

Financial Statements and
Report of Independent Certified Public Accountants
**Central Administrative Office of the
Roman Catholic Diocese of San Jose**
June 30, 2003

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Accountants and Management Consultants

Report of Independent Certified Public Accountants

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

We have audited the accompanying statement of financial position of the Central Administrative Office of the Roman Catholic Diocese of San Jose as of June 30, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Administrative Office of the Roman Catholic Diocese of San Jose at June 30, 2003, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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November 17, 2003

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

STATEMENT OF FINANCIAL POSITION

June 30, 2003

ASSETS

Cash and cash equivalents	\$ 10,800,306
Marketable securities	14,265,566
Receivables	
Short term loans to parishes and institutions (net of allowance for doubtful accounts of \$610,000)	566,019
Mortgages and notes	351,000
Pledges (net of allowance for doubtful accounts of \$483,710)	3,416,481
Other (net of allowance for doubtful accounts of \$244,432)	2,257,635
Deposits and prepaid expenses	1,871,968
Inventories	7,400,357
Loans receivable from parishes and institutions in deposit and loan fund (net of allowance for loan losses of \$1,468,770)	32,766,964
Bond issuance costs (net of accumulated amortization of \$178,377)	817,213
Investment in real estate	839,216
Assets held in trust	938,571
Land, buildings and equipment (net of accumulated depreciation)	<u>42,380,432</u>
Total assets	<u>\$ 118,671,728</u>

See accompanying notes to financial statements.

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

STATEMENT OF FINANCIAL POSITION (continued)

June 30, 2003

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 2,224,044
Pledges payable to parishes and others	1,474,795
Accrued liabilities	14,229,066
Deposits payable to parishes, schools and other funds	23,027,062
Unsecured debentures payable	18,605,000
Notes payable	1,192,595
Trust assets held for parish	938,571
Held for parishes and institutions	7,312,814
Deferred revenue	<u>11,603,584</u>
 Total liabilities	 80,607,531
 Net assets	
Unrestricted	
Undesignated	17,635,395
Designated	5,198,550
Funds functioning as endowment - cemetery endowment care	<u>3,232,293</u>
Total unrestricted	26,066,238
 Temporarily restricted	9,021,144
Permanently restricted	<u>2,976,815</u>
 Total net assets	 <u>38,064,197</u>
 Total liabilities and net assets	 <u>\$ 118,671,728</u>

See accompanying notes to financial statements.

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

STATEMENT OF ACTIVITIES

Year ended June 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Gifts, bequests and collections	\$ 769,392	\$ 4,994,642	\$ -	\$ 5,764,034
Fees and expense reimbursements	1,545,225	-	-	1,545,225
Cathedraticum fees	1,344,884	-	-	1,344,884
Education	3,095,602	-	-	3,095,602
Rental income	255,551	-	-	255,551
Investment income	163,193	145,758	-	308,951
Interest income from loans	1,905,538	-	-	1,905,538
Insurance premiums	14,253,036	-	-	14,253,036
Newspaper income	355,469	-	-	355,469
Cemetery revenues	4,878,979	-	-	4,878,979
Other income	112,257	-	-	112,257
Net assets released from restrictions	6,150,807	(6,150,807)	-	-
Total revenues	34,829,933	(1,010,407)	-	33,819,526
Expenses				
Pastoral	4,032,080	-	-	4,032,080
Religious personnel development	1,918,925	-	-	1,918,925
Education	3,866,671	-	-	3,866,671
Pension, priest retirement	2,312,748	-	-	2,312,748
Administrative	3,729,536	-	-	3,729,536
Depreciation expense	1,269,482	-	-	1,269,482
Interest expense	2,376,460	-	-	2,376,460
Insurance premiums and benefits	13,233,151	-	-	13,233,151
Newspaper expenses	479,008	-	-	479,008
Cemetery expenses	4,655,867	-	-	4,655,867
Fundraising expenses	1,284,505	-	-	1,284,505
Other	39,629	-	-	39,629
Total expenses	39,198,062	-	-	39,198,062
Losses				
Cost of discontinuing development	1,001,028	-	-	1,001,028
Total expenses and losses	40,199,090	-	-	40,199,090
CHANGE IN NET ASSETS	(5,369,157)	(1,010,407)	-	(6,379,564)
Net assets at beginning of year, as previously reported	32,995,213	9,405,144	2,681,049	45,081,406
Affiliation with Holy Spirit School	(1,559,818)	626,407	295,766	(637,645)
Net assets at beginning of year, after affiliation	31,435,395	10,031,551	2,976,815	44,443,761
Net assets at end of year	\$ 26,066,238	\$ 9,021,144	\$ 2,976,815	\$ 38,064,197

See accompanying notes to financial statements.

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

STATEMENT OF CASH FLOWS

Year ended June 30, 2003

Increase (decrease) in cash and cash equivalents:	
Cash flows from operating activities:	
Change in net assets	\$ (6,379,564)
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Depreciation	1,269,482
Provision for losses on receivables and loans	1,175,417
Amortization of bond issuance costs	49,779
Realized and unrealized investment losses	374,318
Loss on disposal of plant assets	390,357
Changes in operating assets and liabilities:	
Receivables	(1,475,894)
Inventories	(302,984)
Deposits and prepaid expenses	189,472
Trust assets held for parish	(50,752)
Accounts payable and pledges payable	(1,776,979)
Accrued liabilities	4,568,366
Deposits payable	(6,774,519)
Assets held in trust	50,752
Held for parishes and institutions	260,887
Deferred revenue	<u>285,208</u>
Net cash used in operating activities	(8,146,654)
Cash flows from investing activities:	
Purchase of plant assets	(223,415)
Proceeds from repayment of loans receivable	2,592,205
Advances for loans receivable	(7,103,170)
Purchase of marketable securities	(4,767,648)
Proceeds from sale of marketable securities	<u>7,409,148</u>
Net cash used in investing activities	(2,092,880)
Cash flows from financing activities:	
Payments on notes and bonds payable	<u>(625,505)</u>
Net cash used in financing activities	<u>(625,505)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,865,039)
Cash and cash equivalents at beginning of year	<u>21,665,345</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,800,306</u></u>
<u>Supplemental disclosure of cash paid for:</u>	
Interest	\$ 2,400,552

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - ORGANIZATION

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

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

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

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

- Current Funds

- Operating Fund

This fund contains the unrestricted resources available for the support of the CAO and resources held for parishes and institutions. This includes the land, buildings and equipment held for use by the CAO, St. Joseph's Cathedral and sites held for sale and for future parishes and institutions. The operating fund also held funds raised and spent for a future high school. During 2003, the CAO suspended plans for this school and recorded a loss of \$1,001,028 as a result of writing off development costs and recording a liability for unspent donor monies collected for that initiative. This loss is shown as a cost of discontinuing development in the statement of activities. A portion of unrestricted net assets of the operating fund has been designated for certain initiatives.

