

Combined Financial Statements and Report of
Independent Certified Public Accountants

**THE ADMINISTRATIVE OFFICE OF
THE ROMAN CATHOLIC ARCHDIOCESE OF
LOS ANGELES**

June 30, 2003 and 2002

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To His Eminence
Cardinal Roger Mahony,
Archbishop of Los Angeles

We have audited the accompanying combined statements of financial position of The Administrative Office of the Roman Catholic Archdiocese of Los Angeles (the "Administrative Office") as of June 30, 2003 and 2002, and the related combined statements of activity and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Administrative Office's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Administrative Office as of June 30, 2003 and 2002, 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.

The Archdiocese is involved in numerous lawsuits relating to claims of sexual misconduct by certain individuals. The financial impact of these claims is uncertain and, in accordance with accounting principles generally accepted in the United States of America, no accrual has been made in the financial statements relating to these claims. See Note M for further discussion of this matter.

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The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles

STATEMENTS OF FINANCIAL POSITION

June 30,

ASSETS	2003				2002			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash and cash equivalents	\$ 1,477,060	\$ -	\$ -	\$ 1,477,060	\$ 2,613,563	\$ -	\$ -	\$ 2,613,563
Contracts receivable, net	55,281,141	-	-	55,281,141	50,368,409	-	-	50,368,409
Affiliate receivables, net	2,230,534	-	-	2,230,534	2,006,929	-	-	2,006,929
Pledges receivable, net	-	28,745,429	910,600	29,656,029	-	34,941,801	910,600	35,852,401
Other receivables	3,049,384	-	-	3,049,384	7,493,511	-	-	7,493,511
Notes receivable, net	9,880,513	-	-	9,880,513	7,685,470	-	-	7,685,470
Investments	190,450,546	55,916,994	2,323,917	248,691,457	186,708,180	52,638,324	2,247,028	241,593,532
Property, plant and equipment, net	287,346,647	-	-	287,346,647	270,520,468	-	-	270,520,468
Other assets	277,948	-	-	277,948	318,397	-	-	318,397
Intangible pension asset	10,380,470	-	-	10,380,470	8,039,000	-	-	8,039,000
TOTAL ASSETS	\$ 560,374,243	\$ 84,662,423	\$ 3,234,517	\$ 648,271,183	\$ 535,753,927	\$ 87,580,125	\$ 3,157,628	\$ 626,491,680
LIABILITIES AND NET ASSETS								
LIABILITIES								
Accounts payable and accrued expenses	\$ 17,808,848	\$ -	\$ -	\$ 17,808,848	\$ 16,439,988	\$ -	\$ -	\$ 16,439,988
Cemetery and mausoleum care funds	19,718,371	-	-	19,718,371	20,401,324	-	-	20,401,324
Insurance claims reserves	17,502,069	-	-	17,502,069	16,904,816	-	-	16,904,816
Obligations under pension plans	64,076,000	-	-	64,076,000	43,183,000	-	-	43,183,000
Deferred revenue	124,404,303	-	-	124,404,303	118,984,364	-	-	118,984,364
Custodial collections	7,064,703	-	-	7,064,703	7,578,219	-	-	7,578,219
Notes payable	106,574,157	-	-	106,574,157	115,610,238	-	-	115,610,238
Notes payable to affiliate	1,067,840	-	-	1,067,840	1,458,128	-	-	1,458,128
Commitments and contingencies	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	358,216,291	-	-	358,216,291	340,560,077	-	-	340,560,077
LIABILITIES AND NET ASSETS								
NET ASSETS								
Undesignated	\$ 3,128,518	\$ 15,643,814	\$ 2,323,917	\$ 21,096,249	\$ 368,577	\$ 15,589,716	\$ 2,247,028	\$ 18,205,321
Designated:								
Cemetery Care and Commodities	77,133,207	-	-	77,133,207	86,732,992	-	-	86,732,992
Our Lady of the Angels Cathedral	121,896,227	69,018,609	910,600	191,825,436	108,092,281	71,990,409	910,600	180,993,290
TOTAL NET ASSETS	202,157,952	84,662,423	3,234,517	290,054,892	195,193,850	87,580,125	3,157,628	285,931,603
TOTAL LIABILITIES AND NET ASSETS	\$ 560,374,243	\$ 84,662,423	\$ 3,234,517	\$ 648,271,183	\$ 535,753,927	\$ 87,580,125	\$ 3,157,628	\$ 626,491,680

The accompanying notes are an integral part of these statements.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles

STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS

Years ended June 30,

	2003				2002			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Donations and assessments	\$ 23,513,173	\$ 18,780,727	\$ 76,889	\$ 42,370,789	\$ 12,276,804	\$ 26,267,259	\$ 89,978	\$ 38,634,041
Donations - Annual Appeal	-	13,875,945	-	13,875,945	-	13,395,723	-	13,395,723
Cemetery sales	44,891,197	-	-	44,891,197	41,844,463	-	-	41,844,463
Investment loss:								
Interest and dividend income	1,202,930	-	-	1,202,930	2,054,605	-	-	2,054,605
Net realized and unrealized income (loss)	5,498,279	632,019	-	6,130,298	(6,701,596)	(116,777)	-	(6,818,373)
Net investment income (loss)	6,701,209	632,019	-	7,333,228	(4,646,991)	(116,777)	-	(4,763,768)
Rents, fees and other income	14,508,561	-	-	14,508,561	6,667,334	-	-	6,667,334
	89,614,140	33,288,691	76,889	122,979,720	56,141,610	39,546,205	89,978	95,777,793
NET ASSETS RELEASED FROM RESTRICTIONS								
Satisfaction of program restrictions	37,764,168	(37,764,168)	-	-	28,143,018	(28,143,018)	-	-
TOTAL REVENUES	127,378,308	(4,475,477)	76,889	122,979,720	84,284,628	11,403,187	89,978	95,777,793
EXPENSES								
Education and formational services	16,532,854	-	-	16,532,854	16,219,749	-	-	16,219,749
Pastoral and evangelization	11,130,150	-	-	11,130,150	13,588,310	-	-	13,588,310
Priests' support and retirement	377,880	-	-	377,880	375,467	-	-	375,467
Social services	2,736,132	-	-	2,736,132	3,036,269	-	-	3,036,269
Fees to Catholic Conferences and Canon 1271	731,541	-	-	731,541	1,129,045	-	-	1,129,045
Regional Bishops	1,065,546	-	-	1,065,546	1,013,950	-	-	1,013,950
Administrative expense	16,351,067	-	-	16,351,067	14,483,493	-	-	14,483,493
Cathedral expense	8,707,162	-	-	8,707,162	4,617,013	-	-	4,617,013
Cemetery expense	35,604,487	-	-	35,604,487	33,605,550	-	-	33,605,550
Cost of sales - Cathedral Mausoleum	439,834	-	-	439,834	-	-	-	-
Interest expense	5,588,360	-	-	5,588,360	5,479,598	-	-	5,479,598
Pension and insurance cost	12,362,171	-	-	12,362,171	9,643,758	-	-	9,643,758
Bad debt expense	9,322,803	-	-	9,322,803	7,271,894	-	-	7,271,894
Depreciation	4,150,742	-	-	4,150,742	2,512,469	-	-	2,512,469
TOTAL EXPENSES	125,100,729	-	-	125,100,729	112,976,565	-	-	112,976,565
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS AND OTHER INCOME (EXPENSE)	2,277,579	(4,475,477)	76,889	(2,121,009)	(28,691,937)	11,403,187	89,978	(17,198,772)
Expenses related to earthquake, net	(492,377)	-	-	(492,377)	(146,729)	-	-	(146,729)
INCREASE (DECREASE) IN NET ASSETS	1,785,202	(4,475,477)	76,889	(2,613,386)	(28,838,666)	11,403,187	89,978	(17,345,501)
Transfer of investments and net assets	5,178,900	1,557,775	-	6,736,675	-	-	-	-
Transfer of capitalized earthquake expenditures (Note H)	-	-	-	-	(50,654,599)	-	-	(50,654,599)
Transfer of notes receivable from Parishes (Note S)	-	-	-	-	4,531,791	-	-	4,531,791
NET ASSETS, BEGINNING OF YEAR	195,193,850	87,580,125	3,157,628	285,931,603	270,155,324	76,176,938	3,067,650	349,399,912
NET ASSETS, END OF YEAR	\$ 202,157,952	\$ 84,662,423	\$ 3,234,517	\$ 290,054,892	\$ 195,193,850	\$ 87,580,125	\$ 3,157,628	\$ 285,931,603

The accompanying notes are an integral part of these statements.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (2,613,386)	\$ (17,345,501)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Net realized and unrealized loss	818,397	6,818,373
Gain on sales of property	392,051	33,049
Provision for uncollectible cemetery receivables	2,746,337	1,241,960
Provision for uncollectible notes receivable	5,246,745	2,237,753
Provision for uncollectible affiliate receivables	1,638,322	1,578,914
Provision for uncollectible pledges receivable	480,159	565,266
Amortization of pledge discounts	110,844	(1,487,476)
Depreciation and amortization	4,576,135	7,009,364
Assets contributed for long term investments	(76,889)	(90,978)
(Increase) decrease in affiliate receivables, net	(1,861,927)	1,254,871
Increase in contracts receivable	(7,659,069)	(2,980,944)
Decrease in pledges receivable, net	5,103,872	8,522,374
Decrease (increase) in other receivables	4,444,127	(5,026,718)
Increase in intangible pension asset	(2,341,470)	(916,000)
Decrease (increase) in other assets	40,449	(45,895)
Increase (decrease) in accounts payable and accrued expenses	1,368,860	(7,006,353)
(Decrease) increase in cemetery and mausoleum care funds	(682,953)	4,850,841
Increase (decrease) in insurance claims reserves	597,253	(872,184)
Increase in obligations under pension plan	20,893,000	10,526,000
Increase in deferred revenue	5,419,940	7,063,318
Decrease in custodial collections	(513,516)	(656,406)
Total adjustments	40,740,667	32,619,129
Net cash provided by operating activities	38,127,281	15,273,628

The accompanying notes are an integral part of these statements.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30,

