruments

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments:

Cash, cash equivalents and investments: The carrying amount of these financial instruments is a reasonable estimate of their fair value due to the short term to maturity and readily available markets for the investments.

Amounts due from affiliated entities: The carrying amounts approximate fair value due to the terms of payment to the Administrative Office.

Notes to Financial Statements

Note 15. Fair Value of Financial Instruments, Continued

Contracts receivable, affiliate receivables, pledges receivable and other receivables: The carrying amounts approximate fair value due to the terms of payment on the accounts.

Accounts payable and accrued expenses: The carrying amounts approximate fair value due to the terms of payments to the Administrative Office's vendors.

Notes payable: The fair value of the notes payable is determined by analyzing discounted cash flow, using interest rates currently being charged for loans with similar terms and credit quality. The carrying amount approximates the fair value.

Note 16. Revocable Living Trusts and Bequests

The Administrative Office has received certain pledges of net estate assets characterized as living trusts or bequests by will. As it is not practicable to determine a value for the gifts and bequests, and because the trusts are revocable at the discretion of the trustor, the aggregate value of these trusts is not reported on the accompanying statements of financial position.

Note 17. Reclassification of Together in Mission Activity

Together in Mission is a program of the Archdiocese of Los Angeles. Together in Mission's annual appeal was established in 1992 to reach out to the entire Catholic community of the Archdiocese of Los Angeles to raise money for the preservation of Catholic schools and parishes that cannot survive economically without external financial support.

On March 4, 2003, the Together in Mission Advisory Board was formed to provide program governance and help achieve objectives of the program. In addition to the Advisory Board, the program is also governed by standing subcommittees (also called Task Forces), the Allocation Committee and Audit Committee and the Campaign Committee. The Allocation Committee is responsible for determining the amount of funds allotted to each of the five Regions of the Archdiocese for parish subsidy and the Archdiocesan School Department for school subsidy. The Audit Committee oversees the financial reporting and internal controls of the program. Finally, the Campaign Committee's responsibility is to oversee the marketing campaign of the program.

Effective July 1, 2004, activities of the Together in Mission program have been recorded as custodial transactions. As a result, net assets of the program have a corresponding liability shown on the statement of financial position of the Administrative Office at June 30, 2008 and 2007 in the amounts of \$18,196,838 and \$22,479,639, respectively.

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Note 18. Net Assets

Temporarily restricted assets represent gifts and bequests for which donor-imposed restrictions have not been met. Permanently restricted assets represent permanent endowments established by donor-restricted gifts and bequests. Temporarily restricted and permanently restricted assets consist of the following at June 30:

	2008	
	Temporarily Restricted	Permanently Restricted
Vocation in progress	\$ 496,082	\$ 1,751,277
Adopt a Family	5,456	1,600,000
Repair and maintenance	6,134,120	-
Operating subsidies	2,401,788	-
Educational purposes	2,208,841	-
Office of religious education	-	456,887
House of prayer	-	2,422,182
Other	2,489,372	474,669
	<u>\$ 13,735,659</u>	<u>\$ 6,705,015</u>
	2007	
	Temporarily Restricted	Permanently Restricted
Vocation in progress	\$ 585,092	\$ 1,751,277
Propagation of faith	2,756,018	-
Repair and maintenance	5,865,085	-
Operating subsidies	3,313,680	-
Educational purposes	1,651,087	-
Office of religious education	-	446,979
House of prayer	-	2,311,057
Other	3,854,237	474,669
	<u>\$ 18,025,199</u>	<u>\$ 4,983,982</u>

Note 19. Other Subsequent Events

Notes payable: On November 20, 2008, the Administrative Office repaid the \$5,000,000 Cathedral of Our Lady of the Angels construction loan. This loan was originally issued on November 20, 1998 in the amount of \$70,000,000.

Notes to Financial Statements

Note 19. Other Subsequent Events, Continued

Insurance: On October 23, 2008 the Administrative Office purchased excess insurance coverage relating to claims of misconduct from new perpetrators. New claims from known perpetrators are covered by the primary insurance provided by the risk retention group but not by the excess insurance. The excess insurance provides the Archdiocese with total limits of \$14,000,000 per claim and \$18,000,000 for the total of all claims in an annual period, subject to the coinsurance of the risk retention group and a \$500,000 retention above the primary insurance for each and every claim entering the excess layers.

Settlement contribution: In January and February 2008 the leadership of the Administrative Office including the Cardinal Archbishop, certain Archdiocesan Finance Council members and Regional Bishops respectively attended evening meetings in 20 of the 21 Deaneries in the Archdiocese. One element of the presentation was an appeal for financial assistance with the sexual misconduct global settlement that was finalized in December 2007.

As of June 30, 2008, forty three parishes and other donors contributed \$4.2 million in direct grants and nineteen parishes and other donors extended \$2.4 million in the form of zero or low-interest loans. Since June 30, 2008, cash in the amount of \$1.5 million grants and \$2.7 million loans was received. Additionally, as of June 30, 2008 nine parishes pledged \$676 thousand in grants and approximately \$1.5 million in parish zero or low-interest loans are pending.