- Newspaper Fund

This fund contains the resources available for Newspaper operations.

- Service Funds

- Payroll Fund

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

- Benefit Fund

This fund collects and disburses monies for benefit programs.

- Comprehensive Insurance Fund

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A - ORGANIZATION (continued)

- Cemetery Fund

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

- Deposit and Loan Fund

This fund contains deposits held by the CAO for parishes and institutions which are held for investment and/or loaned to other parishes and institutions. Interest rates applied to deposits are 55% - 65% of prime rate on April 1 of each year. At June 30, 2003, the effective rate was 2.34% - 4.31%, depending on term of the deposit. The variable interest rates applied to loans range from 5.31% to 8.22% as of June 30, 2003.

The Deposit and Loan Fund had \$23,027,062 of deposits from parishes and schools and other funds of the CAO as of June 30, 2003. The source and term of deposits is shown in the following table:

	By term			Total
	< 1year	1-2 years	6 years	
Parishes	\$ 14,991,120	\$ 2,668,714	\$ 623,219	\$ 18,283,053
Schools	2,451,189	949,438	1,020,263	4,420,890
Other funds of the CAO	-	323,119	-	323,119
 Total Deposits	 \$ 17,442,309	 \$ 3,941,271	 \$ 1,643,482	 \$ 23,027,062
 Percentage	 76%	 17%	 7%	 100%

- Employee Loan Fund

This fund has been established for loans to employees and priests of the Diocese. At June 30, 2003, the interest rate on loans was 5.31%.

- Endowment Fund

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

- Priest Retirement Funds

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

- Fundraising Fund

This fund has been established for general fundraising expenses for the general Diocesan operations.

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A - ORGANIZATION (continued)

- Holy Spirit School

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

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

- Operating Fund

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

- Annual Appeal Fund

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

- Endowment Fund

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

- Capital Campaign Fund

This fund has been established to raise money for the Diocese of San Jose to be used for a number of needs including priest retirement, bond repayment, scholarships and new parishes.

- Holy Spirit School

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

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A - ORGANIZATION (continued)

- Endowment Fund

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

- Holy Spirit School

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

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

- Pooled Investment Fund

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

NOTE B - SUMMARY OF ACCOUNTING POLICIES

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

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

- Fund Accounting

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

- Accrual Basis

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

- Cash and Cash Equivalents

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

A significant portion of the cash balances held at various banks at June 30, 2003 are in excess of federally insured limits.

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

- Revenue Recognition

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

- Contributions and Pledges

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

- Marketable Securities

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

- Trade Receivables

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

- Loans Receivable

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

- Allowance for Loan Losses in Deposit and Loan Fund

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

- Inventories

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

- Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, or, in the case of cemetery properties acquired directly from the Archdiocese of San Francisco, at approximate market value at the time of transfer. Depreciation expense is calculated principally on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

- Deferred Revenue

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

- Tax Exempt Status

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

- Fair Value of Financial Instruments

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

- Cash, Receivables, Loans and Payables

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

- Marketable Securities

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

– Notes Payable

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

• Use of Estimates

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

The CAO's allowances for doubtful receivables, pledges and loans totaling \$2,806,912 in 2003 are particularly sensitive estimates. The determination of the balances in these accounts is based on an analysis of the receivables and loans and reflects amounts which, in management's judgment, are adequate to provide for potential losses after giving consideration to the character of the receivables and loan portfolio, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses.

• Trusts

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

• Bond Issuance Costs

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

• Liquidity

The CAO's liquid assets have declined by approximately two-thirds or \$23 million since fiscal 2001. The principal cause of the reduction in liquid assets has been the expenditure of over \$12 million for loans to parishes and schools, reduction in bond debt of over \$1 million, reduction in deposits from parishes and schools by over \$7 million which was used primarily for construction of new buildings, and the balance in general operation losses not otherwise funded by the Annual Diocesan Appeal or the Cathedraticum.

There remains just over \$5 million of construction commitments outstanding at June 30, 2003. These will be funded principally by deposits on hand in the Deposit and Loan Fund from parishes and schools. This presents a further anticipated cash drain on the CAO combined available funds. It is anticipated that nearly 40% of this draw down for construction commitments will be funded by new deposits.

The CAO is in discussion with several financial institutions regarding the re-finance of its existing bonded indebtedness. The \$18.6 million of unsecured debentures payable carries an effective interest rate in excess of 8%. There is no prepayment possible under the terms of the debenture until December 2004. If the CAO is able to refinance the debt, future interest savings may be possible. The CAO is also discussing the establishment of lines of credit to finance temporary swings in cash flow during the fiscal year, and loans to finance the pending acquisition of properties for new parishes with cost estimated at less than \$1 million.

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE B - SUMMARY OF ACCOUNTING POLICIES (continued)

In fiscal 2003, the CAO instituted the collection of the Cathedraticum from the parishes of the Diocese. In fiscal 2003, \$1.3 million of revenue was raised. It is anticipated that this source of revenue will increase incrementally by fiscal 2005. These funds are used to cover the fixed operating expenses of the CAO.

The Deposit and Loan Fund of the CAO is the principal source of existing and potential liquidity problems for the CAO. There are \$23 million in deposits in the fund. However, approximately \$6 million of these deposits are committed for terms of 1 year or more. An additional \$4 million of short term deposits are to be used by parishes and schools to fund nearly 80% of the outstanding construction commitments of \$5.1 million of the fund.

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

As to the repayment of debts owing by various parishes, as of June 30, 2003 over \$7 million of the outstanding loans of \$34 million were on the equivalent of non-accrual of interest due to the inability of the parishes to pay in accordance with the original terms. However, over \$10 million of other loans at other parishes were just completing construction as of June 30, 2003. In July of 2003 these loans commenced repayment of principal and interest.

The Diocese anticipates having adequate cash resources over and above restricted cash to meet its obligations.

The Diocese is also considering campaigns to raise additional funds in late 2004 and 2005.