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	\$ (180,792,437)	\$ (150,527,018)
Proceeds from maturities or sales of investments	179,612,790	153,381,967
Additions to notes receivable	(10,046,927)	(1,669,316)
Repayments of notes receivable	2,605,139	3,621,674
Purchases of property, plant and equipment	(21,303,794)	(51,668,876)
Proceeds from sale of property, plant and equipment	<u>10,925</u>	<u>521,699</u>
Net cash used in investing activities	<u>(29,914,304)</u>	<u>(46,339,870)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Assets contributed for long term investments	76,889	90,978
Proceeds from issuance of notes payable	10,829,632	36,070,828
Payments on notes payable	<u>(20,256,001)</u>	<u>(3,799,135)</u>
Net cash (used in) provided by financing activities	<u>(9,349,480)</u>	<u>32,362,671</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,136,503)	1,296,429
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,613,563</u>	<u>1,317,134</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,477,060</u>	<u>\$ 2,613,563</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 4,514,806</u>	<u>\$ 4,598,760</u>
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Gift of real estate property	<u>\$ -</u>	<u>\$ 2,125,000</u>
Gifts of equity investments	<u>\$ 619,631</u>	<u>\$ 540,792</u>

The accompanying notes are an integral part of these statements.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles

NOTES TO FINANCIAL STATEMENTS

June 30, 2003 and 2002

NOTE A - ORGANIZATION

The Administrative Office of The Roman Catholic Archdiocese of Los Angeles (the "Administrative Office") primarily consists of departments maintained for the administration of the general business and financial affairs of the Archdiocese of Los Angeles (the "Archdiocese"). The Archdiocese encompasses the various institutions and organizations, which are responsible to His Eminence Cardinal Roger M. Mahony, Archbishop of Los Angeles. The accompanying financial statements consist of the accounts of the administrative office, including the Archdiocesan Cemetery and Mausoleum Offices (the "Cemeteries"), which consist of 11 cemeteries located in the Los Angeles, Santa Barbara and Ventura county areas and a central administrative office. The parishes and schools operate independently and account for their operations separately; therefore such entities are not included in the accompanying financial statements.

A significant portion of the Administrative Office's revenues is derived from the donations and assessments obtained from the parishes of the Archdiocese. These revenues are expended by the Administrative Office for the various programs, ministries and needs of the Archdiocese. Administrative services provided include maintenance of an Archdiocesan insurance program and administration of the Archdiocesan pension plan. 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.

The financial statements include the financial position and operations of the Cathedral of Our Lady of the Angels, which was dedicated in September 2002. Effective July 1, 2003, the net assets and operations of the Cathedral are transferred to a separate corporate entity to accommodate the operational aspects of that site.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Accounting

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

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Basis of Presentation

The financial statements of the Administrative Office have been presented in accordance with the *Audit and Accounting Guide for Not-For-Profit Organizations* issued by the American Institute of Certified Public Accountants. The guide states 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.

3. 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 activity as net assets released from restrictions. Unconditional promises to give (pledges) are recorded as receivable and revenues. Conditional promises to give or intentions to give are not recorded in the financial statements.

4. Designated Net Assets

Designated net assets represent self-imposed limitations on the use of unrestricted net assets and are therefore included in unrestricted net assets.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. 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. All sales are made by an outside agency. Sales and cost of sales relating 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 relating to resale products and services are deferred and recognized at fulfillment. Revenue relating to pre-development sales is deferred until construction begins, or “ground is broken”.

All contracts in which patrons have not made payments for a six-month period are cancelable. All cancellations relating to current year sales are netted against sales; other cancellations are treated as bad debt expense.

6. Cash and Cash Equivalents

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

7. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activity. Gains and losses on investments are reported in the statement of activity as increases or decreases in unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations. Investments in pooled funds are carried at market value (see Note G).

8. Property, Plant and Equipment

Purchased property, plant and equipment are stated at cost. Certain assets, for which historical cost information was unavailable, were recorded at replacement cost. 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 sixty-five 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.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Deferred Revenue

Deferred revenue includes sales of the Cemeteries relating to resale products and services that are deferred and recognized at fulfillment (see Note L). It also includes amounts received or expected to be received from earthquake insurance and other sources, which have not as yet been expended for the related earthquake repair. Deferred revenue relating to earthquake insurance was \$0 and \$836,700 at June 30, 2003 and 2002, respectively.

10. 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 N). The Administrative Office assesses each of the participating Archdiocesan entities its portion of estimated insurance expense. Total Archdiocesan claims currently payable plus an estimated amount for incurred but not reported claims have been accrued as Administrative Office liabilities.

11. Cemeteries Care

Funds for future continuous care of the Cemeteries have been accumulated and are carried as a designation of unrestricted net assets.

12. Contributed Services

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

13. Annual Appeal

The Administrative Office administers special collections conducted by the parishes and held exclusively to provide support for other parishes and elementary schools, which require operating subsidies to meet their needs.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Income Taxes

As a division of The Roman Catholic Archdiocese of Los Angeles, 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, respectively.

15. Using Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

16. Reclassifications

Certain reclassifications have been made to the fiscal year 2002 financial statements to conform to the fiscal year 2003 presentation.

