

Archdiocese of Chicago

Consolidated Financial Statements as of and
for the Years Ended June 30, 2010 and 2009,
and Independent Accountants' Review Report

ARCHDIOCESE OF CHICAGO

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

His Eminence Francis Cardinal George, O.M.I.
Archbishop of Chicago:

We have reviewed the consolidated financial statements of the Archdiocese of Chicago as of June 30, 2010 and 2009, and the for the years then ended, as listed in the foregoing table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of the Archdiocese of Chicago.

A review consists principally of inquiries of administrative personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 7, 2011

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2010 AND 2009 (Dollars in thousands)

	2010	2009		2010	2009
ASSETS			LIABILITIES AND NET ASSETS		
CASH AND CASH EQUIVALENTS	\$ 117,785	\$ 103,633	LIABILITIES:		
INVESTMENTS	<u>1,187,433</u>	<u>1,093,086</u>	Accounts payable and accrued expenses	\$ 141,892	\$ 134,202
RECEIVABLES:			Deferred revenue	152,464	146,908
Notes, accounts, and pledges receivable — net	86,322	79,490	Deposits	2,764	1,579
Cemetery installment contracts	<u>45,352</u>	<u>47,484</u>	Borrowings	80,190	75,757
Total receivables	<u>131,674</u>	<u>126,974</u>	Insurance claims	96,095	90,023
PREPAID PENSION ASSET	<u>44,436</u>	<u>58,288</u>	Unearned rental income	17,600	17,805
PREPAID POSTRETIREMENT ASSET	<u>607</u>	<u>1,212</u>	Accrued pension cost	106,212	81,756
CEMETERY PROPERTY — Ready and available for use	<u>56,031</u>	<u>57,675</u>	Postretirement liabilities	120,606	125,523
LAND, BUILDINGS, AND EQUIPMENT:			Asset retirement obligations	66,480	65,326
Undeveloped realty	26,424	21,013	Accrued cemetery maintenance costs	368,050	313,812
Held for sale		282	Refundable grant advances	<u>129,649</u>	<u>127,581</u>
Land	223,418	221,671	Total liabilities	<u>1,282,002</u>	<u>1,180,272</u>
Buildings and equipment	2,258,878	2,201,424	NET ASSETS:		
Construction in progress	<u>16,491</u>	<u>16,388</u>	Unrestricted — undesignated	3,435	36,648
Total land, buildings, and equipment	2,525,211	2,460,778	Unrestricted — designated	1,497,920	1,463,285
Less accumulated depreciation	<u>(1,188,932)</u>	<u>(1,131,420)</u>	Temporarily restricted	116,581	110,019
Land, buildings, and equipment — net	<u>1,336,279</u>	<u>1,329,358</u>	Permanently restricted	<u>22,942</u>	<u>19,659</u>
OTHER ASSETS	<u>48,635</u>	<u>39,657</u>	Total net assets	1,640,878	1,629,611
TOTAL	<u>\$ 2,922,880</u>	<u>\$ 2,809,883</u>	TOTAL	<u>\$2,922,880</u>	<u>\$2,809,883</u>

See independent accountants' review report and notes to consolidated financial statements.

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR 2009)

(Dollars in thousands)

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES:				
Parishes:				
Collections and activities	\$ 314,607	\$ -	\$ -	\$ 314,607
Tuition and related fees	270,005			270,005
Charitable activities:				
Program services	237,467			237,467
Fund appeals and bequests	58,190	7,238	3,278	68,706
Cemeteries sales and services	41,088			41,088
Archdiocesan Pastoral Center	87,545	3,324	5	90,874
PRMAA	1,892			1,892
Annual Catholic Appeal	8,134			8,134
Investment income	16,275	65		16,340
Other	1,235			1,235
Net assets released from restrictions	26,826	(26,763)	(63)	-
Total revenues	<u>1,063,264</u>	<u>(16,136)</u>	<u>3,220</u>	<u>1,050,348</u>
EXPENSES:				
Parishes:				
School programs	312,016			312,016
General operations	257,512			257,512
Charitable activities	298,296			298,296
Cemeteries	96,555			96,555
Archdiocesan Pastoral Center	132,029			132,029
PRMAA	11,798			11,798
Annual Catholic Appeal distributions and fundraising expenses	2,560			2,560
Depreciation and accretion	59,219			59,219
Interest expense	1,852			1,852
Total expenses	<u>1,171,837</u>	<u>-</u>	<u>-</u>	<u>1,171,837</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	<u>(108,573)</u>	<u>(16,136)</u>	<u>3,220</u>	<u>(121,489)</u>

(Continued)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR 2009) (Dollars in thousands)

	2010			2009 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	\$ (108,573)	\$ (16,136)	\$ 3,220	\$ (121,489)	\$ (79,046)
NET INVESTMENT RETURN	125,015	4,277	63	129,355	(235,897)
NET PROPERTY GAINS (LOSSES)	4,523			4,523	(2,914)
GRANTS FOR NOISE ABATEMENT PROJECTS				-	1,298
PARISH BUILDING FUND COMMITMENTS RECEIVED AND COLLECTIONS		18,421		18,421	15,494
DEVELOPMENT FUND REVENUES	27			27	30
DEVELOPMENT FUND EXPENSES	(1,796)			(1,796)	(1,158)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(29,109)			(29,109)	(76,088)
POSTRETIREMENT-RELATED CHANGES OTHER THAN NET PERIODIC POSTRETIREMENT COSTS	<u>11,335</u>			<u>11,335</u>	<u>(9,562)</u>
CHANGE IN NET ASSETS	1,422	6,562	3,283	11,267	(387,843)
NET ASSETS — Beginning of year	<u>1,499,933</u>	<u>110,019</u>	<u>19,659</u>	<u>1,629,611</u>	<u>2,017,454</u>
NET ASSETS — End of year	<u>\$ 1,501,355</u>	<u>\$ 116,581</u>	<u>\$ 22,942</u>	<u>\$ 1,640,878</u>	<u>\$ 1,629,611</u>

See independent accountants' review report and notes to consolidated financial statements.