NOTE C - MARKETABLE SECURITIES

Marketable securities at June 30, 2003 consist of the following:

Corporate stocks	\$ 5,430,530
Corporate bonds	2,158,985
Mutual funds	335,659
U.S. Government securities	5,002,820
Other	<u>1,337,572</u>
Total	<u>\$ 14,265,566</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE C - MARKETABLE SECURITIES (continued)

Investment income for the year ended June 30, 2003 consists of the following:

Interest and dividends	\$ 462,781
Realized and unrealized losses, net	<u>(374,318)</u>
Total income	88,463
Portfolio manager and custodian fees	<u>(79,088)</u>
Net income from investment pool activities	9,375
Investment income – cash management and other	<u>303,342</u>
Total income from investment activities	312,717
Less income (loss) attributed to custodian and similar funds:	
Interest and dividends (net of manager fees of \$17,031)	154,119
Realized and unrealized losses, net	<u>(150,353)</u>
	<u>3,766</u>
Total earnings from investment activities excluding custodian and similar funds	<u>\$ 308,951</u>

NOTE D - PLEDGES RECEIVABLE AND PAYABLE

Pledges receivable are as follows at June 30, 2003:

	Operating Fund	Annual Appeal Fund	Capital Campaign Fund	Endowment Fund	Holy Spirit School	Total
Due within one year	\$ 71,428	\$ 1,806,510	\$ 568,114	\$ -	\$ 262,275	\$ 2,708,327
Due in one to five years	<u>375,000</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>	<u>350,073</u>	<u>2,225,073</u>
	446,428	1,806,510	568,114	1,500,000	612,348	4,933,400
Less discount for present value	<u>22,490</u>	<u>-</u>	<u>-</u>	<u>964,369</u>	<u>46,350</u>	<u>1,033,209</u>
	423,938	1,806,510	568,114	535,631	565,998	3,900,191
Less allowance for doubtful accounts	<u>-</u>	<u>80,000</u>	<u>373,184</u>	<u>-</u>	<u>30,526</u>	<u>483,710</u>
	<u>\$ 423,938</u>	<u>\$ 1,726,510</u>	<u>\$ 194,930</u>	<u>\$ 535,631</u>	<u>\$ 535,472</u>	<u>\$ 3,416,481</u>
Annual and capital campaign pledges payable from CAO to parishes and other organizations at June 30, 2003:	<u>\$ -</u>	<u>\$ 1,474,795</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,474,795</u>

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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

Aggregate collections of loans receivable to parishes and schools as of June 30, 2003 are as follows:

<u>Year ending June 30,</u>	
2004	\$ 1,554,296
2005	1,593,833
2006	1,604,350
2007	1,517,207
2008	1,629,588
Thereafter	<u>9,408,265</u>
	17,307,539
Loans with payment plans pending completion of construction	<u>16,928,195</u>
	34,235,734
Less allowance for loan losses	<u>1,468,770</u>
Total	<u>\$ 32,766,964</u>

The majority of the loans receivable are for construction projects at parishes and schools. The CAO advances funds for construction projects to parishes and schools but does not set terms of repayment until these projects are complete. As of June 30, 2003, there are \$16,928,195 of these loans outstanding at interest rates of 5.31% and 8.22%. Undisbursed commitments to loan totaled \$5,151,584 at June 30, 2003.

Activity in the allowance for loan losses for the year ended June 30, 2003 follows:

Balance, beginning of year	\$ 500,000
Loans charged off	-
Recoveries	<u>-</u>
Net loans charged off	-
Provision for loan losses	<u>968,770</u>
Balance, end of year	<u>\$ 1,468,770</u>

Impaired loans were \$7,362,224 at June 30, 2003. The average recorded investment in impaired loans during 2003 was \$7,565,501. The allowance for loan losses related to these loans was \$1,468,770. There was no interest income on the impaired loans in 2003.

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE F - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2003:

	Operating Fund	Cemetery Fund	Holy Spirit School	Priest Retirement Fund	Total
Buildings and improvements	\$ 28,812,789	\$ 2,539,029	\$ 11,445,118	\$ -	\$ 42,796,936
Leasehold improvements	-	-	-	400,058	400,058
Furniture and fixtures	1,435,807	921,071	256,797	-	2,613,675
Vehicles	41,977	1,122,439	-	-	1,164,416
Turf equipment	-	225,297	-	-	225,297
Tools and equipment	-	177,511	-	-	177,511
Office plans	-	21,333	-	-	21,333
Other improvements	-	178,946	-	-	178,946
	<u>30,290,573</u>	<u>5,185,626</u>	<u>11,701,915</u>	<u>400,058</u>	<u>47,578,172</u>
Less accumulated depreciation	6,255,204	2,718,018	841,481	400,058	10,214,761
	<u>24,035,369</u>	<u>2,467,608</u>	<u>10,860,434</u>	<u>-</u>	<u>37,363,411</u>
Land					
Sites for future parishes and institutions	3,083,488	-	-	-	3,083,488
Land under operating lease (see Note K)	613,588	-	-	-	613,588
Operating properties	709,239	426,102	-	-	1,135,341
	<u>4,406,315</u>	<u>426,102</u>	<u>-</u>	<u>-</u>	<u>4,832,417</u>
Construction in progress	-	184,604	-	-	184,604
Total	<u>\$ 28,441,684</u>	<u>\$ 3,078,314</u>	<u>\$ 10,860,434</u>	<u>\$ -</u>	<u>\$ 42,380,432</u>

NOTE G - UNSECURED DEBENTURES

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

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE G - UNSECURED DEBENTURES (continued)

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

Optional Redemptions

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

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

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

Covenants

The CAO of the Roman Catholic Diocese of San Jose must comply with covenants including maintenance of specific ratios and timely submission of audited financial statements. The Diocese was in compliance with these requirements at June 30, 2003.

Aggregate maturities of the unsecured debentures as of June 30, 2003 are as follows:

<u>Year ending June 30,</u>	
2004	\$ 590,000
2005	635,000
2006	690,000
2007	730,000
2008	785,000
Thereafter	<u>15,175,000</u>
Total	<u>\$ 18,605,000</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE H - NOTES PAYABLE

Notes payable consist of the following at June 30, 2003:

Non-interest bearing obligation to The Archdiocese of San Francisco, payable in annual installments of \$100,000 through 2021. The fair value of this note has been determined based on an imputed interest rate of 5.5%	\$ 1,158,498
4% note payable in monthly installments of \$343, plus interest, through 2007, collateralized by a deed of trust	13,831
4.5% equipment loan payable in monthly installments of \$2,064, plus interest, through 2004	<u>20,266</u>
	<u>\$ 1,192,595</u>

Aggregate maturities of notes payable as of June 30, 2003 are as follows:

<u>Year ending June 30,</u>	
2004	\$ 123,166
2005	104,429
2006	104,265
2007	101,496
2008	100,000
Thereafter	<u>1,431,868</u>
	1,965,224
Less amount representing imputed interest	<u>(772,629)</u>
Total	<u>\$ 1,192,595</u>

NOTE I - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following as of June 30, 2003:

Current Funds:	
Operating (time and purpose restrictions)	\$ 894,727
Fund Raising Funds:	
Annual Appeal programs and general operations (time restriction)	4,289,734
Capital Campaign priest retirement, scholarships, new parishes (time and purpose restrictions)	523,036
Holy Spirit School	
Endowments for scholarships (time and purpose restrictions)	573,107
Endowment Fund:	
Trust agreements and scholarships (purpose restrictions)	<u>2,740,540</u>
	<u>\$ 9,021,144</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE I - RESTRICTED NET ASSETS (continued)

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30, 2003:

Priest education and retirement	\$ 764,009
Scholarships	2,183,016
General operations	<u>29,790</u>
	<u>\$ 2,976,815</u>

NOTE J - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions during 2003 consisted of the following:

Purpose restrictions accomplished	\$ 682,061
Time restrictions expired	<u>5,468,746</u>
Total restrictions released	<u>\$ 6,150,807</u>

NOTE K - FUTURE MINIMUM RENTAL RECEIPTS

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

The CAO is the lessor of certain other rental properties. Future minimum rental receipts from long-term noncancelable operating leases as of June 30, 2003 are as follows:

<u>Year ending June 30,</u>	
2004	<u>\$ 26,408</u>

Rental income recognized for 2003 totaled \$255,550.