NOTE C - CONTRACTS RECEIVABLE

Contracts receivable represents 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 sixty months, with the predominant contract length being sixty months. Contracts under one year are interest free, and contracts over one year are interest free for the first year and then assessed a 7% interest rate for all years thereafter. Contracts receivable consists of the following for June 30:

	2003	2002
Cemetery	\$ 43,682,283	\$ 43,138,540
Mausoleum	23,647,171	18,871,445
	67,329,454	62,009,985
Allowance for uncollectible accounts	(12,048,313)	(11,641,576)
Contracts receivable, net	<u>\$ 55,281,141</u>	<u>\$ 50,368,409</u>

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE D - AFFILIATE RECEIVABLES

Affiliate receivables at June 30 consist of the following:

	2003	2002
Parishes	\$ 9,992,758	\$ 9,563,060
Elementary schools	4,704,093	4,185,220
High schools	2,292,795	2,103,160
Other (payables)/ receivables	553,923	(145,799)
	17,543,569	15,705,641
Less allowance for uncollectible affiliate receivables	(15,313,035)	(13,698,712)
Total affiliate receivables, net	\$ 2,230,534	\$ 2,006,929

The Administrative Office advances money on behalf of its 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 ability of the entities to repay these obligations depends significantly on their continued ability to generate cash flows from normal operating activities.

NOTE E - PLEDGES RECEIVABLE

Pledges receivable consist of the following at June 30:

	2003				
	Gross	Discount	Net of Discount	Allowance for Uncollectibles	Net of Discount and Allowance
Cathedral of Our Lady of the Angels	\$ 30,935,637	\$ 2,770,722	\$ 28,164,915	\$ 445,159	\$ 27,719,756
Annual Appeal	1,911,266	-	1,911,266	191,127	1,720,139
University Catholic Center	232,743	2,256	230,487	14,353	216,134
Total	\$ 33,079,646	\$ 2,772,978	\$ 30,306,668	\$ 650,639	\$ 29,656,029
	2002				
	Gross	Discount	Net of Discount	Allowance for Uncollectibles	Net of Discount and Allowance
Cathedral of Our Lady of the Angels	\$ 36,781,342	\$ 2,656,842	\$ 34,124,500	\$ -	\$ 34,124,500
Annual Appeal	1,625,144	-	1,625,144	162,514	1,462,630
University Catholic Center	284,916	5,292	279,624	14,353	265,271
Total	\$ 38,691,402	\$ 2,662,134	\$ 36,029,268	\$ 176,867	\$ 35,852,401

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE E - PLEDGES RECEIVABLE - Continued

The maturities of pledges receivable at June 30, 2003 are as follows:

Less than one year	\$15,784,854
One to five years	13,429,554
More than five years	<u>3,865,238</u>
Total	<u>\$33,079,646</u>

The discount rate applied in determining the unamortized discount for pledges made in each given period are as follows:

Fiscal year 1998 and prior	5.62%
Fiscal year 1999	5.97%
Fiscal year 2000	6.25%
Fiscal year 2001	5.66%
Fiscal year 2002	4.52%
Fiscal year 2003	4.84%

NOTE F - NOTES RECEIVABLE

Notes receivable at June 30, consist of the following:

	<u>2003</u>	<u>2002</u>
Parishes, High School and Elementary School notes	\$ 4,546,628	\$ 4,206,946
St. John's Seminary	4,627,128	-
St. John's Seminary College	4,091,869	-
Other nonaffiliated entities	<u>4,785,298</u>	<u>7,219,560</u>
	18,050,923	11,426,506
Less allowance for uncollectible notes receivable	<u>(8,170,410)</u>	<u>(3,741,036)</u>
Total notes receivable, net	<u>\$ 9,880,513</u>	<u>\$ 7,685,470</u>

The notes receivable from St. John's Seminary and St. John's Seminary College were initially held by the Investment Pool and transferred to the Administrative Office in the current year.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE G - INVESTMENTS

In November 1986, the Archdiocese established the Investment Pool (the "Pool") which holds assets in trust for the benefit of the various entities of the Archdiocese. The investment pool has two separate pools, the Balanced Pool and the Income Pool.

The primary purpose of the Pool is to hold assets in trust for the benefit of the various entities of the Archdiocese including:

- Parishes and Elementary Schools
- Parish High Schools
- Administrative Office (Archdiocesan Catholic Center, Cemeteries, Archdiocesan High Schools, Tidings)
- Seminaries
- Other affiliated organizations
- Other Catholic and non-Archdiocesan entities

The Income Pool was established for participants with short-term objectives of current income with low risk of fluctuation in principal value. Assets of the Income Pool as of June 30, 2003 and 2002 are invested 14% and 20% in cash and cash equivalents, 73% and 60% in fixed income securities, 13% and 19% in notes receivable and 0% and 1% in other investments, respectively.

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, 2003 and 2002 are invested 4% and 2% in cash and cash equivalents, 62% and 59% in equities, 28% and 35% in fixed income securities, and 6% and 14% in other investments, respectively.

The pools are operated under the total return concept, under which participants are 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 each pool's performance is based upon the time and dollar-weighted method. Under this method, participants are assigned a weighted value for the time funds are held by the respective pools.

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

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE G - INVESTMENTS - Continued

The Administrative Office invested \$156,781,088 and \$187,913,232 in the Balanced Pool and \$71,800,434 and \$36,136,730 in the Income Pool at June 30, 2003 and 2002, respectively.