(Concluded)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009 (Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Parishes:				
Collections and activities	\$ 324,725	\$ -	\$ -	\$ 324,725
Tuition and related fees	274,568			274,568
Charitable activities:				
Fund appeals and bequests	55,187	9,766	583	65,536
Program services	235,129			235,129
Cemeteries sales and services	39,347			39,347
Archdiocesan Pastoral Center	82,278	257	21	82,556
PRMAA revenue	2,075			2,075
Annual Catholic Appeal	10,023			10,023
Investment income	21,658	88		21,746
Other	2,222			2,222
Net assets released from restrictions	26,588	(26,521)	(67)	-
Total revenues	<u>1,073,800</u>	<u>(16,410)</u>	<u>537</u>	<u>1,057,927</u>
EXPENSES:				
Parishes:				
School programs	321,320			321,320
General operations	282,869			282,869
Charitable activities	298,992			298,992
Cemeteries	44,752			44,752
Archdiocesan Pastoral Center	118,471			118,471
PRMAA expense	9,502			9,502
Annual Catholic Appeal distributions and fundraising expenses	2,421			2,421
Depreciation and accretion	56,216			56,216
Interest expense	2,430			2,430
Total expenses	<u>1,136,973</u>	<u>-</u>	<u>-</u>	<u>1,136,973</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	<u>(63,173)</u>	<u>(16,410)</u>	<u>537</u>	<u>(79,046)</u>

(Continued)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009 (Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	\$ (63,173)	\$ (16,410)	\$ 537	\$ (79,046)
NET INVESTMENT RETURN	(229,817)	(6,208)	128	(235,897)
NET ASSET RECLASSIFICATIONS	(6,675)	6,736	(61)	-
NET PROPERTY LOSSES	(2,914)			(2,914)
GRANTS FOR NOISE ABATEMENT PROJECTS	1,298			1,298
PARISH BUILDING FUND COMMITMENTS RECEIVED AND COLLECTIONS		15,494		15,494
DEVELOPMENT FUND REVENUES	30			30
DEVELOPMENT FUND EXPENSES	(1,158)			(1,158)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(76,088)			(76,088)
POSTRETIREMENT-RELATED CHANGES OTHER THAN NET PERIODIC POSTRETIREMENT COSTS	<u>(9,562)</u>	<u> </u>	<u> </u>	<u>(9,562)</u>
CHANGE IN NET ASSETS	(388,059)	(388)	604	(387,843)
NET ASSETS — Beginning of year	<u>1,887,992</u>	<u>110,407</u>	<u>19,055</u>	<u>2,017,454</u>
NET ASSETS — End of year	<u>\$ 1,499,933</u>	<u>\$ 110,019</u>	<u>\$ 19,659</u>	<u>\$ 1,629,611</u>

See independent accountants' review report and notes to consolidated financial statements.

(Concluded)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (Dollars in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 11,267	\$ (387,843)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash credit for changes in defined benefit pension and postretirement plans other than periodic pension and postretirement expense	17,774	85,650
Accrued cemetery maintenance costs	54,238	4,121
(Gains) losses on property sales	(4,523)	2,914
Net investment return	(129,355)	235,897
Depreciation and accretion	59,219	57,283
Contribution for acquisition and construction of parish property	(18,421)	(22,362)
Fair value of noncash contributions received	(761)	(1,270)
Other non-cash charges and credits — net	1,194	
Changes in assets and liabilities:		
Receivables	(4,700)	23,338
Cemetery property ready and available for use	1,644	(2,566)
Prepaid pension and postretirement assets	1,537	(1,630)
Other assets	(8,978)	1,018
Deposits and accounts payable and accrued expenses	3,745	352
Deferred revenue	5,556	6,494
Insurance claims	6,072	(16,959)
Unearned rental income	(205)	(165)
Asset retirement obligations	(27)	(322)
Accrued pension and postretirement costs	14,685	7,948
Refundable advances from HUD	2,068	8,199
	<u>12,029</u>	<u>97</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	585,613	475,948
Purchases of investments	(550,211)	(443,559)
Proceeds from sales of real estate	7,069	2,119
Purchases of land, buildings, and equipment	(63,202)	(102,017)
	<u>(20,731)</u>	<u>(67,509)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in borrowings under lines of credit	16,070	27,830
Repayment of other borrowings	(11,637)	(3,960)
Issuance of other borrowings		200
Contribution for acquisition and construction of parish property	18,421	22,362
	<u>22,854</u>	<u>46,432</u>
CHANGE IN CASH AND CASH EQUIVALENTS	14,152	(20,980)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>103,633</u>	<u>124,613</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 117,785</u>	<u>\$ 103,633</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 1,979</u>	<u>\$ 1,011</u>
Accounts payable for construction and fixed asset purchases	<u>\$ 5,130</u>	<u>\$ -</u>

See independent accountants' review report and notes to consolidated financial statements.