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE L - COMMITMENTS AND CONTINGENCIES

The CAO conducts its operations in leased facilities under operating leases. In addition to the minimum rental payments, the CAO must pay a proportionate share of the operating expenses of the facilities. Rent expense for the year ended June 30, 2003 was \$1,039,100.

Future minimum rental payments are as follows:

<u>Year ending June 30,</u>	
2004	\$ 914,950
2005	768,787
2006	827,681
2007	862,073
2008	899,831
Thereafter	<u>912,088</u>
 Total	 <u>\$ 5,185,410</u>

The accompanying statement of activities reflects rent expense on a straight-line basis over the term of the lease obligation with a difference between rent expense and rent paid of \$65,306 for 2003.

The CAO has entered into several construction agreements on behalf of various parishes and schools. At June 30, 2003, construction commitments are \$25,848,689. The total amount expended as of June 30, 2003 on these commitments was \$20,697,105. All expenditures incurred with respect to these construction agreements are expenditures of the various parishes and schools.

On August 15, 2001, December 1, 2001 and April 1, 2002, the CAO entered into agreements with Notre Dame High School – San Jose and the Bank of Cherry Creek as a guarantor for the sale of Series 2001A, 2001B and 2002 First Mortgage Bonds (“the Bonds”) with proceeds totaling \$3,375,000, \$4,150,000 and \$2,475,000 and issuance costs of \$92,500, \$83,000 and \$49,500, respectively. The Bonds are unconditionally guaranteed as to principal and interest by the Diocese. Proceeds from the sale of the bonds financed the construction and expansion of the High School, and paid for general corporate purposes of the school and costs of issuance. The principal balance payable on the bonds at June 30, 2003 was \$ 10,000,000.

The Diocese was named in a lawsuit filed during fiscal 2003 involving allegations of sexual abuse from a priest, now deceased. The Diocese also understands a number of individuals have made allegations against this and other priests related to the Diocese, concerning possible sexual abuse. Because of a recent change in California law, there is a possibility other claims for sexual abuse may be filed against the Diocese involving acts which may have occurred many years ago. With respect to these matters, the Diocese is not able to evaluate the probability of an unfavorable outcome or make a reasonable estimate of any losses, at this time.

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE M - POST-RETIREMENT BENEFITS

The CAO sponsors a post-retirement Medicare supplemental plan for retired priests who are eligible to receive Medicare.

The plan pays medical costs not covered by Parts A and B of Medicare. The plan assumes that the priest has full Medicare coverage. In addition, the plan pays 90% of prescription drug costs. The maximum annual payout is \$7,500.

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

The entire accumulated post-retirement benefit cost is recorded in accrued liabilities on the statement of financial position of the CAO. The CAO has elected to recognize all elements of post-retirement benefits currently.

The CAO has adopted Statement of Financial Accounting Standards No. 132 ("SFAS 132"), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which sets forth employers' financial statement disclosure requirements regarding pension and other post retirement benefit plans.

	<u>(\$ in thousands)</u>
Benefit obligation at June 30, 2003	\$ 1,971
Plan assets at fair value	<u> -</u>
Accumulated post-retirement benefit obligation in excess of plan assets	<u>\$ 1,971</u>
Actuarial assumptions as of June 30, 2003:	
Discount rate	5.75%
Expected return on plan assets	8.00%
HealthCare Cost of Trend Rate	5.00%
Net pension cost for the CAO	<u>\$ 266</u>

NOTE N - PENSION PLANS

Lay Pension Plan

The CAO participates in a defined benefit pension plan operated by the Diocese. All full-time lay employees who have completed at least one year of service are eligible.

The plan provides benefits based on the highest final average salary and all years and months of service, counting partial months as whole months.

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE N - PENSION PLANS (continued)

Approximately 52% of the plan assets are invested in common stock, 40% of plan assets are invested in Treasury and corporate bonds, and 8% of plan assets are invested in cash equivalents.

Only the CAO's portion of the accrued benefit cost is reflected in the statement of financial position as part of accrued liabilities.

Priest Retirement Plan

The CAO also sponsors a defined benefit pension plan for all Diocesan priests who are ordained for or incardinated in the Diocese and in good standing and not on probation.

The plan provides benefits based on a flat benefit prorated for years and months of service less than 35 years.

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

Approximately 66% of the plan assets are invested in common stock and 33% of plan assets are invested in Treasury and corporate bonds. The balance is invested in cash equivalents.

Priest Supplemental Plan

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

Benefits for priests in Appendix A are based on the excess of their benefit calculated under the regular retirement plan with additional years of service over their actual retirement plan benefit. Benefits for priests in Appendix B are based on the excess of their benefit calculated according to the formula defined in Appendix B over their actual regular retirement plan benefit.

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE N - PENSION PLANS (continued)

Approximately 98% of the plan assets are invested in mutual funds. The balance is invested in cash equivalents.

	(\$ in thousands)		
	Lay	Priest Retirement	Priest Supplemental
Benefit obligation at June 30, 2003	\$ 79,574	\$ 8,405	\$ 1,673
Plan assets at fair value	37,406	4,366	582
Funded status	(48,928)	(4,039)	(1,091)
Accrued benefit cost for the plan as a whole for the Diocese of San Jose	(48,928)	(4,039)	(1,091)
Accrued benefit cost for the Central Administrative Office	(4,168)	(4,039)	(1,091)
Discount rate	5.75%	5.75%	5.75%
Expected return on plan assets	8.00%	8.00%	8.00%
Expected future increases	4.00%	2.00%	2.00%
Net pension cost for plan as a whole	\$ 10,395	\$ 648	\$ 135
Net pension cost for the Central Administrative Office	459	648	135
Employer contributions	3,701	438	193
Benefits paid	1,945	515	176

NOTE O - RELATED PARTY TRANSACTIONS

The CAO performs various administrative services, including payroll processing, for several related entities. Fees received for these services were \$283,337 for the year ending June 30, 2003.

During fiscal year 2003, \$195,000 was paid by the CAO to St. Joseph's Cathedral parish to support the operations of the Cathedral.

During fiscal year 2003, \$80,000 was paid by the CAO to support the operations of Mitty High School.

NOTE P – SELF-INSURED RISK RETENTION GROUPS

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

The Diocese is also self-insured with respect to its earthquake insurance coverage through its participation with other dioceses in the California Interdiocesan Earthquake Insurance pooling agreement.

