The Administrative Office of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2009

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

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

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, 2009 and 2008, 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.

As described in Note 19 to the financial statements, the Administrative Office has adopted Financial Accounting Standards Board Staff Position No. FAS 117-1, *Endowments for Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*.

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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Los Angeles, CA
January 21, 2010

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2009 and 2008
(Note 2)

	2009				2008			
Assets (Note 15)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and cash equivalents (Note 17)	**$ 3,419,918**	**$ 818,109**	**$ 51,113**	**$ 4,289,140**	$ 6,577,993	$ 646,749	$ 51,113	$ 7,275,855
Contracts receivable, net (Note 3)	**18,656,076**	**-**	**-**	**18,656,076**	21,509,500	-	-	21,509,500
Affiliate receivables, net (Note 4)	**12,251,272**	**-**	**-**	**12,251,272**	6,910,853	-	-	6,910,853
Pledges receivable, net (Notes 5 and 17)	**-**	**3,088,374**	**-**	**3,088,374**	-	2,823,839	-	2,823,839
Other receivables (Note 13)	**7,843,743**	**-**	**-**	**7,843,743**	26,304,049	31,950	-	26,335,999
Notes receivable, net (Note 6)	**15,986,351**	**-**	**-**	**15,986,351**	33,668,501	-	-	33,668,501
Investments (Notes 7, 13 and 17)	**178,950,815**	**26,896,070**	**6,802,084**	**212,648,969**	186,786,995	28,429,959	6,653,902	221,870,856
Properties held for sale (Note 10)	**-**	**-**	**-**	**-**	1,602,197	-	-	1,602,197
Property and equipment, net (Notes 8 and 10)	**55,931,686**	**-**	**-**	**55,931,686**	57,059,498	-	-	57,059,498
Other assets	**328,091**	**-**	**-**	**328,091**	474,683	-	-	474,683
Assets for pension benefits (Note 9)	**7,928,000**	**-**	**-**	**7,928,000**	7,786,000	-	-	7,786,000
Total assets	**$ 301,295,952**	**$ 30,802,553**	**$ 6,853,197**	**$ 338,951,702**	$ 348,680,269	$ 31,932,497	$ 6,705,015	$ 387,317,781

Liabilities and Net Assets (Note 15)								
Liabilities								
Accounts payable and accrued expenses (Notes 10 and 13)	**$ 12,973,462**	**$ -**	**$ -**	**$ 12,973,462**	$ 14,045,543	$ -	$ -	$ 14,045,543
Payable to affiliates (Note 14)	**398,658**	**-**	**-**	**398,658**	548,655	-	-	548,655
Deferred revenue, cemetery and mausoleum care funds	**8,959,493**	**-**	**-**	**8,959,493**	9,758,747	-	-	9,758,747
Insurance claims reserves	**18,442,591**	**-**	**-**	**18,442,591**	20,272,071	-	-	20,272,071
Liability for pension and postretirement plan benefits (Note 9)	**91,387,000**	**-**	**-**	**91,387,000**	89,689,000	-	-	89,689,000
Reserve for litigation (Note 13)	**76,742,398**	**-**	**-**	**76,742,398**	103,376,323	-	-	103,376,323
Deferred revenue (Note 12)	**150,024,223**	**-**	**-**	**150,024,223**	150,307,047	-	-	150,307,047
Custodial collections (Notes 14 and 17)	**3,401,160**	**17,554,562**	**-**	**20,955,722**	4,064,146	18,196,838	-	22,260,984
Notes payable (Note 10)	**115,174,542**	**-**	**-**	**115,174,542**	147,556,058	-	-	147,556,058
Notes payable to affiliates (Note 11)	**5,624,063**	**-**	**-**	**5,624,063**	2,408,465	-	-	2,408,465
Total liabilities	**483,127,590**	**17,554,562**	**-**	**500,682,152**	542,026,055	18,196,838	-	560,222,893
Commitments and contingencies (Note 13)								
Net (deficit) assets (Note 18)	**(181,831,638)**	**13,247,991**	**6,853,197**	**(161,730,450)**	(193,345,786)	13,735,659	6,705,015	(172,905,112)
Total liabilities and net assets	**$ 301,295,952**	**$ 30,802,553**	**$ 6,853,197**	**$ 338,951,702**	$ 348,680,269	$ 31,932,497	$ 6,705,015	$ 387,317,781

See Notes to Financial Statements.

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2009 and 2008

	2009				2008			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations and assessments (Note 14)	**$ 28,722,175**	**$ 3,893,095**	**$ 148,182**	**$ 32,763,452**	$ 23,923,691	$ 3,736,350	$ 121,033	$ 27,781,074
Donations, annual appeal	**-**	**14,589,315**	**-**	**14,589,315**	-	14,303,077	-	14,303,077
Cemetery sales	**31,237,012**	**-**	**-**	**31,237,012**	28,698,521	-	-	28,698,521
Investment pool (loss), net of expenses (Note 7)	**(18,897,471)**	**(2,077,283)**	**-**	**(20,974,754)**	(4,633,933)	(676,223)	-	(5,310,156)
Other investment (loss) (Note 7)	**(1,922,868)**	**(11,574)**	**-**	**(1,934,442)**	(90,455)	(73,690)	-	(164,145)
Contribution to settlement (Note 2)	**20,906,539**	**-**	**-**	**20,906,539**	52,181,234	-	-	52,181,234
Rents, fees and other revenue (Notes 10, 13 and 14)	**15,121,449**	**-**	**-**	**15,121,449**	24,007,747	-	-	24,007,747
	75,166,836	**16,393,553**	**148,182**	**91,708,571**	124,086,805	17,289,514	121,033	141,497,352
Net assets released from restrictions, satisfaction of program restrictions	**16,784,955**	**(16,784,955)**	**-**	**-**	19,413,167	(19,413,167)	-	-
Total revenues	**91,951,791**	**(391,402)**	**148,182**	**91,708,571**	143,499,972	(2,123,653)	121,033	141,497,352
Expenses:								
Program expenses:								
Education and formational services (Note 14)	**11,686,290**	**-**	**-**	**11,686,290**	22,081,773	-	-	22,081,773
Pastoral and evangelization (Note 14)	**13,485,872**	**-**	**-**	**13,485,872**	14,070,766	-	-	14,070,766
Social services	**1,780,089**	**-**	**-**	**1,780,089**	1,906,423	-	-	1,906,423
Pastoral regions	**1,216,058**	**-**	**-**	**1,216,058**	1,306,203	-	-	1,306,203
Total program expenses	**28,168,309**	**-**	**-**	**28,168,309**	39,365,165	-	-	39,365,165

See Notes to Financial Statements.