ARCHDIOCESE OF CHICAGO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (See independent accountants' review report) (Dollars in thousands)

1. NATURE OF OPERATIONS

The consolidated financial statements include the accounts of certain organizations which are overseen by The Catholic Bishop of Chicago (CBC) and which operate under the auspices of the Archdiocese of Chicago (the "Archdiocese") as follows:

Parishes and Related Schools — The Parishes of the Archdiocese (the "Parishes") include the parishes, schools, and various shrines and oratories operated in Lake and Cook counties of Illinois. These sites minister to the spiritual, social, and educational needs of the faithful. They provide catechesis for people at all age levels — from young children to the elderly, as part of the educational ministry of the Archdiocese. The Parishes' fiscal operations include sacramental services, religious education training, formal preschool through 12th grade educational instruction, fundraising, and investment of reserve funds. Operating support is derived primarily from parishioners' contributions, tuition and fees, and fundraising activities.

Archdiocesan Pastoral Center — The Archdiocesan Pastoral Center (the "Pastoral Center") is the ministerial and administrative center for the Archdiocese. Its purpose is to provide support and services to the Parishes and other church agencies in Lake and Cook counties. It operates the Archdiocesan Bank, providing savings and loan services to the Parishes, administers a centralized employee benefit and property and casualty insurance program, provides financial support to those parishes unable to sustain themselves, operates a seminary system for the education of priests, provides a nutritional lunch and breakfast program for students, publishes a biweekly newspaper and various liturgical-related publications, and invests available funds. Operating support is derived primarily from Parishes and Catholic Cemeteries ("Cemeteries") assessments, employee benefit and property and casualty insurance program assessments, contributions and bequests, food service revenue, interest on loans to Parishes, the Annual Catholic Appeal, and investment earnings.

Catholic Cemeteries — Cemeteries assists the CBC in caring for the faithful departed by performing the most ancient corporal work of mercy — the burial of the dead. Cemeteries further assists the CBC by providing appropriate facilities for burial and for celebration of the funeral rites for each member of the Catholic community. Operating support is derived primarily from the sale of grave easements, crypts and burial services, and from investment earnings.

Charitable Activities — The Charitable Activities organizations, which consist of Catholic Charities ("Charities"), Maryville Academy ("Maryville"), Misericordia Home, and Mercy Home for Boys and Girls, provide assistance to people in need through four primary service areas. Senior Services provides in-home or personal care and residential and health care facilities. Children's Services protects children from abuse and provides education, health care, and counseling. Basic Human Needs Services includes emergency shelter, food, and clothing. Family and Individual Services help address unemployment, poverty, inadequate housing, illness, addiction, physical limitations, and domestic violence. A significant portion of the funding for several of the programs is received from federal, state, and local governmental agencies.

Priests' Retirement & Mutual Aid Association — The Priests' Retirement & Mutual Aid Association (PRMAA) administers retirement, disability, health, and other benefits for the priests of the Archdiocese. Operating support is derived primarily from assessments on Parishes and contributions from priests.

All significant interorganizational balances and transactions have been eliminated. The activities of religious orders, lay societies, and religious organizations that operate within the Archdiocese, but are not fiscally responsible to the CBC, are not included in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Subsequent Events — The Archdiocese evaluated subsequent events through February 7, 2011, the date the consolidated financial statements were available for issuance.

Classification of Net Assets — Resources are classified into three classifications of net assets according to externally (donor) imposed restrictions. Unrestricted net assets are free of donor-imposed restrictions and include all revenues, expenses, gains, and losses that are not changes in restricted net assets. Donor-restricted contributions whose restrictions are met in the same accounting period are also reported as unrestricted. Temporarily restricted net assets, consisting primarily of funds restricted for parish capital improvements or programs administered by the Charitable Activities, are those whose use has been limited by donors to a specific time period or purpose. When a donor restriction expires, that is, when a stipulation ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Temporarily restricted net assets as of June 30, 2010 and 2009, are available for the following purposes:

	2010	2009
Time-restricted contributions	\$ 2,438	\$ 2,457
Program operations (including other endowments)	104,011	96,613
Capital development	8,013	8,877
Other	37	9
Seminary Endowment Fund	<u>2,082</u>	<u>2,063</u>
	<u>\$ 116,581</u>	<u>\$ 110,019</u>

Permanently restricted net assets are donated with stipulations that they be invested to provide a permanent source of income (e.g., endowment funds); such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose. Permanently restricted net assets consist primarily of the Seminary Endowment Fund, which is the recipient of contributions that specify that only the earnings of the fund may be spent in support of seminaries' operations.

Permanently restricted net assets as of June 30, 2010 and 2009, are available for the following purposes:

	2010	2009
Seminary Endowment Fund	\$ 14,654	\$ 14,649
Mercy Home Scholarships	3,548	3,414
Other	<u>4,740</u>	<u>1,596</u>
	<u>\$ 22,942</u>	<u>\$ 19,659</u>

Cash Equivalents — Cash equivalents are defined as all highly liquid debt instruments with original maturities of three months or less used for the operating activities of the Archdiocese and are stated at cost, which approximates fair value.

Investments — Investments are carried at fair value.