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

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE P – SELF-INSURED RISK RETENTION GROUPS (continued)

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

NOTE Q – FUNCTIONAL EXPENSE AND LOSS CLASSIFICATIONS

The expenses and losses of the CAO for the year ended June 30, 2003 are classified on a functional basis among its program and supporting services as follows:

Expenses

Program:

Pastoral	\$ 4,032,080
Religious personnel development	1,918,925
Education	3,866,671
Priest retirement	2,312,748
Insurance premiums and benefits	13,233,151
Newspaper	479,008
Cemetery	4,655,867
Deposit and loan activities	<u>3,645,942</u>
	34,144,392

Supporting:

Administrative and other	3,769,165
Fundraising	<u>1,284,505</u>
	5,053,670

Losses

Cost of discontinuing development	<u>1,001,028</u>
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Total expenses and losses \$ 40,199,090

SUPPLEMENTARY INFORMATION

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

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

Our audit was made for the purpose of forming an opinion on the basic financial statements, taken as a whole, of the Central Administrative Office of the Roman Catholic Diocese of San Jose for the year ended June 30, 2003, which is presented in the preceding section of this report. The supplementary information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

San Jose, California
November 17, 2003

Central Administrative Office of the Roman Catholic Diocese of San Jose

BALANCE SHEET - ALL FUNDS

June 30, 2003

ASSETS	Current Funds	Service Funds	Cemetery Fund	Deposit and Loan Funds	Pooled Investment Fund	Fundraising Funds	Priest Retirement Funds	Endowment Fund	Holy Spirit School	Elimination	Total
Cash and cash equivalents	\$ 1,507,701	\$ 3,267,122	\$ 333,186	\$ 510,008	\$ -	\$ 4,408,054	\$ (16,692)	\$ 62,466	\$ 728,461	\$ -	\$ 10,800,306
Marketable securities	335,659	-	1,395,826	-	5,515,029	-	-	6,777,662	241,390	-	14,265,566
Receivables											
Short-term loans to parishes and institutions (net of allowance for doubtful accounts of \$610,000)	-	758,845	-	-	-	-	-	-	-	(192,826)	566,019
Mortgages and notes	351,000	-	-	-	-	-	-	-	-	-	351,000
Pledges (net of allowance for doubtful accounts of \$483,710)	423,938	-	-	-	-	1,921,440	-	535,631	535,472	-	3,416,481
Other (net of allowance for doubtful accounts of \$244,432)	56,446	-	46,837	2,074,154	-	-	-	45,806	34,392	-	2,257,635
Deposits and prepaid expenses	657,054	1,078,504	67,171	-	-	25,002	14,312	-	29,925	-	1,871,968
Inventories	-	-	7,375,834	-	-	-	-	-	24,523	-	7,400,357
Loans receivable from parishes and institutions (net of allowance for loan losses of \$1,468,770)	-	-	-	45,886,336	-	-	-	-	-	(13,119,372)	32,766,964
Bond issuance costs (net of accumulated amortization of \$178,377)	-	-	-	817,213	-	-	-	-	-	-	817,213
Investment in real estate	-	-	607,144	-	-	-	-	232,072	-	-	839,216
Assets held in trust	938,571	-	-	-	-	-	-	-	-	-	938,571
Interest bearing intrafund accounts	402,192	1,330,073	3,377,322	-	-	-	774,726	416,670	-	(6,300,983)	-
Land, buildings and equipment (net of accumulated depreciation)	28,441,684	-	3,078,314	-	-	-	-	-	10,860,434	-	42,380,432
Total assets	<u>\$ 33,114,245</u>	<u>\$ 6,434,544</u>	<u>\$ 16,281,634</u>	<u>\$ 49,287,711</u>	<u>\$ 5,515,029</u>	<u>\$ 6,354,496</u>	<u>\$ 772,346</u>	<u>\$ 8,070,307</u>	<u>\$ 12,454,597</u>	<u>\$ (19,613,181)</u>	<u>\$ 118,671,728</u>

Central Administrative Office of the Roman Catholic Diocese of San Jose

BALANCE SHEET - ALL FUNDS (continued)

June 30, 2003

LIABILITIES AND NET ASSETS	Current Funds	Service Funds	Cemetery Fund	Deposit and Loan Funds	Pooled Investment Fund	Fundraising Funds	Priest Retirement Funds	Endowment Fund	Holy Spirit School	Elimination	Total
Liabilities											
Accounts payable	\$ 601,535	\$ 437,367	\$ 60,717	\$ 1,227,290	\$ -	\$ 30,197	\$ 6,901	\$ 34,546	\$ 18,317	\$ (192,826)	\$ 2,224,044
Pledges payable to parishes and others	-	-	-	-	-	1,474,795	-	-	-	-	1,474,795
Accrued liabilities	3,414,260	734,397	1,187,702	122,800	-	190,981	7,136,614	-	1,442,312	-	14,229,066
Deposits payable to parishes, schools and other funds	-	-	-	29,328,045	-	-	-	-	-	(6,300,983)	23,027,062
Unsecured debentures payable	-	-	-	18,605,000	-	-	-	-	-	-	18,605,000
Notes payable	13,831	-	1,178,764	-	-	-	-	-	13,119,372	(13,119,372)	1,192,595
Trust assets held for parish	938,571	-	-	-	-	-	-	-	-	-	938,571
Held for parishes and institutions	1,797,785	-	-	-	5,515,029	-	-	-	-	-	7,312,814
Deferred revenue	9,899,031	1,331,515	69,988	-	-	-	-	-	303,050	-	11,603,584
Due to (from) other funds	(568,629)	332,044	(280,000)	321,366	-	-	(27,217)	222,436	-	-	-
Total liabilities	16,096,384	2,835,323	2,217,171	49,604,501	5,515,029	1,695,973	7,116,298	256,982	14,883,051	(19,613,181)	80,607,531
Net assets (deficit)											
Unrestricted											
Undesignated	15,029,999	3,564,729	9,152,982	(316,790)	-	(154,247)	(6,343,952)	-	(3,297,326)	-	17,635,395
Designated	1,093,135	34,492	1,679,188	-	-	-	-	2,391,735	-	-	5,198,550
Funds functioning as											
endowment - cemetery endowment care	-	-	3,232,293	-	-	-	-	-	-	-	3,232,293
Temporarily restricted	894,727	-	-	-	-	4,812,770	-	2,740,540	573,107	-	9,021,144
Permanently restricted	-	-	-	-	-	-	-	2,681,050	295,765	-	2,976,815
Total net assets (deficit)	17,017,861	3,599,221	14,064,463	(316,790)	-	4,658,523	(6,343,952)	7,813,325	(2,428,454)	-	38,064,197
Total liabilities and net assets	\$ 33,114,245	\$ 6,434,544	\$ 16,281,634	\$ 49,287,711	\$ 5,515,029	\$ 6,354,496	\$ 772,346	\$ 8,070,307	\$ 12,454,597	\$ (19,613,181)	\$ 118,671,728