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Activities, Continued
Years Ended June 30, 2009 and 2008

	2009				2008			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Other expenses:								
Priests' support and retirement	**$ 2,407,365**	**$ -**	**$ -**	**$ 2,407,365**	$ 1,644,939	$ -	$ -	$ 1,644,939
Fees to Catholic Conferences and Canon 1271	**1,404,436**	**-**	**-**	**1,404,436**	755,541	-	-	755,541
Administrative expense (Notes 10, 13 and 14)	**18,581,086**	**-**	**-**	**18,581,086**	18,291,474	-	-	18,291,474
Cemetery expense	**27,764,475**	**-**	**-**	**27,764,475**	26,844,271	-	-	26,844,271
Interest expense (Note 10)	**6,611,562**	**-**	**-**	**6,611,562**	5,368,023	-	-	5,368,023
Pension cost (Note 9)	**(319,020)**	**-**	**-**	**(319,020)**	6,609,605	-	-	6,609,605
Settlement expense (recovery), net (Note 13)	**(7,234,153)**	**-**	**-**	**(7,234,153)**	4,149,912	-	-	4,149,912
Insurance benefit (Note 14)	**(15,195,100)**	**-**	**-**	**(15,195,100)**	(11,972,199)	-	-	(11,972,199)
Bad debt expense	**17,067,547**	**-**	**-**	**17,067,547**	4,105,073	-	-	4,105,073
Fundraising expense	**682,705**	**-**	**-**	**682,705**	493,755	-	-	493,755
Total other expenses	**51,770,903**	**-**	**-**	**51,770,903**	56,290,394	-	-	56,290,394
Total expenses	**79,939,212**	**-**	**-**	**79,939,212**	95,655,559	-	-	95,655,559
Increase (decrease) in net assets	**12,012,579**	**(391,402)**	**148,182**	**11,769,359**	47,844,413	(2,123,653)	121,033	45,841,793
Other changes (Note 6)	**-**	**-**	**-**	**-**	(11,303,433)	-	-	(11,303,433)
Transfer of net assets	**(348,431)**	**-**	**-**	**(348,431)**	309,997	(4,423,914)	1,600,000	(2,513,917)
Transfer of net asset from (to) the Seminaries	**(150,000)**	**-**	**-**	**(150,000)**	-	752,207	-	752,207
Transfer of investments and change in net assets of Together in Mission	**-**	**(96,266)**	**-**	**(96,266)**	-	1,505,820	-	1,505,820
Increase (decrease) in net assets	**11,514,148**	**(487,668)**	**148,182**	**11,174,662**	36,850,977	(4,289,540)	1,721,033	34,282,470
Net (deficit) assets, beginning 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)
Net (deficit) assets, end of year	**$ (181,831,638)**	**$ 13,247,991**	**$ 6,853,197**	**$ (161,730,450)**	$ (193,345,786)	$ 13,735,659	$ 6,705,015	$ (172,905,112)

See Notes to Financial Statements.

The Administrative Office of
the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities		
Increase in net assets before transfers	**$ 11,769,359**	$ 45,841,793
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized loss on investments	**26,577,317**	10,441,517
Loss (gain) on sale of property and equipment	**226,068**	(4,309,500)
Transfer of net assets	**(348,431)**	(2,513,917)
Transfer of investments and net assets to Together in Mission	**(96,266)**	1,505,820
Transfer of net asset from (to) the Seminaries	**(150,000)**	752,207
Bad debt expense	**17,067,547**	4,105,073
Depreciation	**2,120,308**	1,774,755
Contributed property and equipment	**-**	(1,314,136)
Interest expense converted to notes payable	**5,659,981**	4,189,407
Assets contributed for long-term investments	**(148,182)**	(121,033)
(Increase) decrease in affiliate receivables	**(8,857,616)**	1,575,430
Decrease in contracts receivable	**1,482,346**	8,670,901
Increase in pledges receivable	**(406,071)**	(475,570)
Decrease in other receivables	**18,492,256**	317,283,664
Increase in overfunded pension benefit obligation	**(142,000)**	(1,836,000)
Decrease in other assets	**146,592**	88,111
Decrease in accounts payable and accrued expenses	**(1,072,081)**	(5,536,963)
Decrease in affiliate payables	**(149,997)**	(54,701)
Decrease in reserve for litigation	**(26,633,925)**	(558,048,677)
Decrease in cemetery and mausoleum care funds	**(799,254)**	(2,466,692)
Decrease in insurance claims reserves	**(1,829,480)**	(390,563)
Increase in liability for pension and postretirement plan benefits	**1,698,000**	13,427,000
(Decrease) increase in deferred revenue	**(282,824)**	613,212
Decrease in custodial collections	**(1,305,262)**	(1,894,124)
Net cash provided by (used in) operating activities	**43,018,385**	(168,692,986)
Cash Flows From Investing Activities		
Purchase of investments	**(148,223,216)**	(212,051,890)
Proceeds from maturities or sale of investments	**130,867,786**	262,388,159
Additions to notes receivable	**(832,972)**	(4,232,182)
Repayments of notes receivable	**6,477,386**	3,547,997
Purchases of property and equipment	**(1,976,615)**	(3,830,537)
Proceeds from sale of property and equipment	**2,360,248**	8,803,406
Net cash (used in) provided by investing activities	**(11,327,383)**	54,624,953

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, 2009 and 2008

		2009		2008
Cash Flows From Financing Activities				
Assets contributed for long-term investments	**$**	**148,182**	$	121,033
Proceeds from issuance of notes payable to affiliates		**3,215,598**		2,408,465
Proceeds from issuance of notes payable		**-**		177,861,188
Principal payments on notes payable		**(38,041,497)**		(61,775,003)
Net cash (used in) provided by financing activities		**(34,677,717)**		118,615,683
Net (decrease) increase in cash and cash equivalents		**(2,986,715)**		4,547,650
Cash and Cash Equivalents, beginning of year		**7,275,855**		2,728,205
Cash and Cash Equivalents, end of year	**$**	**4,289,140**	$	7,275,855
Supplemental Disclosure of Cash Flow Information				
Cash paid for interest	**$**	**8,171,052**	$	785,633
Supplemental Disclosure of Noncash Investing and Financing Activities				
Interest on note payable converted to note	**$**	**5,659,981**	$	4,189,407
Contributed properties and equipment	**$**	**-**	$	1,314,136

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 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.