The estimated fair values of alternative investments that do not have readily determinable fair values (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications or exchanges) are based on estimates developed by external investment managers and are accepted or adjusted through a valuation review process performed by management. A range of possible values exists for these investments, and therefore, the estimated values may differ from the values that would have been recorded had a ready market for these investments existed.

Investment income and return (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as an increase or decrease in unrestricted net assets unless such income or loss is temporarily or permanently restricted by explicit donor stipulation or by law.

Parish Building Fund Pledges Receivable — From time to time, individual parishes solicit funds from parishioners to assist in the financing of parish capital projects. Management makes assumptions regarding the ultimate collectibility of these receivables. Actual results could differ from those estimates.

Cemetery Property Ready and Available for Use — Developed graves and crypts are carried at average cost which includes land and construction costs. Such costs are expensed when graves and crypts are sold.

Land, Buildings, and Equipment — Undeveloped realty represents sites held for future development and is carried at cost.

Held for sale represents property that qualifies as held for sale, as defined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360-10 (formerly FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*). Held for sale is generally defined as a property that is immediately available for sale, expected to be sold within one year, and is being actively marketed for sale. No depreciation is recorded on this property.

Land, buildings, and equipment are carried at cost. Where historical cost is unavailable, buildings are carried at the reported insurable value as of July 1, 1980, with subsequent additions recorded at cost. Land is carried at the estimated fair values as of July 1, 1980, with subsequent additions recorded at cost. Depreciation is recorded on buildings and equipment.

Buildings, equipment, major improvements, and betterments are capitalized and depreciated, using the straight-line method, over the estimated useful lives of the assets, which range from 3 to 75 years. Repairs and maintenance which do not extend the life of the applicable assets are charged to expense as incurred.

Asset Impairment — The Archdiocese reviews long-lived assets for impairment by comparing the future cash flows expected from the asset to the carrying value of the asset. The Archdiocese recorded an impairment loss on long-lived assets of \$2,864 in 2009.

Accrued Cemetery Maintenance — Accrued cemetery maintenance costs represent the estimated cost to maintain the Cemeteries' existing graves and crypts in the future, discounted to present value. For this estimate, the discount rate used for the years ended June 30, 2010 and 2009, is 5.5% and 6.25%, respectively, and current maintenance costs are assumed to escalate 2.53% and 2.7% for the years ended June 30, 2010 and 2009, respectively.

Pursuant to cemetery maintenance agreements and commitments, a portion of the proceeds from sales of easement of graves and crypts is invested by Cemeteries in the pooled investment fund. Interest and dividends earned on such investments are withdrawn currently to fund current maintenance costs, while net capital gains realized are reinvested.

Insurance — Insurance claims reserves are an accumulation of the estimated amounts necessary to settle outstanding claims, including incurred but not reported claims, based on the facts in each case and the Archdiocese's experience with similar cases. These estimates are reviewed and updated regularly and any resulting adjustments are reflected in current operations.

Property/casualty risks of the Parishes and participating religious organizations of the Archdiocese are covered in part by self-insurance programs administered through the Pastoral Center. Property/casualty losses in excess of self-insured retention levels are insured under commercial excess policies. Medical and health insurance for employees are provided through a combination of HMO and self-insured PPO plans. The Pastoral Center assesses the Parishes and participating religious organizations of the Archdiocese to fund the costs of such programs.

During 2010 and 2009, the Pastoral Center settled several legal claims related to allegations of past sexual misconduct by priests totaling \$6,054 and \$20,253, respectively.

Asset Retirement Obligations — Management records all known asset retirement obligations for which the fair value can be reasonably estimated. A liability is initially recorded at fair value if the fair value of the obligation to retire an asset can be reasonably estimated. The Archdiocese has a liability for asset retirement obligations of \$66,480 and \$65,326 at June 30, 2010 and 2009, respectively.

Unearned Rental Income — In May 2008, the CBC executed a land lease agreement for the site of the Pastoral Center operational headquarters building. The lease has a term of 99 years commencing January 1, 2009, and gives the tenant the right to renew the term of the lease for two additional 25-year periods. The agreement allows for escalating rental payments during each rent adjustment year. In addition, base rent will be adjusted annually by a factor of the percentage increase in the Consumer Price Index, not to exceed 5% annually, commencing with the third lease year. The tenant made an initial rent payment of \$18 million at the inception of the agreement, which will be recognized on a straight-line basis over the 99-year lease term.

Refundable Grant Advances — Roseland Manor's, Hayes Manor's, Matthew Manor's, Tolton Manor's, Frances Manor's, Lawrence Manor's, Bernardin Manor's, St. Ailbe Faith Apartments', St. Sabina Elders', St. Ailbe Hope Apartments', Ozanam Village's, St. Ailbe Love Apartments', St. Peter Claver Courts', St. Brendan Apartments', Bishop Goedert Residence's, St. Vincent de Paul

Residence's, Donald Kent Residence's, Pope John Paul II Residence's, and St. Francis of Assisi Residence's (collectively, the "Residences") development and construction are being or have been substantially funded under non-interest-bearing mortgage agreements with the U.S. Department of Housing and Urban Development (HUD). The Residences are not required to make principal or interest payments on the mortgage notes, provided they maintain housing in accordance with the Capital Advance Program Use and Regulatory Agreements. If all requirements continue to be met, the grant advances will be considered earned in not less than 40 years or an earlier date if approved by HUD. The refundable grant advances are collateralized by the Residences' property and equipment associated with the advance.