During fiscal year 2003 the Archdiocese solicited requests for proposals for custodial services related to the Investment Pool and other trustee relationships such as the pension plans. As a result, the Archdiocese is currently undergoing a conversion of Pool assets to a new custodian bank, State Street Corporation. This change will maintain the current independence of Pool assets and will enhance the separate and direct reporting along with other processes related to the Pool operations.

The average annual return and net realized and unrealized loss related to these investments for the years ended June 30 are as follows:

	<u>2003</u>	<u>2002</u>
Average annual return:		
Balanced Pool	3.5%	(4.7%)
Income Pool	2.8%	4.2%
Net realized and unrealized loss:		
Balanced Pool	\$(1,081,154)	\$(13,962,316)
Income Pool	<u>(854,544)</u>	<u>(121,978)</u>
Total net realized and unrealized loss	<u>\$(1,935,698)</u>	<u>\$(14,084,294)</u>

Non-pooled investments, recorded at their fair value, are as follows at June 30:

	<u>2003</u>	<u>2002</u>
Watson Land Company Securities	\$ 3,090,927	\$ 2,922,802
Cathedral Investment	13,472,439	10,853,034
Charitable Remainder Trust	2,928,926	3,470,537
Other	<u>617,643</u>	<u>297,197</u>
Total	<u>\$20,109,935</u>	<u>\$17,543,570</u>

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2003 and 2002

NOTE G - INVESTMENTS - Continued

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

	2003	
	Temporarily Restricted	Permanently Restricted
Cathedral of Our Lady of the Angels	\$42,209,453	\$ -
Other	13,707,541	2,323,917
Total	\$55,916,994	\$2,323,917
	2002	
	Temporarily Restricted	Permanently Restricted
Cathedral of Our Lady of the Angels	\$38,776,509	\$ -
Other	13,861,815	2,247,028
Total	\$52,638,324	\$2,247,028

NOTE H - PROPERTY, PLANT AND EQUIPMENT

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

	2003	2002
Land	\$ 49,440,110	\$ 49,440,110
Cemetery and mausoleum developments	49,563,707	50,498,157
Buildings and improvements	221,700,940	37,798,914
Yard and yard buildings	4,381,736	4,265,707
Construction in progress	22,701,955	179,378,463
Furniture, fixtures and equipment	20,666,676	20,147,615
	368,455,124	341,528,966
Less accumulated depreciation	(81,108,477)	(71,008,498)
Property, plant and equipment, net	\$287,346,647	\$270,520,468

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE H - PROPERTY, PLANT AND EQUIPMENT - Continued

In January 1994, the greater Los Angeles area was seriously affected by a major earthquake and attendant aftershocks centered in the San Fernando Valley. Management had identified 165 parish, elementary school, high school, seminary and other locations that had moderate to severe earthquake-related damage, each of which contained multiple structures. Repairs were funded by a combination of insurance recoveries, government funds and charitable contributions. During fiscal year 2002, earthquake related construction in progress maintained in Administrative Office records, totaling approximately \$50,654,000, was transferred to the separate locations as the individual projects were completed in August of 2001.

NOTE I - PENSION PLANS

1. LAY EMPLOYEES

The Archdiocese sponsors a defined benefit pension plan covering substantially all full-time lay employees throughout the Archdiocese who have completed at least one year of service and are of age 25. The Administrative Office administers the plan and assesses each of the participating entities its portion of estimated annual pension cost. Contributions of \$10,001,000 and \$10,000,000 were made to the plan in the years ended June 30, 2003 and 2002, respectively.

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

	<u>2003</u>	<u>2002</u>
Service cost – benefits earned during the period	\$ 6,185,000	\$ 7,017,000
Interest cost on projected benefit obligation	7,960,000	7,625,000
Actual return on plan assets	(1,972,000)	4,912,000
Net amortization and deferral	(1,642,000)	(9,521,000)
Adjustment required to recognize minimum liability	-	-
Net periodic pension cost	<u>\$10,531,000</u>	<u>\$10,033,000</u>

The Administrative Office's assessed portion of the foregoing included in administrative expenses in the accompanying statement of activity was approximately \$229,000 and \$445,000 for the years ended June 30, 2003 and 2002, respectively.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE I - PENSION PLANS - Continued

1. LAY EMPLOYEES (continued)

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

	<u>2003</u>	<u>2002</u>
Accumulated benefit obligation for service rendered to date including vested benefits of \$126,868,000 and \$103,580,000, respectively	<u>\$ 131,891,000</u>	<u>\$ 107,681,000</u>
Projected benefit obligation for service rendered to date	\$(136,184,000)	\$(119,835,000)
Plan assets at fair value	<u>86,889,000</u>	<u>81,433,000</u>
Projected benefit obligation in excess of plan assets	(49,295,000)	(38,402,000)
Items not yet recognized in earnings:		
Unrecognized net loss	52,006,000	41,645,000
Prior service cost not yet recognized in net periodic pension cost	(528,000)	(790,000)
Adjustment required to recognize minimum liability	<u>(47,185,000)</u>	<u>(28,691,000)</u>
Accrued pension cost included in obligations under pension plan	<u>\$ (45,002,000)</u>	<u>\$ (26,238,000)</u>

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.00% and 7.00% for the years ended June 30, 2003 and 2002, respectively, was used. The assumed rate of increase in future compensation levels was 4.25% and the expected long-term rate of return on plan assets was 8.00% for the years ended June 30, 2003 and 2002.