Central Administrative Office of the Roman Catholic Diocese of San Jose

Schedule 2

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS - ALL FUNDS

Year ended June 30, 2003

	Current Funds	Service Funds	Cemetery Fund	Deposit and Loan Funds	Pooled Investment Fund	Fundraising Funds	Priest Retirement Funds	Endowment Fund	Holy Spirit School	Eliminations	Total
Revenues											
Gifts, bequests and collections	\$ 615,096	\$ -	\$ -	\$ -	\$ -	\$ 4,791,138	\$ 32,011	\$ -	\$ 325,789	\$ -	\$ 5,764,034
Fees and expense reimbursements	632,524	283,338	-	-	-	-	629,363	-	-	-	1,545,225
Cathedralicium fees	1,344,884	-	-	-	-	-	-	-	-	-	1,344,884
Education	750,564	-	-	-	-	-	-	-	2,345,038	-	3,095,602
Rental income	192,172	-	-	-	-	-	-	63,379	-	-	255,551
Investment income	98,216	50,511	23,847	71,280	-	-	30,310	134,528	10,385	(110,126)	308,951
Interest income from loans	-	-	-	2,891,406	-	-	-	-	-	(985,868)	1,905,538
Insurance premiums	-	14,253,036	-	-	-	-	-	-	-	-	14,253,036
Newspaper income	355,469	-	-	-	-	-	-	-	-	-	355,469
Cemetery revenues	-	-	4,878,979	-	-	-	-	-	-	-	4,878,979
Other income	33,652	12,050	-	-	-	-	-	29,348	37,207	-	112,257
Total revenues	4,022,577	14,598,935	4,902,826	2,962,686	-	4,791,138	691,684	227,255	2,718,419	(1,095,994)	33,819,526
Expenses											
Pastoral	3,769,311	-	-	-	-	-	262,769	-	-	-	4,032,080
Religious personnel development	1,918,925	-	-	-	-	-	-	-	-	-	1,918,925
Education	1,165,685	-	-	-	-	-	-	-	2,700,986	-	3,866,671
Pension, priest retirement	-	-	-	-	-	-	2,312,748	-	-	-	2,312,748
Administrative	1,532,829	833,214	-	1,025,030	-	93,400	2,500	13,772	228,791	-	3,729,536
Depreciation expense	599,999	4,353	243,546	-	-	8,895	-	-	412,689	-	1,269,482
Interest expense	10,347	1,657	69,959	2,403,206	-	-	566	851	985,868	(1,095,994)	2,376,460
Insurance premiums and benefits	-	13,233,151	-	-	-	-	-	-	-	-	13,233,151
Newspaper expenses	479,008	-	-	-	-	-	-	-	-	-	479,008
Cemetery expenses	-	-	4,655,867	-	-	-	-	-	-	-	4,655,867
Fundraising expenses	-	-	-	-	-	1,103,611	-	-	180,894	-	1,284,505
Other	11,164	-	-	130	-	-	28,335	-	-	-	39,629
Total expenses	9,487,268	14,072,375	4,969,372	3,428,366	-	1,205,906	2,606,918	14,623	4,509,228	(1,095,994)	39,198,062
Losses											
Cost of discontinuing development	1,001,028	-	-	-	-	-	-	-	-	-	1,001,028
Total expenses and losses	10,488,296	14,072,375	4,969,372	3,428,366	-	1,205,906	2,606,918	14,623	4,509,228	(1,095,994)	40,199,090
Excess (deficiency) of revenues and other additions over expenses/losses and other deductions before transfers	(6,465,719)	526,560	(66,546)	(465,680)	-	3,585,232	(1,915,234)	212,632	(1,790,809)	-	(6,379,564)
Transfers											
Annual appeal transfer	4,060,853	-	-	-	-	(4,060,853)	-	-	-	-	-
Annual appeal distribution	44,262	-	-	-	-	-	(44,262)	-	-	-	-
Other	233,642	(50,000)	-	50,000	-	-	31,217	(264,859)	-	-	-
Total transfers	4,338,757	(50,000)	-	50,000	-	(4,060,853)	(13,045)	(264,859)	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(2,126,962)	476,560	(66,546)	(415,680)	-	(475,621)	(1,928,279)	(52,227)	(1,790,809)	-	(6,379,564)
Net assets (deficit) at beginning of year, as previously reported	19,144,823	3,122,661	14,131,009	98,890	-	5,134,144	(4,415,673)	7,865,552	-	-	45,081,406
Affiliation with Holy Spirit School	-	-	-	-	-	-	-	-	(637,645)	-	(637,645)
Net assets (deficit) at beginning of year, after affiliation	19,144,823	3,122,661	14,131,009	98,890	-	5,134,144	(4,415,673)	7,865,552	(637,645)	-	44,443,761
Net assets (deficit) at end of year	\$ 17,017,861	\$ 3,599,221	\$ 14,064,463	\$ (316,790)	\$ -	\$ 4,658,523	\$ (6,343,952)	\$ 7,813,325	\$ (2,428,454)	\$ -	\$ 38,064,197

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

**BALANCE SHEET
CURRENT FUNDS**

June 30, 2003

ASSETS	Operating Fund	Newspaper Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 2,226,023	\$ (718,322)	\$ 1,507,701
Marketable securities	335,659	-	335,659
Receivables			
Mortgages and notes	351,000	-	351,000
Pledges	423,938	-	423,938
Other (net of allowance for doubtful accounts of \$1,000)	24,116	32,330	56,446
Deposits and prepaid expenses	653,070	3,984	657,054
Assets held in trust	938,571	-	938,571
Interest bearing intrafund accounts	402,192	-	402,192
Land, buildings and equipment (net of accumulated depreciation)	<u>28,441,684</u>	<u>-</u>	<u>28,441,684</u>
Total assets	<u>\$ 33,796,253</u>	<u>\$ (682,008)</u>	<u>\$ 33,114,245</u>
LIABILITIES AND NET ASSETS (DEFICIT)			
Accounts payable	\$ 595,569	\$ 5,966	\$ 601,535
Accrued liabilities	3,182,359	231,901	3,414,260
Notes payable	13,831	-	13,831
Trust assets held for parish	938,571	-	938,571
Held for parishes and institutions	1,797,785	-	1,797,785
Deferred revenue	9,899,031	-	9,899,031
Due to (from) other funds	<u>(1,093,036)</u>	<u>524,407</u>	<u>(568,629)</u>
Total liabilities	15,334,110	762,274	16,096,384
Net assets (deficit)			
Unrestricted			
Undesignated	16,474,281	(1,444,282)	15,029,999
Designated	1,093,135	-	1,093,135
Temporarily restricted	<u>894,727</u>	<u>-</u>	<u>894,727</u>
Total net assets (deficit)	<u>18,462,143</u>	<u>(1,444,282)</u>	<u>17,017,861</u>
Total liabilities and net assets (deficit)	<u>\$ 33,796,253</u>	<u>\$ (682,008)</u>	<u>\$ 33,114,245</u>