Revocable Estates — From time to time, the Archdiocese is named as beneficiary of a revocable estate. It is the Archdiocese's policy to recognize revenue on such estate when either the cash is received or the commitment from the estate becomes irrevocable.

Charitable Activities Grant Revenue Recognition — Grant revenue is recognized when the related grant expenditure has been incurred.

Revenue Recognition — Unconditional promises to give cash and other assets to the Archdiocese are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the earlier of the date the contribution is received or when the promise becomes unconditional. Gift annuity revenue is recognized when the contract is signed and the assets are received.

Cemeteries sells easements providing for graves and crypts and for optional and complete cemetery services (including related merchandise) on a preneed basis. The entire portion of the sales price allocated to grave or crypt (as well as graves and crypts which are sold without additional services) is recorded as revenue at the date of sale; 95% of the optional and complete cemetery services are recorded as deferred revenue until the related service is performed; the remaining 5% is recognized as revenue at the time of the sale to cover certain administrative expenses. The sales price allocated to entombment services associated with preneed crypt sales is recorded as deferred revenue at the time of sale and recorded as revenue in the period performed. Interment and entombment services sold at the time of sale are recorded as revenue in the period performed. A sales allowance has been established to reflect estimated returns.

Derivative Instruments — The Pastoral Center entered into interest rate swap agreements to hedge a portion of its variable rate borrowings against adverse changes in interest rates. These swaps are recorded at fair value in the consolidated statements of financial position with the corresponding adjustment to interest expense in the consolidated statements of activities.

Accounting Standards Adopted — In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162*, which has been codified into ASC Topic 105, *Generally Accepted Accounting Principles*, which establishes the FASB ASC as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities. The statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date of this statement, the ASC superseded all then-existing non-Securities and Exchange Commission (SEC) accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the ASC became nonauthoritative. The adoption of ASC Topic 105 for the 2010 consolidated financial statements resulted in the Archdiocese adjusting references to authoritative accounting literature in the consolidated financial statements, but did not impact the Archdiocese's financial position or changes in net assets.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (which is currently codified in ASC Topic 740, *Income Taxes*). This interpretation clarifies the accounting treatment for uncertainty in income taxes recognized in an organization's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. Effective July 1, 2009, the Archdiocese evaluates its uncertain tax positions using the provisions of ASC Topic 740. It previously followed ASC Topic 405, *Liabilities*. The Archdiocese's adoption of the updated ASC Topic 740 guidance had no impact on the Archdiocese's consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (currently codified in ASC Topic 715, *Retirement Benefits*). This amendment requires enhanced employer's disclosures about plan assets of a defined benefit pension or postretirement plan and is effective for the Archdiocese for the year ended June 30, 2010. The Archdiocese has complied with these disclosure requirements in Note 9.

In September 2009, the FASB issued Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This ASU provides additional guidance on using the net asset value (NAV) per share when estimating the fair value of investments that do not have a readily determinable fair value and enhances the disclosures concerning these investments. The Archdiocese adopted ASU 2009-12 as of June 30, 2010. The adoption of ASU 2009-12 had no impact on the net assets of the Archdiocese; however, the adoption did impact the classification of the Archdiocese's investments in the fair value hierarchy as disclosed in Note 8.

Accounting Standards Yet to be Adopted — In April 2009, the FASB issued ASC 958-805 (formerly FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions — including an amendment of FASB Statement No. 142*). ASC 958-805 establishes principles and requirements for how a not-for-profit entity (a) determines whether a combination is a merger or an acquisition; (b) applies the carryover method in accounting for a merger; (c) applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and (d) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. Management is in the process of evaluating the impact of this new standard, which must be adopted in fiscal year 2011, on the consolidated financial statements.

In August 2009, the FASB issued ASU 2009-05, *Measuring Liabilities at Fair Value*. ASU 2009-05 is an amendment of ASC Topic 820, *Fair Value Measurements and Disclosures*. ASU 2009-05 provides guidance on measuring fair value of liabilities under circumstances in which a quoted price in an active market for the identical liability is not available. ASU 2009-05, effective for the annual period beginning after August 28, 2009, is not expected to have a material impact on the consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which, among other things, amends ASC Topic 820 to require entities to separately present purchases, sales, issuances, and settlements in their reconciliation of Level 3 fair value measurements (i.e., to present such items on a gross basis rather than on a net basis), and clarifies existing disclosure requirements of ASC Topic 820 regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value for measurements that fall within either Level 2 or Level 3 of the fair value hierarchy. ASU 2010-06 is effective for annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements (which are effective for fiscal years beginning after December 15, 2010). Management is currently assessing the impact that the adoption of ASU 2010-06 will have on the consolidated financial statement disclosures.

3. INVESTMENTS

As of June 30, 2010 and 2009, the Archdiocese's investments consisted of the following:

	2010		2009	
Invested cash	2 %	\$ 19,593	4 %	\$ 47,593
Common stock and equity mutual funds	21	245,476	20	217,734
Fixed income securities and fixed income mutual funds	23	278,926	21	233,174
Alternative investments:				
Marketable alternative equity	30	354,211	31	332,829
Fixed income	6	72,307	8	82,563
Marketable energy and commodities	5	58,553	5	59,035
Private equity	13	158,367	11	120,158
Total alternative investments	54	643,438	55	594,585
Total	100 %	\$ 1,187,433	100 %	\$ 1,093,086

Invested cash includes short-term investments and investments in money market mutual funds.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position and consolidated statements of activities.