2. PRIESTS

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. Contributions of \$1,724,000 and \$5,611,000 were made to the plan in the years ended June 30, 2003 and 2002, respectively, by the parishes, schools or other units to which the participating clergy were assigned.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE I - PENSION PLANS - Continued

2. PRIESTS (continued)

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

	<u>2003</u>	<u>2002</u>
Service cost – benefits earned during the period	\$ 480,000	\$ 383,000
Interest cost on projected benefit obligation	1,592,000	1,598,000
Expected return on plan assets	(868,000)	(616,000)
Net amortization and deferral	<u>910,000</u>	<u>785,000</u>
Net periodic pension cost	<u><u>\$2,114,000</u></u>	<u><u>\$2,150,000</u></u>

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

	<u>2003</u>	<u>2002</u>
Accumulated benefit obligation for service rendered to date including vested benefits of \$24,587,000 and \$22,143,000, respectively	<u>\$ 25,624,000</u>	<u>\$ 23,077,000</u>
Projected benefit obligation for service		
Rendered to date	\$(25,624,000)	\$(23,077,000)
Plan assets at fair value	<u>11,147,000</u>	<u>11,069,000</u>
Projected benefit obligation in excess of plan assets	(14,477,000)	(12,008,000)
Items not yet recognized in earnings:		
Unrecognized net gain	(1,386,000)	(4,510,000)
Unrecognized net obligation at transition	11,504,000	12,549,000
Adjustment required to recognize minimum liability	<u>(10,118,000)</u>	<u>(8,039,000)</u>
Accrued pension cost included in obligations under pension plan	<u><u>\$(14,477,000)</u></u>	<u><u>\$(12,008,000)</u></u>

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE I - PENSION PLANS - Continued

2. PRIESTS (continued)

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.00% and 7.25% was used for the years ended June 30, 2003 and 2002, respectively. The expected long-term rate of return on plan assets was 8.00% for the years ended June 30, 2003 and 2002.

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 \$757,000 and \$2,014,000 were made to the plan in the years ended June 30, 2003 and 2002, respectively.

The following items are the components of the net periodic post retirement health care cost for the plan as a whole for the year ended June 30:

	2003	2002
Service cost - benefits earned during the period	\$ 213,000	\$ 208,000
Interest cost on projected benefit obligation	599,000	588,000
Expected return on plan assets	(383,000)	(273,000)
Net amortization and deferral	(12,000)	(62,000)
Net periodic pension cost	\$ 417,000	\$ 461,000

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 activity was approximately \$285,000 and \$236,000 for the year ended June 30, 2003 and 2002, respectively.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE I - PENSION PLANS - Continued

2. PRIESTS (continued)

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

	<u>2003</u>	<u>2002</u>
Accumulated benefit obligation for service rendered to date	<u>\$ 11,371,000</u>	<u>\$ 8,513,000</u>
Projected benefit obligation for service rendered to date	\$(11,371,000)	\$(8,513,000)
Plan assets at fair value	<u>5,165,000</u>	<u>4,624,000</u>
Projected benefit obligation in excess of plan assets	(6,206,000)	(3,889,000)
Items not yet recognized in earnings:		
Unrecognized net gain	<u>1,609,000</u>	<u>(1,048,000)</u>
Accrued post retirement health care cost included in obligations under pension plan	<u>\$ (4,597,000)</u>	<u>\$ (4,937,000)</u>

In determining the actuarial present value of the projected benefit obligation, a weighted-average discount rate of 6.00% and 7.25% was used for the years ended June 30, 2003 and 2002. The expected rate of increase in future compensation levels was 0.00% and expected long-term rate of return on plan assets was 8.00% for the years ended June 30, 2003 and 2002.

NOTE J - NOTES PAYABLE

Notes payable at June 30 consist of the following:

	<u>2003</u>	<u>2002</u>
Reverse repurchase agreements	\$ 10,574,157	\$ 27,734,108
Allied Irish Bank	70,000,000	70,000,000
Mausoleum construction	21,000,000	12,876,130
Conrad Hilton Foundation	<u>5,000,000</u>	<u>5,000,000</u>
Total notes payable	<u>\$106,574,157</u>	<u>\$115,610,238</u>

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE J - NOTES PAYABLE - Continued

The Administrative Office repurchased debts owed to the Investment Pool as part of a reverse repurchase agreement program. The Administrative Office financed the repurchased debt with an outside source and provided as collateral U.S. Treasury securities (with a market value approximating the amount of the liability), which were held by a custodian trust company on behalf of the lender. The agreements are generally written with 30-day maturities, with amounts borrowed thereunder. The related collateral varies based on the Administrative Office's cash requirements. The outstanding balance was \$10,574,157 and \$27,734,108 at June 30, 2003 and 2002, respectively, for the various reverse repurchase agreements with variable interest rates ranging from 1.02% to 2.55%.

On November 20, 1998, the Administrative Office issued an interest-bearing \$70,000,000 note to Allied Irish Bank. The note is due on November 20, 2008, with interest payable monthly at the rate of 5.95%.