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

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 nonaffiliates 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 of Financial Accounting Standards (SFAS) 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 a 10 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.

Investments: The Administrative Office has an investment in the Archdiocese Investment Pool (the Pool) (see Note 7), which is recorded at fair value. The fair value of the Pool is determined by management of the Archdiocese based on the underlying fair value of investments that make up the Pool. The underlying investments consist of debt securities and equity securities. The Administrative Office is allocated income (loss) based upon its allocation of the total return earned in invested equity and debt securities held by the Pool, including realized and unrealized gains and losses. 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 donor stipulations. Investments in equity securities whose value is not readily determinable are valued through independent appraisal.

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

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 three 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, 2009 and 2008, 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, 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, 2009 and 2008 were approximately $8,959,000 and $9,759,000, 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.

Contributed services: Support, arising from contributed services of certain personnel who are paid stipends and hold positions which would otherwise be occupied by laypersons, is 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).

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

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.

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).

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.

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. 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.

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

Derivative instruments: The Administrative Office accounts for an interest rate swap agreement in accordance with 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.

Fair value measurements: The Administrative Office adopted SFAS No. 157, *Fair Value Measurements*, effective July 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In accordance with FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, the Administrative Office has delayed its application of SFAS No. 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis until July 1, 2009. See Note 15 for additional information.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent resources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

- Level 1—Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2—Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3—Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Recent accounting pronouncements: In April 2009, the FASB issued SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions—including an amendment of FASB Statement No. 142*. This standard provides guidance for determining whether a combination of not-for-profit entities is a merger or an acquisition. The standard requires the application of the carryover method in accounting for a merger and the acquisition method in accounting for an acquisition, and provides guidance on determining which of the combining entities is the acquirer. It requires disclosure of information to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. This standard also amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to make it fully applicable to not-for-profit entities. The standard is effective for fiscal years beginning on or after December 15, 2009, with early adoption prohibited. Management is currently assessing the impact the adoption of this standard will have on the Administrative Office's financial statement disclosures.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*. SFAS No. 168 establishes the FASB Accounting Standards Codification, which officially launched on July 1, 2009, as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Although the Codification is not expected to change U.S. GAAP, the Administrative Office is currently evaluating the impact SFAS No. 168 will have on the financial statement disclosures as all future references to authoritative accounting literature will be in accordance with the Codification.

Subsequent events: In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which establishes general standards of accounting for, and disclosure of, events that occur after the date of the financial statements but before the financial statements are issued or are available to be issued. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Administrative Office adopted SFAS No. 165 on June 30, 2009. The adoption of this guidance did not have any impact on the financial statements. The Administrative Office has considered subsequent events through January 21, 2010, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.

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.

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 $68 million plus accrued interest (see Note 13) 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 on November 30, 2012. The Administrative Office has received $20,906,539 and $52,181,234 in contributions from affiliated organizations to assist in the funding of the settlement during the years ended June 30, 2009 and 2008, respectively. The contributions are in part derived from the sale of properties. As a result of the above, the Administrative Office's liabilities as of June 30, 2009 and 2008 exceeded its assets by approximately $162 million and $173 million, respectively.

The Archdiocesan leadership continues to develop plans to address the financial impact of the settlement on its operations and the repayment of the Litigation-Related Loan. The plans include financing all or a portion of the Unfunded Settlement Liability that the Archdiocese may be required to pay.

Ongoing actions include:

- Sale of nonmission-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 continue to be used to repay the Litigation-Related Loan. As of June 30, 2009, the Archdiocese has sold 25 properties. The aggregate net escrow proceeds from these sales were $78 million. The proceeds and additional cash were applied to reduce the $175 million loan balance to $95 million as of June 30, 2009. The timing and proceeds from further sales of nonmission-critical properties will depend on real estate market conditions.

- The acceleration of ground inventory development at the Archdiocesan cemetery properties is ongoing. This effort significantly enhances the ability of the pre-need sales program to generate cash to offset the impact of the debt service of the Litigation-Related Loan and any portion of the Unfunded Settlement Liability that will be financed.

- An increase in the assessment (initiated July 1, 2008) 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, seminary and other institutions in the Archdiocese.

- Continued solicitation of parish assistance in the form of contributions or low interest loans to assist in the payment of the Litigation-Related Loan. As of June 30, 2009, the Administrative Office had received $12 million.

- Continued evaluation of other Archdiocesan assets not essential to the current operations of the Archdiocese which may be sold or liquidated to reduce the Litigation-Related Loan and the Unfunded Settlement Liability.

- Continued reductions in nonessential Administrative Office services.

Note 2. Management Plans, Continued

Archdiocesan leadership believes that the plan outlined above, in conjunction with continued efforts to identify additional revenue sources, cost reduction opportunities and borrowing capacity (see Litigation-Related Loan—Note 10), 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.

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 signed 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:

	2009	2008
Cemetery	**$ 16,058,950**	$ 17,445,312
Mausoleum	**9,075,549**	11,361,296
	25,134,499	28,806,608
Allowance for uncollectible accounts	**(6,478,423)**	(7,297,108)
Contracts receivable, net	**$ 18,656,076**	$ 21,509,500

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 a 10 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.

Note 4. Affiliate Receivables, Continued

Affiliate receivables at June 30 consist of the following:

	2009	2008
Parishes	$ 13,743,309	$ 11,936,173
Elementary schools	11,531,362	10,068,654
High schools	2,824,981	1,623,663
Education & Welfare Corporation	1,631,274	299,261
Cathedral of Our Lady of the Angels	10,818	335,213
Together in Mission	392,604	622,938
St. John's Seminary College	860,000	687,438
St. John's Seminary of California	4,986,467	1,845,187
Catholic Education Foundation	25,543	63,902
Other	267,423	509,040
	36,273,781	27,991,469
Allowance for uncollectible accounts	(24,022,509)	(21,080,616)
Affiliate receivables, net	$ 12,251,272	$ 6,910,853

Note 5. Pledges Receivable

Pledges receivable at June 30 consist of the following:

	2009				
	Gross	Discount	Net of Discount	Allowance for Uncollectibles	Net of Discount and Allowance
Annual appeal	$ 3,000,306	$ -	$ 3,000,306	$ 445,932	$ 2,554,374
Villa San Guiseppe	500,000	-	500,000	-	500,000
Knights of St. Gregory	34,000	-	34,000	-	34,000
	$ 3,534,306	$ -	$ 3,534,306	$ 445,932	$ 3,088,374

	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
University Catholic Center	71,500	-	71,500	-	71,500
	$ 3,128,236	$ -	$ 3,128,236	$ 304,397	$ 2,823,839

All pledges receivable outstanding at June 30, 2009 and 2008 mature within one year.