Following Illinois law, collections on the portion of preneed contracts applicable to future interment services are invested in the pooled investment fund (see Note 13) and retained, along with 75% of interest and dividends earned and 100% of net capital gains realized on such investments, until the interment service is performed.

As of June 30, 2010 and 2009, investments are held by the following entities:

	2010	2009
Cemeteries	\$ 566,398	\$ 504,160
Pastoral Center	61,874	76,878
Pastoral Center — on behalf of Parishes	75,779	68,251
Pastoral Center — on behalf of seminaries	62,542	58,807
Misericordia Home	254,243	230,321
Maryville	49,217	45,871
Catholic Charities	47,418	43,565
Mercy Home for Boys and Girls	65,099	60,043
PRMAA	4,863	5,190
Total investments	<u>\$ 1,187,433</u>	<u>\$ 1,093,086</u>

Net investment income and return for the years ended June 30, 2010 and 2009, are as follows:

	2010	2009
Interest and dividends	\$ 16,340	\$ 21,746
Realized gains (losses) — net	40,520	(26,404)
Unrealized gains (losses) — net	<u>88,835</u>	<u>(209,493)</u>
Net investment income and return	<u>\$ 145,695</u>	<u>\$ (214,151)</u>

Net investment income and return in the consolidated statements of activities for the years ended June 30, 2010 and 2009, are as follows:

	2010	2009
Investment income	\$ 16,340	\$ 21,746
Investment return	<u>129,355</u>	<u>(235,897)</u>
Net investment income and return	<u>\$ 145,695</u>	<u>\$ (214,151)</u>

4. PARISHES

Revenues — Contributions at the parish level are the most significant source of funds for the Archdiocese. In addition to being used to pay local church, school, and general parish operating costs, they also provide funds for the Archdiocesan assessment.

Included in collections are special parish collections for building funds, school support, and memorials. Not included in this latter category are various annual collections either for national campaign or local Archdiocesan causes. The Pastoral Center usually receives the proceeds from each parish's special collections and undertakes the distribution of the funds to the applicable office, program, or national campaign.

Expenses — General Operations — For the years ended June 30, 2010 and 2009, the following is a summary of the general operations, other than for the school programs, prior to consolidation, eliminations, and reclassifications:

	2010	2009
Salaries, wages, and benefits	\$ 131,723	\$ 136,057
Utilities, repairs, and insurance	79,650	85,967
Religious education (CCD) — including salaries and expenses	19,362	19,830
Other expenses — including administrative, depreciation, church, and rectory operating costs	<u>99,321</u>	<u>106,435</u>
Total expenses — general operations	<u>\$ 330,056</u>	<u>\$ 348,289</u>

Each parish pays an annual assessment for continuing Archdiocesan programs. Ordinary income is the main factor considered in arriving at the individual assessments. The assessment is used to support the activities of the Pastoral Center and amounted to \$24,147 and \$23,756 in 2010 and 2009, respectively. This assessment is eliminated in the consolidated financial statements.

Expenses — School Programs — As of June 30, 2010, the Archdiocese and Parishes operated 217 elementary schools and six high schools. A summary of school programs expenses for the years ended June 30, 2010 and 2009, prior to consolidation, eliminations, and reclassifications is as follows:

	2010	2009
Salaries, wages, and benefits	\$ 250,163	\$ 255,996
Utilities, repairs, and insurance	27,913	30,298
Books and instructional materials	10,738	12,312
Depreciation and other expenses	<u>34,868</u>	<u>34,048</u>
Total expenses — school programs	<u>\$ 323,682</u>	<u>\$ 332,654</u>

Expenses exceeded school revenues (tuition and related fees) by \$53,677 and \$58,086 in 2010 and 2009, respectively. These excess costs were financed from general parish revenues and reserves, special fundraising activities, and grants from the Archdiocese. The data above does not include five private elementary schools and 33 private high schools within the Lake and Cook counties, operated by various religious orders.

Building Fund Pledges Receivable — As of June 30, 2010 and 2009, the Parishes have uncollected unconditional pledges totaling \$22,429 and \$22,213, respectively. For measurement purposes, at June 30, 2010 and 2009, a 0.625% and 1.125%, respectively, discount rate was used to determine the present value of the pledges receivable.

Aging and valuation of the building fund pledges receivable as of June 30, 2010, are as follows:

	Unrestricted	Temporarily Restricted	Total
Due in less than one year	\$ 7,996	\$ -	\$ 7,996
Due in two to five years	<u> </u>	<u>14,433</u>	<u>14,433</u>
Gross building fund pledges receivable	7,996	14,433	22,429
Less allowance for uncollectible pledges	(400)	(721)	(1,121)
Less discount to present value	<u> </u>	<u>(228)</u>	<u>(228)</u>
Building fund pledges receivable — net	<u>\$ 7,596</u>	<u>\$ 13,484</u>	<u>\$ 21,080</u>

Aging and valuation of the building fund pledges receivable as of June 30, 2009, are as follows:

	Unrestricted	Temporarily Restricted	Total
Due in less than one year	\$ 10,811	\$ -	\$ 10,811
Due in two to five years	<u> </u>	<u>11,402</u>	<u>11,402</u>
Gross building fund pledges receivable	10,811	11,402	22,213
Less allowance for uncollectible pledges	(541)	(570)	(1,111)
Less discount to present value	<u> </u>	<u>(308)</u>	<u>(308)</u>
Building fund pledges receivable — net	<u>\$ 10,270</u>	<u>\$ 10,524</u>	<u>\$ 20,794</u>

Building fund pledges receivable are included in notes and accounts receivable — net in the consolidated statements of financial position.