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
CURRENT FUNDS**

Year ended June 30, 2003

	Operating Fund	Newspaper Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Gifts, bequests and collections	\$ 615,096	\$ -	\$ 615,096
Fees and expense reimbursements	632,524	-	632,524
Cathedraticum fees	1,344,884	-	1,344,884
Education	750,564	-	750,564
Rental income	192,172	-	192,172
Investment income	98,216	-	98,216
Newspaper income	-	355,469	355,469
Other Income	863	32,789	33,652
Total revenues	<u>3,634,319</u>	<u>388,258</u>	<u>4,022,577</u>
Expenses			
Pastoral	3,769,311	-	3,769,311
Religious personnel development	1,918,925	-	1,918,925
Education	1,165,685	-	1,165,685
Administrative	1,532,829	-	1,532,829
Depreciation expense	591,728	8,271	599,999
Interest expense	10,347	-	10,347
Newspaper expenses	-	479,008	479,008
Other	11,164	-	11,164
Total expenses	<u>8,999,989</u>	<u>487,279</u>	<u>9,487,268</u>
Losses			
Cost of discontinuing development	1,001,028	-	1,001,028
Total expenses and losses	<u>10,001,017</u>	<u>487,279</u>	<u>10,488,296</u>
Deficiency of revenues and other additions over expenses and other deductions before transfers	(6,366,698)	(99,021)	(6,465,719)
Transfers			
Annual appeal transfer	4,060,853	-	4,060,853
Annual appeal distribution	44,262	-	44,262
Other	233,642	-	233,642
Total transfers	<u>4,338,757</u>	<u>-</u>	<u>4,338,757</u>
DECREASE IN NET ASSETS	(2,027,941)	(99,021)	(2,126,962)
Net assets (deficit) at beginning of year	<u>20,490,084</u>	<u>(1,345,261)</u>	<u>19,144,823</u>
Net assets (deficit) at end of year	<u>\$ 18,462,143</u>	<u>\$ (1,444,282)</u>	<u>\$ 17,017,861</u>

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

**BALANCE SHEET
SERVICE FUNDS**

June 30, 2003

ASSETS	Payroll Fund	Benefit Fund	Compre- hensive Insurance Fund	Total
Cash and cash equivalents	\$ 1,295,876	\$ 1,768,545	\$ 202,701	\$ 3,267,122
Receivables - short term loans to parishes and institutions (net of allowance for doubtful accounts of \$610,000)	206,530	416,357	135,958	758,845
Deposits and prepaid expenses	996	-	1,077,508	1,078,504
Interest bearing intrafund accounts	-	720,131	609,942	1,330,073
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,503,402</u>	<u>\$ 2,905,033</u>	<u>\$ 2,026,109</u>	<u>\$ 6,434,544</u>
LIABILITIES AND NET ASSETS				
Accounts payable	\$ -	\$ 3,754	\$ 433,613	\$ 437,367
Accrued liabilities	126,587	196,998	410,812	734,397
Deferred revenue	-	909,384	422,131	1,331,515
Due to (from) other funds	1,000,000	(667,956)	-	332,044
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,126,587	442,180	1,266,556	2,835,323
Net assets				
Unrestricted				
Undesignated	376,815	2,428,361	759,553	3,564,729
Designated	-	34,492	-	34,492
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net assets	376,815	2,462,853	759,553	3,599,221
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 1,503,402</u>	<u>\$ 2,905,033</u>	<u>\$ 2,026,109</u>	<u>\$ 6,434,544</u>

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
SERVICE FUNDS**

Year ended June 30, 2003

	Payroll Fund	Benefit Fund	Compre- hensive Insurance Fund	Total
Revenues				
Fees and expense reimbursements	\$ 283,338	\$ -	\$ -	\$ 283,338
Investment income	39	37,059	13,413	50,511
Insurance premiums	-	10,934,595	3,318,441	14,253,036
Other income	10,858	-	1,192	12,050
Total revenues	294,235	10,971,654	3,333,046	14,598,935
Expenses				
Administrative	171,920	295,585	365,709	833,214
Depreciation expense	1,529	1,139	1,685	4,353
Interest expense	-	1,657	-	1,657
Insurance premiums and benefits	135,291	9,703,758	3,394,102	13,233,151
Total expenses	308,740	10,002,139	3,761,496	14,072,375
Excess (deficiency) of revenues and other additions over expenses and other deductions before transfers	(14,505)	969,515	(428,450)	526,560
Transfers	-	(650,000)	600,000	(50,000)
INCREASE (DECREASE) IN NET ASSETS	(14,505)	319,515	171,550	476,560
Net assets at beginning of year	391,320	2,143,338	588,003	3,122,661
Net assets at end of year	\$ 376,815	\$ 2,462,853	\$ 759,553	\$ 3,599,221

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

**BALANCE SHEET
PRIEST RETIREMENT FUNDS**

June 30, 2003

ASSETS	Priest Retirement Fund	Supplemental Plan Fund	Post Retirement Fund	Total
Cash and cash equivalents	\$ 24,187	\$ 37,869	\$ (78,748)	\$ (16,692)
Deposits and prepaid expenses	-	-	14,312	14,312
Interest bearing intrafund accounts	-	-	774,726	774,726
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 24,187</u>	<u>\$ 37,869</u>	<u>\$ 710,290</u>	<u>\$ 772,346</u>
LIABILITIES AND NET DEFICIT				
Accounts payable	\$ 6,420	\$ -	\$ 481	\$ 6,901
Accrued liabilities	4,042,536	1,123,078	1,971,000	7,136,614
Due from other funds	(27,217)	-	-	(27,217)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	4,021,739	1,123,078	1,971,481	7,116,298
Net deficit				
Unrestricted				
Undesignated	(3,997,552)	(1,085,209)	(1,261,191)	(6,343,952)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net deficit	<u>(3,997,552)</u>	<u>(1,085,209)</u>	<u>(1,261,191)</u>	<u>(6,343,952)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net deficit	<u>\$ 24,187</u>	<u>\$ 37,869</u>	<u>\$ 710,290</u>	<u>\$ 772,346</u>

Central Administrative Office of the
Roman Catholic Diocese of San Jose

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
PRIEST RETIREMENT FUNDS**

Year ended June 30, 2003

	Priest Retirement Fund	Supplemental Plan Fund	Post Retirement Fund	Total
Revenues				
Gifts, bequests and collections	\$ 26,000	\$ 6,011	\$ -	\$ 32,011
Fees and expense reimbursements	627,730	1,633	-	629,363
Investment income	7,631	1,228	21,451	30,310
Total revenues	661,361	8,872	21,451	691,684
Expenses				
Pastoral	-	176,049	86,720	262,769
Pension, priest retirement	1,327,137	502,604	483,007	2,312,748
Administrative	-	2,500	-	2,500
Interest expense	506	60	-	566
Other	24,840	3,495	-	28,335
Total expenses	1,352,483	684,708	569,727	2,606,918
Deficiency of revenues and other additions over expenses and other deductions before transfers	(691,122)	(675,836)	(548,276)	(1,915,234)
Transfers				
Annual appeal distribution	(44,262)	-	-	(44,262)
Other	(318,783)	124,000	226,000	31,217
Total transfers	(363,045)	124,000	226,000	(13,045)
DECREASE IN NET ASSETS	(1,054,167)	(551,836)	(322,276)	(1,928,279)
Net deficit at beginning of year	(2,943,385)	(533,373)	(938,915)	(4,415,673)
Net deficit at end of year	\$ (3,997,552)	\$ (1,085,209)	\$ (1,261,191)	\$ (6,343,952)