Note 6. Notes Receivable

Notes receivable at June 30 consist of the following:

		2009		2008
Parishes, high schools and elementary schools	**$**	**18,423,383**	$	19,519,584
St. John's Seminary		**4,290,438**		4,152,573
Cathedral of Our Lady of the Angels		**5,000,000**		10,000,000
Other nonaffiliated entities		**3,497,755**		3,567,030
		31,211,576		37,239,187
Allowance for uncollectible accounts		**(15,225,225)**		(3,570,686)
Notes receivable, net	**$**	**15,986,351**	$	33,668,501

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 was already reserved for in prior years, the effect on the statement of activities in the prior year was a decrease in the change in 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.

On June 30, 2009, the Administrative Office forgave certain affiliated entities outstanding receivable balances of approximately $323,000. Since approximately $234,000 of these receivable balances was already reserved for in prior years, the effect on the statement of activities in the current year was a decrease in the change in net assets of approximately $99,000.

Aggregate maturities of notes receivable for the five years following June 30, 2009 and thereafter are as follows:

Years Ending June 30,		Amount
2010	$	1,394,890
2011		3,503,977
2012		1,285,194
2013		716,330
2014		1,339,630
Thereafter		22,971,555
	$	31,211,576

Note 7. Investments

Investments consist of the following at June 30:

	2009	2008
Investment pool	$ **203,959,480**	$ 210,679,879
Other investments	**8,689,489**	11,190,977
Total investments	$ **212,648,969**	$ 221,870,856

Investment pool

In November 1986, the Archdiocese established an investment pool (the 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 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 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 Pool has two separate pools: the Balanced Pool and the Income Pool.

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, 2009 and 2008 are invested 65 percent and 69 percent in equities, 29 percent and 28 percent in fixed income securities, 5 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, 2009 and 2008 are invested 88 percent and 88 percent in fixed income securities, 8 percent and 5 percent in notes receivable, 3 percent and 6 percent in cash and cash equivalents, and 1 percent and 1 percent in other investments, respectively.

The Pool adopted the provisions of SFAS No. 157, which defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. At June 30, 2009, the Pool was considered a Level 3 investment. At June 30, 2009, the Pool invested 35 percent, 55 percent and 10 percent in fair value hierarchy Levels 1, 2 and 3, respectively.

The investments in both funds are carried at fair 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.

Note 7. Investments, Continued

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 through secure Internet protocols.

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

	2009	2008
Balanced Pool	**(18.90)%**	(7.00)%
Income Pool	**1.70%**	2.30%

Investments of the Pool consist of the following at June 30:

	2009	2008
Investment pool investments:		
Balanced Pool	**$ 98,905,686**	$ 118,066,133
Income Pool	**105,053,794**	92,613,746
Total investment pool investments	**$ 203,959,480**	$ 210,679,879

Investment pool (loss), net of expenses, for the years ended June 30 consists of the following:

	2009	2008
Interest and dividend income:		
Balanced Pool	**$ 2,783,075**	$ 2,548,227
Income Pool	**2,064,086**	3,241,812
Total interest and dividend income	**4,847,161**	5,790,039
Net realized and unrealized (loss):		
Balanced Pool	**(24,207,600)**	(9,005,662)
Income Pool	**(435,275)**	(1,271,710)
Total net realized and unrealized (loss)	**(24,642,875)**	(10,277,372)
Investment expenses	**(1,179,040)**	(822,823)
Total investment (loss) income, net	**$ (20,974,754)**	$ (5,310,156)

Note 7. Investments, Continued

The following table summarizes the changes in the Administration Office's SFAS No. 157 Level 3 assets for the year ended June 30, 2009:

	Balanced Pool	Income Pool	Total
Beginning balance at June 30, 2008	$ 118,066,133	$ 92,613,746	$ 210,679,879
Total net losses (realized/unrealized) included in change in net assets	(22,319,755)	1,345,001	(20,974,754)
Purchases, sales, net	3,159,308	11,095,047	14,254,355
Ending balance at June 30, 2009	$ 98,905,686	$ 105,053,794	$ 203,959,480

Other investments

Other investments consist of the following at June 30:

	2009	2008
Watson Land Company Securities (all equities)	**$ 6,324,797**	$ 8,200,045
Charitable Remainder Trust		
Equities	**1,304,004**	1,612,863
Fixed income	**934,652**	1,216,544
	2,238,656	2,829,407
Other (bonds and money market)	**126,036**	161,525
Total other investments	**$ 8,689,489**	$ 11,190,977

The fair value of the Watson Land Company Securities is based upon certain industry standard valuation methodologies, including the methodology used for land holdings of other publicly traded real estate investment trusts. At June 30, 2009, the investment in Watson Land Company was considered a Level 3 investment under SFAS No. 157 fair value hierarchy levels.

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

	2009	2008
Net realized and unrealized gain	**$ (1,934,442)**	$ (164,145)

Note 7. Investments, Continued

The following table summarizes the changes of the other investment's SFAS No. 157 assets for the year ended June 30, 2009:

	Watson Land Company
Beginning balance at June 30, 2008	$ 8,200,045
Total net losses (realized/unrealized) included in change in net assets	(1,875,248)
Ending balance at June 30, 2009	$ 6,324,797

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:

	2009	
	Temporarily Restricted	**Permanently Restricted**
Donor-restricted gifts	**$ 26,896,070**	**$ 6,802,084**

	2008	
	Temporarily Restricted	Permanently Restricted
Donor-restricted gifts	$ 28,429,959	$ 6,653,902

Note 8. Property and Equipment

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

	2009	2008
Land	**$ 23,239,979**	$ 23,498,824
Cemetery and mausoleum developments	**90,353,938**	90,178,616
Buildings and improvements	**8,840,815**	8,661,322
Yard and yard buildings	**4,848,534**	4,848,534
Construction in progress	**2,119,903**	1,499,847
Furniture, fixtures and equipment	**13,636,043**	13,424,269
	143,039,212	142,111,412
Less accumulated depreciation	**(87,107,526)**	(85,051,914)
	$ 55,931,686	$ 57,059,498