5. LAND, BUILDINGS, AND EQUIPMENT

The Archdiocese purchases sites that are reasonably foreseen to be necessary for future development and disposes of bequeathed income property and church facilities no longer expected to be used.

Undeveloped realty as of June 30, 2010 and 2009, consists of the following sites for future development:

	2010	2009
Future parish sites	\$ 9,953	\$ 12,390
Cemeteries	<u>16,471</u>	<u>8,623</u>
Total	<u>\$ 26,424</u>	<u>\$ 21,013</u>

In addition to undeveloped realty, the Archdiocese had land, buildings, and equipment as of June 30, 2010, as follows:

	Land	Buildings and Equipment	Held for Sale	Construction in Progress	Accumulated Depreciation	Total
Parishes	\$ 161,246	\$ 1,679,835	\$ -	\$ -	\$ (935,544)	\$ 905,537
Charitable						
Activities	38,158	359,604		16,258	(137,858)	276,162
Pastoral Center	17,262	167,952			(89,224)	95,990
Cemeteries	<u>6,752</u>	<u>51,487</u>	<u> </u>	<u>233</u>	<u>(26,306)</u>	<u>32,166</u>
Total	<u>\$ 223,418</u>	<u>\$ 2,258,878</u>	<u>\$ -</u>	<u>\$ 16,491</u>	<u>\$ (1,188,932)</u>	<u>\$ 1,309,855</u>

In addition to undeveloped realty, the Archdiocese had land, buildings, and equipment as of June 30, 2009, as follows:

	Land	Buildings and Equipment	Held for Sale	Construction in Progress	Accumulated Depreciation	Total
Parishes	\$ 161,148	\$ 1,650,510	\$ -	\$ -	\$ (896,830)	\$ 914,828
Charitable Activities	36,775	342,039	282	15,699	(126,085)	268,710
Pastoral Center	16,996	159,434			(83,623)	92,807
Cemeteries	<u>6,752</u>	<u>49,441</u>		<u>689</u>	<u>(24,882)</u>	<u>32,000</u>
Total	<u>\$ 221,671</u>	<u>\$ 2,201,424</u>	<u>\$ 282</u>	<u>\$ 16,388</u>	<u>\$ (1,131,420)</u>	<u>\$ 1,308,345</u>

6. BORROWINGS

A summary of borrowings as of June 30, 2010 and 2009, is as follows:

Pastoral Center \$10,000 term loan, originally due May 31, 2008, extended to April 30, 2010, interest rate is fixed (3.71% at June 30, 2009)	\$ -	\$ 10,000
Pastoral Center \$14,000 line of credit, payable on demand, interest rate is LIBOR plus 75 bps (1.10% and 1.07% at June 30, 2010 and 2009, respectively)	14,000	10,000
Pastoral Center note payable to bank, due December 27, 2010, interest rate is LIBOR plus 35 bps (0.7% and 0.67% at June 30, 2010 and 2009, respectively)	5,800	5,800
Pastoral Center note payable, due January 7, 2010, interest rate is fixed (4.57% at June 30, 2009)		1,375
Pastoral Center \$31,000 line of credit, payable on demand, interest rate is LIBOR plus 75 bps (1.10% and 1.07% at June 30, 2010 and 2009, respectively)	17,000	17,805
Pastoral Center \$25,075 line of credit, payable on demand, interest rate is LIBOR plus 125 bps (1.6% and 1.56% at June 30, 2010 and 2009, respectively)	25,075	12,200
Charities adjustable demand revenue bonds:		
Series 1993 A, due January 1, 2028, interest rate adjusted weekly	9,160	9,160
Series 1993 B, due January 1, 2028, interest rate adjusted weekly	910	910
Charities note payable to City of Chicago, due 2015, interest free	388	388
Charities note payable to Azteca Foods, Inc., due 2010, interest rate 5.00%	100	200
Charities note payable to Illinois Facilities Fund, due 2015, interest rate 5.00%	155	189
Charities note payable to Illinois Facilities Fund, due 2023, interest rate 6.75%	921	964
Charities mortgages payable to HUD, due in equal monthly installments through 2033, interest rate is fixed (8.375% at June 30, 2010)	5,643	5,725
Charities mortgages payable to Illinois Housing Development Authority, due in equal monthly installments, with additional principal payments required based on residual receipts, interest free	<u>1,038</u>	<u>1,041</u>
	<u>\$ 80,190</u>	<u>\$ 75,757</u>

The carrying value of debt approximates fair value.

The Series 1993 A and Series 1993 B adjustable demand revenue bonds are supported by a letter of credit that provides interim financing to Charities in the event that remarketing efforts fail for tendered bonds. In 2009, Charities entered into a two-year agreement to replace its letter of credit provider. The effective date of this agreement is July 1, 2009. The letter of credit expires on July 1, 2011. No remarketings of the Series 1993 A or Series 1993 B bonds have failed. These bonds are classified as borrowings in the consolidated statements of financial position at June 30, 2010 and 2009.