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

**BALANCE SHEET
FUNDRAISING FUNDS**

June 30, 2003

ASSETS	Annual Appeal Fund	Capital Campaign Fund	Fundraising Fund	Total
Cash and cash equivalents	\$ 4,085,373	\$ 328,244	\$ (5,563)	\$ 4,408,054
Receivables - pledges (net of allowance for doubtful accounts of \$453,184)	1,726,510	194,930	-	1,921,440
Deposits and prepaid expenses	<u>1,992</u>	<u>-</u>	<u>23,010</u>	<u>25,002</u>
Total assets	<u>\$ 5,813,875</u>	<u>\$ 523,174</u>	<u>\$ 17,447</u>	<u>\$ 6,354,496</u>
 LIABILITIES AND NET ASSETS (DEFICIT)				
Accounts payable	\$ 7,400	\$ 138	\$ 22,659	\$ 30,197
Pledges payable to parishes and others	1,474,795	-	-	1,474,795
Accrued liabilities	<u>41,946</u>	<u>-</u>	<u>149,035</u>	<u>190,981</u>
Total liabilities	1,524,141	138	171,694	1,695,973
Net assets (deficit)				
Unrestricted				
Undesignated	-	-	(154,247)	(154,247)
Temporarily restricted	<u>4,289,734</u>	<u>523,036</u>	<u>-</u>	<u>4,812,770</u>
Total net assets (deficit)	<u>4,289,734</u>	<u>523,036</u>	<u>(154,247)</u>	<u>4,658,523</u>
Total liabilities and net assets	<u>\$ 5,813,875</u>	<u>\$ 523,174</u>	<u>\$ 17,447</u>	<u>\$ 6,354,496</u>

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FUNDRAISING FUNDS**

Year ended June 30, 2003

	Annual Appeal Fund	Capital Campaign Fund	Fundraising Fund	Total
Revenues				
Gifts, bequests and collections	\$ 4,699,403	\$ -	\$ 91,735	\$ 4,791,138
Total revenues	<u>4,699,403</u>	<u>-</u>	<u>91,735</u>	<u>4,791,138</u>
Expenses				
Administrative	62,534	30,866	-	93,400
Depreciation expense	-	-	8,895	8,895
Fundraising expenses	<u>457,297</u>	<u>6,640</u>	<u>639,674</u>	<u>1,103,611</u>
Total expenses	<u>519,831</u>	<u>37,506</u>	<u>648,569</u>	<u>1,205,906</u>
Excess (deficiency) of revenues and other additions over expenses and other deductions before transfers	4,179,572	(37,506)	(556,834)	3,585,232
Transfers				
Annual appeal transfer	(4,060,853)	-	-	(4,060,853)
Annual appeal distribution	<u>(411,988)</u>	<u>-</u>	<u>411,988</u>	<u>-</u>
Total transfers	<u>(4,472,841)</u>	<u>-</u>	<u>411,988</u>	<u>(4,060,853)</u>
DECREASE IN NET ASSETS	(293,269)	(37,506)	(144,846)	(475,621)
Net assets (deficit) at beginning of year	<u>4,583,003</u>	<u>560,542</u>	<u>(9,401)</u>	<u>5,134,144</u>
Net assets (deficit) at end of year	<u>\$ 4,289,734</u>	<u>\$ 523,036</u>	<u>\$ (154,247)</u>	<u>\$ 4,658,523</u>

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

**BALANCE SHEET
DEPOSIT AND LOAN FUNDS**

June 30, 2003

ASSETS	Deposit and Loan Fund	Employee Loan Fund	Total
Cash and cash equivalents	\$ 394,248	\$ 115,760	\$ 510,008
Receivables - other (net of allowance for doubtful accounts of \$184,312)	1,620,311	453,843	2,074,154
Loans receivable from parishes and institutions (net of allowance for loan losses of \$1,468,770)	45,886,336	-	45,886,336
Bond issuance costs (net of accumulated amortization of \$178,377)	<u>817,213</u>	<u>-</u>	<u>817,213</u>
Total assets	<u>\$ 48,718,108</u>	<u>\$ 569,603</u>	<u>\$ 49,287,711</u>
LIABILITIES AND NET ASSETS (DEFICIT)			
Unsecured debentures payable	\$ 18,605,000	\$ -	\$ 18,605,000
Accounts payable	1,227,290	-	1,227,290
Accrued liabilities	122,800	-	122,800
Deposit payable to parishes, schools and other funds	29,328,045	-	29,328,045
Due to other funds	<u>321,366</u>	<u>-</u>	<u>321,366</u>
Total liabilities	49,604,501	-	49,604,501
Net assets (deficit)			
Unrestricted			
Undesignated	<u>(886,393)</u>	<u>569,603</u>	<u>(316,790)</u>
Total net assets (deficit)	<u>(886,393)</u>	<u>569,603</u>	<u>(316,790)</u>
Total liabilities and net assets	<u>\$ 48,718,108</u>	<u>\$ 569,603</u>	<u>\$ 49,287,711</u>

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
DEPOSIT AND LOAN FUNDS**

Year ended June 30, 2003

	Deposit and Loan Fund	Employee Loan Fund	Total
Revenues			
Investment income	\$ 40,870	\$ 30,410	\$ 71,280
Interest income from loans	2,891,406	-	2,891,406
Total revenues	<u>2,932,276</u>	<u>30,410</u>	<u>2,962,686</u>
Expenses			
Administrative	1,020,030	5,000	1,025,030
Interest expense	2,403,206	-	2,403,206
Other	-	130	130
Total expenses	<u>3,423,236</u>	<u>5,130</u>	<u>3,428,366</u>
Excess (deficiency) of revenues and other additions over expenses and other deductions before transfers	(490,960)	25,280	(465,680)
Transfers	<u>-</u>	<u>50,000</u>	<u>50,000</u>
INCREASE (DECREASE) IN NET ASSETS	(490,960)	75,280	(415,680)
Net assets (deficit) at beginning of year	<u>(395,433)</u>	<u>494,323</u>	<u>98,890</u>
Net assets (deficit) at end of year	<u>\$ (886,393)</u>	<u>\$ 569,603</u>	<u>\$ (316,790)</u>