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 $15,422,000 and $11,190,000 were made to the plan during the years ended June 30, 2009 and 2008, respectively. Benefit payments of $9,478,000 and $9,736,000 were made from the plan during the years ended June 30, 2009 and 2008, 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:

	2009	2008
Service cost, benefits earned during the period	**$ 11,981,000**	$ 12,302,000
Interest cost on projected benefit obligation	**14,684,000**	13,303,000
Actual return on plan assets	**20,814,000**	10,432,000
Net amortization and deferral	**(29,203,000)**	(20,703,000)
Net periodic pension cost	**$ 18,276,000**	$ 15,334,000

The Administrative Office's assessed portion of the foregoing included in pension cost in the accompanying statement of activities was $906,830 and $990,340 for the years ended June 30, 2009 and 2008, respectively.

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

	2009	2009
Accumulated benefit obligation for service rendered to date, including vested benefits of $196,869,000 and $210,629,000, respectively	**$ (203,918,000)**	$ (219,542,000)
Projected benefit obligation for service rendered to date	**$ (203,918,000)**	$ (219,542,000)
Plan assets at fair value	**132,766,000**	147,998,000
Funded status at end of year	**$ (71,152,000)**	$ (71,544,000)
Liability for pension benefits	**$ (71,152,000)**	$ (71,544,000)

Amounts recognized in the statement of financial position consist of:

	2009	2008
Noncurrent liabilities	**$ 71,152,000**	$ 71,544,000

Note 9. Pension Plans and Other Postretirement Plan, Continued

Amounts recognized in unrestricted net assets consist of:

	2009	2008
Net loss	**$ 45,147,000**	$ 48,393,000

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.78 percent and 6.25 percent for the years ended June 30, 2009 and 2008, respectively, 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, 2009 and 2008.

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 ended June 30, 2009 and 2008, 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, 2009 and 2008 and the target allocation by asset category are:

Asset Category	Archdiocesan Approved Asset Allocation	Policy Asset Allocation	Plan Assets at June 30, 2009	Plan Assets at June 30, 2008
Equities	65-75%	70%	**61%**	64%
Fixed income	25-35%	30%	**39%**	36%

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.

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:

Years Ending June 30,	Amount
2010	$ 9,053,000
2011	9,464,000
2012	10,368,000
2013	11,514,000
2014	12,555,000
2015-2019	73,704,000
	$ 126,658,000

The Archdiocese expects to contribute $10 million to the pension plan during the fiscal year ended 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 $6,780,000 and $4,861,000 to the Qualified Plan and $550,000 and $645,000 to the Supplemental Plan were made during the years ended June 30, 2009 and 2008, respectively. Benefit payments of $1,967,000 and $1,880,000 from the Qualified Plan and $859,000 and $835,000 from the Supplemental Plan were made during the years ended June 30, 2009 and 2008, 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:

	2009		2008	
	Qualified Plan	**Supplemental Plan**	Qualified Plan	Supplemental Plan
Service cost, benefits earned during the period	**$ 349,000**	**$ 174,000**	$ 343,000	$ 173,000
Interest cost on projected benefit obligation	**1,397,000**	**656,000**	1,320,000	628,000
Actual return on plan assets	**3,637,000**	**(39,000)**	1,493,000	(135,000)
Net amortization and deferral	**(5,211,000)**	**445,000**	(3,134,000)	562,000
Net periodic pension cost	**$ 172,000**	**$ 1,236,000**	$ 22,000	$ 1,228,000

Note 9. Pension Plans and Other Postretirement Plan, Continued

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

	2009		2008	
	Qualified Plan	**Supplemental Plan**	Qualified Plan	Supplemental Plan
Vested benefit obligation for service rendered to date	**$ (21,396,000)**	**$ (9,802,000)**	$ (20,395,000)	$ (9,514,000)
Accumulated benefit obligation for service rendered to date	**$ (21,656,000)**	**$ (10,171,000)**	$ (20,657,000)	$ (9,871,000)
Projected benefit obligation for service rendered to date	**$ (21,656,000)**	**$ (10,171,000)**	$ (20,657,000)	$ (9,871,000)
Plan assets at fair value	**29,584,000**	**2,663,000**	28,443,000	2,943,000
Funded status as of end of year	**7,928,000**	**(7,508,000)**	7,786,000	(6,928,000)
Asset (liability) for pension benefits	**$ 7,928,000**	**$ (7,508,000)**	$ 7,786,000	$ (6,928,000)

Amounts recognized in the statement of financial position consist of:

	2009		2008	
	Qualified Plan	**Supplemental Plan**	Qualified Plan	Supplemental Plan
Noncurrent assets	**$ 7,928,000**	**$ -**	$ 7,786,000	$ -
Noncurrent liabilities	**-**	**(7,508,000)**	-	(6,928,000)
	$ 7,928,000	**$ (7,508,000)**	$ 7,786,000	$ (6,928,000)

Amounts recognized in unrestricted net assets consist of:

	2009		2008	
	Qualified Plan	**Supplemental Plan**	Qualified Plan	Supplemental Plan
Net gain	**$ 5,016,000**	**$ (2,247,000)**	$ (2,230,000)	$ (2,874,000)
Net transition obligation	**2,670,000**	**2,718,000**	3,203,000	2,939,000
Prior service cost	**3,058,000**	**2,564,000**	3,305,000	3,076,000
	$ 10,744,000	**$ 3,035,000**	$ 4,278,000	$ 3,141,000

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.78 percent and 6.25 percent was used for the years ended June 30, 2009 and 2008, respectively. 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, 2009 and 2008.

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 ended June 30, 2009 and 2008, 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 $2,550,000 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 $643,000 and $798,000 were made in the years ended June 30, 2009 and 2008, respectively. Benefit payments of $615,000 and $674,000 were made from the plan during the years ended June 30, 2009 and 2008, 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:

	2009	2008
Service cost, benefits earned during the period	**$ 438,000**	$ 442,000
Interest cost on projected benefit obligation	**930,000**	840,000
Actual return on plan assets	**(33,000)**	(99,000)
Net amortization and deferral	**183,000**	337,000
Net periodic pension cost	**$ 150,000**	$ 238,000

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 $2,289,454 and $2,007,722 for the years ended June 30, 2009 and 2008, respectively.