On October 1, 1999, the Administrative Office obtained a loan of \$5,000,000 from the Conrad Hilton Foundation to be used in the construction of the Cathedral of Our Lady of the Angels. Upon fulfillment of certain contingencies, the loan will be forgiven in increments of \$1,000,000 per year, starting in fiscal year 2014. Interest is payable quarterly at the rate of 3%.

On March 1, 1995, the Archdiocese, on behalf of the Cemeteries, signed a \$1,900,000 loan agreement with Wells Fargo Bank. The one-year non-revolving loan was converted to a five-year term loan on June 30, 1996. The remaining balance of \$1,210,679 was paid down with the proceeds from a term note entered into on October 22, 1997, with Wells Fargo Bank. The remaining proceeds of \$4,600,000 were used to finance the construction of a new mausoleum. The loan was paid in full during the current fiscal year.

On July 24, 1995, the Archdiocese, on behalf of the Cemeteries, signed a \$4,500,000 loan agreement with Allied Irish Bank (AIB). The agreement is for a construction loan at the AIB rate minus 1% with only interest payable until the conversion date of September 1, 1998. After the conversion date, the loan became a fully amortizing term loan payable in 60 equal monthly payments with an interest rate equal to 6%. The loan was paid in full during the current fiscal year.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE J - NOTES PAYABLE - Continued

On October 12, 2001, the Archdiocese, on behalf of the Cemeteries, signed a line of credit agreement with Wells Fargo Bank for purposes of mausoleum construction. Under the terms and conditions of the agreement, the Bank agreed to make advances to the Archdiocese from time to time up to and including July 15, 2003, not to exceed \$14,000,000. Effective July 15, 2003, the line of credit agreement was converted into a term loan. Commencing August 15, 2003, the principal balance outstanding under the term commitment will be repaid in sixty equal monthly installments, amounting to \$233,333. The outstanding principal balance of the term commitment will bear 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 Wells Fargo Bank 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 \$14,000,000 as of June 30, 2003.

On May 1, 2002, the Archdiocese, on behalf of the Cemeteries, signed a loan agreement with Allied Irish Bank (AIB). Under the terms of the loan agreement, AIB agreed to advance \$3,500,000 to the Archdiocese on May 1, 2002 and an additional \$3,500,000 on May 1, 2003. The loan is payable in 60 equal principal payments beginning on June 1, 2004. The loan bears interest at 6.75%. The outstanding balance of the note was \$7,000,000 as of June 30, 2003.

The Administrative Office had an unused line of credit of \$20,000,000 at June 30, 2002. This line of credit expired on April 1, 2003. The Administrative Office is currently under negotiations for a new line of credit.

Aggregate maturities of long-term debt for the five years following June 30, 2003 and thereafter are as follows:

2004	\$ 13,257,487
2005	4,199,996
2006	4,199,996
2007	4,199,996
2008	4,199,996
Thereafter	<u>76,516,686</u>
Total	<u><u>\$106,574,157</u></u>

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE K - NOTES PAYABLE TO AFFILIATE

Notes payable to affiliate are funded through the Income Pool. Notes granted after July 1, 1989 bear interest at a rate equal to the average weekly yield for the 5-year Treasury Note, adjusted semi-annually on January 1 and July 1. Certain notes granted prior to July 1, 1989 bear interest at a rate of 6%. The notes are payable on demand.

The composition of notes payable at June 30 is as follows:

	2003	2002
Vocation in progress	\$ -	\$ 163,546
Catholic University Center	1,067,840	1,294,582
Total notes payable to affiliate	\$1,067,840	\$1,458,128

NOTE L - DEFERRED REVENUE

1. Deferred Revenue - Resale Products and Services

Sales relating to resale products and services are deferred and recognized at fulfillment. Deferred revenues amounted to \$121,668,000 and \$113,611,000, net of estimated cancellations of \$3,346,000 and \$3,234,000, at June 30, 2003 and 2002, respectively.

2. Pre-development sales

Revenue for pre-development sales is deferred until ground has been broken on the construction of mausoleums. As of June 30, 2003 and 2002, pre-development sales amounted to \$117,000 and \$2,085,000 and consisted of sales deferred for three mausoleums.

3. 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% 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 amount to \$2,619,000 and \$1,791,000 at June 30, 2003 and 2002, respectively.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE M - COMMITMENTS AND CONTINGENCIES

1. Litigation

The Archdiocese is involved in numerous lawsuits relating to claims of sexual misconduct by certain individuals. There are factors that exist relating to those claims that could affect the range of ultimate liability including, among others, increases in the number of claims, increases in the number of individuals named in the claims and how the claims will be resolved.

In addition, there are a number of individuals who have made allegations of sexual abuse, but have not filed formal claims against the Archdiocese. It is uncertain whether such individuals will make monetary claims or file formal complaints. Because of a recent change in California law, effective January 1, 2003, a one-year period will exist for claimants to file suit on claims that have heretofore been barred by applicable statutes of limitations.