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

	2009	2008
Accumulated postretirement benefit obligation for service rendered to date	**$ (15,068,000)**	$ (13,505,000)
Projected benefit obligation for service rendered to date	**$ (15,068,000)**	$ (13,505,000)
Plan assets at fair value	**2,341,000**	2,288,000
Funded status as of end of year	**$ (12,727,000)**	$ (11,217,000)
Liability for postretirement benefits	**$ (12,727,000)**	$ (11,217,000)

Note 9. Pension Plans and Other Postretirement Plan, Continued

Amounts recognized in the statement of financial position consist of:

	2009	2008
Noncurrent liabilities	$ (12,727,000)	$ (11,217,000)

Amounts recognized in unrestricted net assets consist of:

	2009	2008
Net loss	$ 5,758,000	$ 5,123,000

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.64 percent and 6.78 percent was used for the years ended June 30, 2009 and 2008, respectively. 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, 2009 and 2008. 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, 2009 and 2008 and the target allocation by asset category are:

Asset Category	Archdiocesan Finance Council Approved Asset Allocation	Policy Benchmark Asset Allocation	Actual Percentage of Plan Assets at June 30, 2009	2008
Equities	65-75%	70%	**49%**	48%
Fixed income	25-35%	30%	**51%**	52%

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.

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
2010	$ 1,973,000	$ 778,000	$ 806,000
2011	1,892,000	781,000	817,000
2012	1,849,000	804,000	842,000
2013	1,834,000	825,000	880,000
2014	1,798,000	836,000	906,000
2015-2019	8,479,000	4,203,000	5,051,000
	$ 17,825,000	$ 8,227,000	$ 9,302,000

The Archdiocese expects to contribute $450,000 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 monies that are deferred, and any monies contributed by the Archdiocese, are not considered assets or liabilities of the Archdiocese. The Administrative Office of the Archdiocese contributed and expensed $70,900 and $76,200 to the 403(b) Plan during the year ended June 30, 2009 and 2008, respectively.

Note 10. Notes Payable and Subsequent Events

Notes payable at June 30 consist of the following:

	2009	2008
Litigation-Related Loan	**$ 97,819,552**	$ 122,589,407
Church construction loans	**17,354,990**	23,450,000
Mausoleum construction loans	**-**	1,516,651
	$ 115,174,542	$ 147,556,058

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 involved new facilities and incorporated and amended the existing facilities and loans from the bank to the RCALA. Included in the loan arrangement 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 revolving line of credit for corporate needs; and $21 million which reflected 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 was outstanding on the loan to the Cathedral of Our Lady of the Angels and which was fully discharged on November 20, 2008. On July 1, 2009, the $25 million facility used to fund interest on the $175 million loan was reduced to $12.5 million.

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 provided deeds of trust on nonparish 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 on November 29, 2010 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 into a 10-year term loan with interest at 1.5 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. During fiscal year 2009, the Administrative Office entered into a second interest rate swap agreement on $28.1 million of the underlying debt for a fixed rate of 2.10 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. The Administrative Office considers the interest rate swap agreements to be Level 3 investments under SFAS No. 157 fair value hierarchy levels. A liability in the amount of $2,755,723 and $736,691 was included in accounts payable and accrued expenses at June 30, 2009 and 2008, respectively. The corresponding expense of $2,019,032 and $736,691 was included in administrative expense as of June 30, 2009 and 2008, respectively.

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, 2009 and 2008, the amount outstanding on this loan arrangement was $97,819,552 and $122,589,407, respectively.

Note 10. Notes Payable and Subsequent Events, Continued

The Administrative Office continues to market and sell real estate in order to repay this loan. As of June 30, 2008, four properties with total cost basis of $1,602,197 were reclassified to properties held for sale and subsequently sold in 2009. 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.

Church construction loans: On November 20, 1998, the Administrative Office issued an interest-bearing $70 million 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 million, $20 million and $6 million were made on this note in fiscal years 2004, 2006 and 2007, respectively, leaving a balance of $5 million at June 30, 2008. Interest expense of $117,347 and $301,632 is reflected in the statement of activities as of June 30, 2009 and 2008, 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.

On October 15, 2001, the Archdiocese, on behalf of the Holy Trinity Parish of San Pedro, obtained a loan of $6.5 million 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 $83,361 and $126,241 are reflected in the statement of activities of the Administrative Office for the years ended June 30, 2009 and 2008, respectively. The outstanding balance of the note payable was $1.3 million and $1.95 million as of June 30, 2009 and 2008, 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 million. The line is divided between St. Mary's and Mary Star of the Sea in the amounts of $11.5 million and $8.5 million, respectively. The line of credit has a term-out option on the $11.5 million 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 $11.5 million 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. On June 30, 2009, the note had an outstanding principal amount of $11,054,990. This loan is a part of the new consolidated loan facilities as noted above. The $8.5 million line of credit relating to Mary Star of the Sea in San Pedro expired in February 2008.

Note 10. Notes Payable and Subsequent Events, Continued

On October 1, 1999, the Administrative Office obtained a loan of $5 million 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 million 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, 2009 and 2008.

Mausoleum construction loans: On May 1, 2002, the Archdiocese, on behalf of the Cemeteries, signed a loan agreement with a lender to advance $3.5 million to the Archdiocese on May 1, 2002 and an additional $3.5 million 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 as of June 30, 2008. As of June 30, 2009, this loan was paid in full. 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 million. 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 as of June 30, 2008. As of June 30, 2009, the note was paid in full.

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 million 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, 2009 and 2008, 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. E&W and the 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.

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, 2009 and thereafter are as follows:

Years Ending June 30,	Amount
2010	$ 1,129,317
2011	98,983,418
2012	547,076
2013	9,514,731
2014	1,000,000
Thereafter	4,000,000
	$ 115,174,542

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, 2009 and 2008, the amount outstanding on these notes was $5,624,063 and $2,408,465, respectively. The notes have a term of up to 10 years with interest ranging from 0 percent to 5 percent over the term of the notes.

Aggregate maturities of long-term debt for the five years following June 30, 2009 and thereafter are as follows:

Years Ending June 30,	Amount
2010	$ -
2011	500,000
2012	84,000
2013	350,000
2014	500,000
Thereafter	4,190,063
	$ 5,624,063

Note 12. Deferred Revenue

Deferred revenue consists of the following at June 30:

Resale products and services: Cemetery sales related to resale products and services are deferred and recognized at fulfillment. Deferred revenues amounted to $147,600,989 and $147,507,067, net of estimated cancellations of $1,799,562 and $2,026,974, at June 30, 2009 and 2008, respectively.

Predevelopment sales: Cemetery revenue for predevelopment sales is deferred until ground has been broken on the construction of mausoleums. As of June 30, 2009 and 2008, predevelopment sales amounted to $795,370 and $534,085, respectively, and consisted of sales deferred for three mausoleums.

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 $1,627,864 and $2,265,895 at June 30, 2009 and 2008, respectively.

Note 13. Commitments and Contingencies

Litigation:

Sexual misconduct claims: Since 2003 the Archdiocese has been involved in numerous lawsuits related to claims of sexual misconduct by certain individuals, principally as a result of the enactment of a California statute which allowed claimants to file claims during 2003 that might previously have been barred by applicable statutes of limitation (Clergy I Litigation Claims). 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.

In December 2006 and July 2007, the Archdiocese reached agreements in principle to settle the then outstanding Clergy I Litigation claims, including claims against both the Archdiocese and non-Archdiocesan parties, for settlement amounts of approximately $62 million and $660 million, respectively. In the settlements, the non-Archdiocesan parties agreed to participate in July or became participants before the effective date of November 30, 2007, except for one religious order that did not settle its claims until June 2008. All of the parties, including the religious order that settled the claims against it in June 2008, are included in the global settlement references herein. Both the $62 million and $660 million settlement amounts were accrued at June 30, 2007.

Of the approximately $62 million paid in December 2006, $19 million was paid by other defendants and insurers. In the $660 million settlement paid on December 5, 2007, the Archdiocese and the other defendants, as well as their respective insurers, paid approximately $530 million into escrow which was 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.

Note 13. Commitments and Contingencies, Continued

From December 5, 2007 to June 30, 2008, and from July 1, 2008 to June 30, 2009, 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 2009, 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.

Assuming the other defendants fund the remaining $6.7 million, approximately $60 million of the total settlement of $660 million is expected to remain outstanding until 2012 and will be the obligation of the Archdiocese, along with interest, on amounts outstanding, until payment, from December 4, 2007. At June 30, 2009 and 2008, interest obligations of $3.7 million and $3 million, respectively, were accrued to cover this obligation through the periods then ended.

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.

Since the global settlement, additional claims have been filed naming the Archdiocese and other defendants and including allegations of misconduct by clergy or lay persons. The claims may or may not be timely under the applicable statute of limitations. Additional claims may be filed in the future. For administrative convenience, the Court is currently continuing to coordinate and oversee these new matters under the title of the Clergy I Litigation.

During 2009 three litigated claims were dismissed by the court, and at November 2009, six litigated matters were pending and in the early stages of litigation, and six other cases had been stayed or were inactive pending the outcome of current appeals in California that impact the interpretation of the statute of limitations. While the appellate court addressing the matter in Southern California has ruled that the application of the statute would bar these claims, the other party is seeking an appeal and the matter is still being considered in other appellate courts in the state. No accrual has been made for these claims. The effect of these claims is not expected to be material.

For 2009 and 2008, respectively, 11 and six claims, respectively, involving allegations of minor or adult abuse by clergy or others and naming the Archdiocese, but which were not in litigation and were not part of the Clergy I Litigation were settled by the Archdiocese and other named parties. In 2008 a total of $1.1 million was paid in the settlements, of which $775,000 was funded by the risk retention group. In 2009 a total of $518,610 was paid or to be paid, of which $35,000 was funded by the risk retention group, $25,000 was paid by a co-defendant and $458,610 was paid by the Archdiocese. In two claims, other defendants provided all settlement amounts and those settlements are not reflected in the $518,610.

Since July 1, 2009, one litigated claim involving alleged abuse by a lay employee was settled for $300,000, of which $150,000 was paid by the risk retention group, and three additional claims involving allegations of minor or adult abuse by clergy or others that were not in litigation and were not part of the Clergy I litigation were settled or agreed to be settled for a total of $175,000, of which $10,000 is being funded directly by another named party or its insurer. The June 30, 2009 financial statements include accruals of a liability of $465,000 and a receivable from the risk retention group of $150,000 for these claims. At December 31, 2009, 14 other claims involving allegations of minor or adult abuse by clergy or others that were not in litigation and were not part of the Clergy I Litigation were pending. No accrual has been made for these claims.

Note 13. Commitments and Contingencies, Continued

Accordingly, for the 2009 and 2008 litigation claims, the Administrative Office financial statements include accruals of a liability of $76.7 million and $103.4 million as of June 30, 2009 and 2008, respectively, and a receivable of $7.2 million and $25.6 million at June 30, 2009 and 2008, respectively, for amounts due from other parties who had not yet completed their funding commitments. Settlement expenses (recovery) were ($7.2 million) and $4.1 million, for the years ended June 30, 2009 and 2008, respectively.

Other claims may be brought or asserted in the future, in the ordinary course of the operations of the school, parishes and other operations of the Archdiocese. No accrual has been made for those claims. The effect of any future claims is not expected to be material.

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. The effect of the Archdiocese's obligation for payment of any of these claims is not expected to be material.

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, 2009 and 2008, investments related to the cemeteries perpetual care and commodities commitments amounted to $18,786,387 and $17,790,175, 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, after all liabilities associated with the lawsuits noted above are paid off.

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, 2009, six mortuaries have been completed. The Cemeteries will account for this lease of properties as an operating lease. Rental income amounted to $884,574 and $795,525 for the years ended June 30, 2009 and 2008, respectively.

Note 13. Commitments and Contingencies, Continued

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, 2009 are as follows:

Years Ending June 30,	Amount
2010	$ 836,190
2011	856,140
2012	870,390
2013	481,650
	$ 3,044,370

A deferred lease liability in the amount of $257,284 is included in accounts payable and accrued expenses. Rent expense for the year ended June 30, 2009 was $786,942.

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 $398,658 and $548,655 as of June 30, 2009 and 2008, respectively. Parish assessments and interest on affiliate loans contributed $17,884,977 and $15,302,556 to revenues for the years ended June 30, 2009 and 2008, respectively. The Administrative Office manages leases of certain properties which are owned by E&W. Proceeds from leases of these properties are collected by the Administrative Office and accounted for as a contribution to other income from E&W. Corresponding contribution expense to the Administrative Office is recorded by E&W on its financial statements. Total such contribution to other income amounted to $642,962 and $559,718 for the years ended June 30, 2009 and 2008, respectively.