Uncertainties exist surrounding the financial impact of the Archdiocese's involvement with these claims. The claims are expected to trigger insurance policies covering periods as early as the 1960s. If claims are not resolved within policy limits, the potential losses to the Archdiocese would be material. The Archdiocese incurred expenses of approximately \$5.4 million and \$3.6 million related to legal fees, settlement and other costs related to these claims in fiscal year 2003 and 2002, respectively, and is currently receiving reimbursements from its insurers for a portion of these legal fees. The Archdiocese expects it will incur substantial future charges related to its defense of these matters, but cannot reasonably estimate the future reimbursements or the potential costs that it will incur.

In light of the continuing uncertainties regarding these claims and given that a reasonable estimate of the potential cost of these claims cannot be made, no accrual has been made in the financial statements as of and for the year ended June 30, 2003 for these claims.

The Archdiocese is subject to various lawsuits and claims, including general litigation. Various lawsuits and claims, not related to the aforementioned 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 Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE M - COMMITMENTS AND CONTINGENCIES - Continued

2. Cemeteries Perpetual Care and Commodities Commitments (continued)

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). 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 designated and are segregated from other net assets in the designated investment pool funds. At June 30, 2003 and 2002, the designated net assets relating to the Cemeteries Perpetual Care and Commodities Commitments amounted to \$63,321,000 and \$69,130,000, respectively.

3. Mortuaries Property Lease

Commencing on September 15, 1997, the Archdiocese entered into a contract with a third party, who 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. The Archdiocese will lease the mortuaries back to the third party for a period of 40 years. The lessee will pay a minimum monthly rental payment of \$29,000. The Archdiocese began collecting rental payments on August 15, 1999. As of June 30, 2003 five mortuaries have been completed, and an additional two other mortuaries are currently in the planning process. The Cemeteries will account for this lease of properties as an operating lease. Rental income amounted to \$611,000 and \$502,000 for the years ended June 30, 2003 and 2002, respectively.

NOTE N - RELATED PARTIES

The Archdiocese is a member of and participates in a captive mutual insurance company, The Ordinary Mutual ("TOM"), with certain other Roman Catholic dioceses and archdioceses in the western United States. TOM primarily provides general and auto liability coverage to its members. All members were committed to remain in TOM through July 1, 1993, after which members may give an 18-month notice of their intent to withdraw from TOM. 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 TOM. Under certain circumstances, further amounts may be assessed by TOM in order to maintain minimum capitalization and reserve requirements. As of June 30, 2003, no such assessments were required.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE N - RELATED PARTIES - Continued

The Archdiocese is a Trustor of and participates in a multi-employer health plan, Religious Trust Agreement ("RETA"), with various other nonprofit religious organizations of the Roman Catholic Church. Under certain circumstances, further amounts may be assessed by RETA in order to maintain minimum reserve requirements in the trust fund. No further assessments have been made by RETA and there are no amounts payable with regard to past assessments as of June 30, 2003.

Gross pledges receivable totaling \$4,751,144 and \$4,081,612 at June 30, 2003 and 2002, respectively, were receivable from related parties. Related parties include Committee members, companies owned by Trustees or Committee members, and other entities encompassed in The Roman Catholic Archdiocese of Los Angeles.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash, cash equivalents and investments

The carrying amount of these financial instruments are a reasonable estimate of their fair value due to the short-term to maturity and readily available markets for the investments.

Amounts due from affiliated entities

The carrying amounts approximate fair value due to the terms of payment to the Catholic Center.

Contracts Receivable

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 Catholic Center's vendors.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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 P - 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 Q - CONCENTRATION OF CREDIT RISK – CASH AND CASH EQUIVALENTS

The Administrative Office maintains its cash balances at several financial institutions located primarily in Southern California, 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. Total amounts uninsured at June 30, 2003 and 2002 were approximately \$4,825,000 and \$2,720,000, respectively.

The Administrative Office
of The Roman Catholic Archdiocese of Los Angeles
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2003 and 2002

NOTE R - CATHEDRAL OF OUR LADY OF THE ANGELS

Construction of the Cathedral of Our Lady of the Angels was completed in fiscal year 2003. The formal blessing and dedication of the Cathedral occurred on September 2, 2002. A corporation was formed to hold the net assets of the Cathedral and the following net assets will be transferred to this new corporation effective July 1, 2003:

Cash	\$ 1,605,000
Pledges receivables	27,720,000
Property, plant & equipment	192,394,000
Investments	47,210,000
Other	<u>359,000</u>
Total assets	<u><u>\$ 269,288,000</u></u>
Accounts payable and accrued expenses	\$ 2,448,000
Notes payable	75,000,000
Other	<u>14,000</u>
Total liabilities	77,462,000
Net assets	<u>191,826,000</u>
Total liabilities and net assets	<u><u>\$ 269,288,000</u></u>

NOTE S - TRANSFER OF NOTES RECEIVABLE, INVESTMENTS AND NET ASSETS

Notes receivable in the amount of \$4,531,791 relating to the sale of St. Vibiana were transferred to the Administrative Office in fiscal year 2002 and in fiscal year 2003, the remaining investment assets of the St. Vibiana Cathedral in the amount of \$1,557,775 were transferred.

Expenses related to the construction of the Cathedral of Our Lady of the Angels in the amount of \$5,178,900 were transferred in the current year from the Our Lady Queen of Angels business unit. These construction costs were previously expensed.