Note 14. Related Parties, Continued

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 35 parishes and 49 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 $13,737,482 and $12,113,391 for the years ended June 30, 2009 and 2008, 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 and cash equivalents: 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.

Investments: The fair value of the Pool is determined by management of the Archdiocese based on the underlying fair value of investments that make up the Pool. The fair value of other investments in nonpublicly traded equity securities is determined by independent appraisal.

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

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. The fair value of the interest rate swaps is based on pricing models that consider risks and market factors. The carrying amounts approximate the fair value.

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. 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 governed by standing subcommittees (also called Task Forces): the Allocation Committee, 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, 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, 2009 and 2008 in the amounts of $17,554,562 and $18,196,838, respectively.

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:

	2009	
	Temporarily Restricted	**Permanently Restricted**
Vocation in progress	**$ 404,166**	**$ 1,751,277**
Adopt a Family	**-**	**1,600,000**
Repair and maintenance	**7,695,303**	**-**
Operating subsidies	**1,937,531**	**-**
Educational purposes	**1,361,189**	**-**
Office of religious education	**-**	**496,119**
House of prayer	**-**	**2,531,132**
Other	**1,849,802**	**474,669**
	$ 13,247,991	**$ 6,853,197**

Note 18. Net Assets, Continued

	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
	$ 13,735,659	$ 6,705,015

Note 19. Endowment Fund and Net Asset Classifications

In August 2008, the FASB issued Staff Position 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.* This Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and improves disclosures for endowment funds, both donor-restricted and Board-designated (quasi-endowment). The Endowment Fund of the Administrative Office consists of various donor-restricted endowment funds.

The Administrative Office has interpreted the Uniform UPMIFA adopted by the 2008 California legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Administrative Office classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Administrative Office in a manner consistent with the standard of prudence prescribed by the State of California in its enacted version of UPMIFA. In accordance with UPMIFA, the Administrative Office considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of Endowment Fund, (2) the purposes of the Administrative Office and the donor-restricted Endowment Fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Administrative Office and (7) the investment policies of the Administrative Office.

Note 19. Endowment Fund and Net Asset Classifications, Continued

The Administrative Office has adopted investment and spending policies for its Endowment Fund. The objective of these policies is to provide the Administrative Office a predictable funding stream for its programs while protecting the purchasing power of the Endowment Fund. The Administrative Office, through its investment policy, has established a target (inflation-adjusted) annualized rate of return over the long term of at least 5 percent; the total return during any single measurement period may deviate from the long-term return objective. To satisfy its long-term rate-of-return objective, the Administrative Office expects to maintain appropriate diversification among equity, fixed income and alternative investment allocations. The purpose is to moderate the overall investment risk of the Endowment Fund.

The Board of Trustees of the Administrative Office may appropriate for expenditure or accumulate so much of the Endowment Fund as the Administrative Office determines is prudent for the uses, benefits, purposes and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is a Board-approved percentage applied to the average fair value of the endowment fund investments for the three preceding years. The Board-approved spending percentage was 5 percent for the fiscal years ended June 30, 2009 and 2008, respectively. For the years ended June 30, 2009 and 2008, the actual expenditures from endowment funds and earnings for support of operations were $10,596 and $32,547, respectively.

Assets of the endowment fund in the amount of $6,754,174 and $8,141,926 as of June 30, 2009 and 2008, respectively, were held in investments in pooled funds.

Endowment net assets as of June 30 were as follows:

	2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Office of Religious Education	**$ -**	**$ 76,900**	**$ 496,119**	**$ 573,019**
Vocation in Progress	**-**	**346,953**	**1,751,277**	**2,098,230**
House of Prayer	**(161,740)**	**-**	**2,531,132**	**2,369,392**
Adopt a Family	**(301,755)**	**-**	**1,600,000**	**1,298,245**
Other	**(59,381)**	**-**	**474,669**	**415,288**
Total endowment funds	**$ (522,876)**	**$ 423,853**	**$ 6,853,197**	**$ 6,754,174**

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Office of Religious Education	$ -	$ 204,274	$ 456,887	$ 661,161
Vocation in Progress	-	864,830	1,751,277	2,616,107
House of Prayer	-	334,472	2,422,182	2,756,654
Adopt a Family	-	5,455	1,600,000	1,605,455
Other	(168)	28,048	474,669	502,549
Total endowment funds	$ (168)	$ 1,437,079	$ 6,705,015	$ 8,141,926

Note 19. Endowment Fund and Net Asset Classifications, Continued

The changes in endowment net assets for the years ended June 30 were as follows:

	2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ (168)**	**$ 1,437,079**	**$ 6,705,015**	**$ 8,141,926**
Investment return:				
Investment income	**79,299**	**52,756**	**-**	**132,055**
Net (depreciation) (realized and unrealized)	**(602,007)**	**(1,055,386)**	**-**	**(1,657,393)**
Total investment return	**(522,708)**	**(1,002,630)**	**-**	**(1,525,338)**
Contributions	**-**	**-**	**148,182**	**148,182**
Appropriation of endowment funds for expenditure	**-**	**(10,596)**	**-**	**(10,596)**
Other changes	**-**	**-**	**-**	**-**
Endowment net assets, end of year	**$ (522,876)**	**$ 423,853**	**$ 6,853,197**	**$ 6,754,174**

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 1,971,832	$ 4,983,982	$ 6,955,814
Investment return:				
Investment income	1,408	168,481	-	169,889
Net (depreciation) (realized and unrealized)	(1,576)	(670,687)	-	(672,263)
Total investment return	(168)	(502,206)	-	(502,374)
Contributions	-	-	121,033	121,033
Appropriation of endowment funds for expenditure	-	(32,547)	-	(32,547)
Other changes	-	-	1,600,000	1,600,000
Endowment net assets, end of year	$ (168)	$ 1,437,079	$ 6,705,015	$ 8,141,926

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Administrative Office to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2009, the Administrative Office’s donor-restricted endowment funds were underwater by $522,876. This amount is reported in unrestricted net assets. These deficiencies, which the Administrative Office believes are temporary, resulted from unfavorable market fluctuations. As of June 30, 2008, the Administrative Office’s donor-restricted endowment funds were underwater by $168.