On October 29, 2010, the Pastoral Center restructured the three lines of credit noted in the table above by entering into a single credit agreement with three separate lenders. The new credit agreement consists of a \$20,075 revolving loan and a \$50,000 term loan with termination dates of February 28, 2012, and October 1, 2015, respectively. The table below has been prepared reflecting the repayment terms of the new credit agreement for these three lines of credit. See Note 17 for additional disclosure about this credit agreement.

Principal payments as of June 30, 2010, are due as follows:

Years Ending June 30	
2011	\$ 23,214
2012	17,396
2013	7,335
2014	7,349
2015	7,358
Thereafter	<u>17,538</u>
 Total	 <u>\$ 80,190</u>

Debt Covenants — The Pastoral Center, along with Cemeteries, and Charities are required to meet certain debt covenants related to minimum liquidity levels and investment-to-debt ratios. The Pastoral Center, along with Cemeteries, and Charities were in compliance with financial debt covenants at June 30, 2010 and 2009.

Deferred Debt Issuance Costs — Expenses related to the procurement and underwriting of the direct obligation notes and revenue bonds have been deferred and are being amortized using the bonds' outstanding method. These costs, net of accumulated amortization of \$544 and \$510, are \$137 and \$113 as of June 30, 2010 and 2009, respectively, and are included in other assets in the consolidated statements of financial position.

7. REFUNDABLE GRANT ADVANCES

During the years ended June 30, 2010 and 2009, Charities received certain HUD Supportive Housing for the Elderly — (Section 202) grant advances of approximately \$2,052 and \$7,984, respectively, under the terms of the federally funded program. In addition, Charities received certain affordable housing residence loans of approximately \$16 and \$215 during the years ended June 30, 2010 and 2009, respectively. Total advances as of June 30, 2010 and 2009, were as follows:

Project	Advance		End of 40-Year Commitment
	2010	2009	
Matthew Manor	\$ 4,016	\$ 4,016	December 2035
Tolton Manor	5,515	5,515	July 2036
Frances Manor	4,823	4,823	April 2037
Lawrence Manor	8,215	8,215	October 2039
Bernardin Manor	13,990	13,990	June 2040
St. Ailbe Faith Apartments	6,836	6,836	July 2040
St. Sabina Elders	6,728	6,728	September 2040
St. Ailbe Hope Apartments	814	814	March 2041
Ozanam Village	5,152	5,152	May 2041
St. Ailbe Love Apartments	6,300	6,300	February 2042
St. Peter Claver Courts	7,749	7,749	March 2043
St. Brendan Apartments	7,958	7,958	April 2044
Bishop Goedert Residence	9,592	9,592	December 2044
St. Vincent de Paul Residence	10,891	10,891	November 2045
Donald Kent Residence	8,976	8,975	January 2046
Pope John Paul II Residence	2,253	2,253	September 2046
St. Francis of Assisi Residence	<u>11,319</u>	<u>9,268</u>	November 2047
Total HUD grant advances	121,127	119,075	
Affordable housing residence loans	<u>8,522</u>	<u>8,506</u>	Various through 2047
Total refundable grant advances	<u>\$ 129,649</u>	<u>\$ 127,581</u>	

8. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 — Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The Archdiocese attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Archdiocese is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Archdiocese uses independent pricing services to establish fair value.

Assets Measured at Fair Value — Assets measured at fair value on a recurring basis as of June 30, 2010 and 2009, are summarized below:

2010	Level 1	Level 2	Level 3	Total
Invested cash	<u>\$ 18,897</u>	<u>\$ 696</u>	<u>\$ -</u>	<u>\$ 19,593</u>
Common stock and equity mutual funds	<u>239,539</u>	<u>5,937</u>	<u> </u>	<u>245,476</u>
Fixed income securities and fixed income mutual funds	<u>135,900</u>	<u>143,026</u>	<u> </u>	<u>278,926</u>
Alternative investments:				
Marketable alternative equity		207,830	146,381	354,211
Fixed income		38,295	34,012	72,307
Marketable energy and commodities		18,198	40,355	58,553
Private equity	<u> </u>	<u> </u>	<u>158,367</u>	<u>158,367</u>
Total alternative investments	<u>-</u>	<u>264,323</u>	<u>379,115</u>	<u>643,438</u>
Total	<u>\$ 394,336</u>	<u>\$ 413,982</u>	<u>\$ 379,115</u>	<u>\$ 1,187,433</u>
2009	Level 1	Level 2	Level 3	Total
Invested cash	<u>\$ 44,952</u>	<u>\$ 2,641</u>	<u>\$ -</u>	<u>\$ 47,593</u>
Common stock and equity mutual funds	<u>217,734</u>	<u> </u>	<u> </u>	<u>217,734</u>
Fixed income securities and fixed income mutual funds	<u>124,237</u>	<u>104,852</u>	<u>4,085</u>	<u>233,174</u>
Alternative investments:				
Marketable alternative equity		149,185	183,644	332,829
Fixed income		10,367	72,196	82,563
Marketable energy and commodities			59,035	59,035
Private equity	<u> </u>	<u> </u>	<u>120,158</u>	<u>120,158</u>
Total alternative investments	<u>-</u>	<u>159,552</u>	<u>435,033</u>	<u>594,585</u>
Beneficial interest in real estate trust	<u> </u>	<u> </u>	<u>211</u>	<u>211</u>
Total	<u>\$ 386,923</u>	<u>\$ 267,045</u>	<u>\$ 439,329</u>	<u>\$ 1,093,297</u>

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), and presents changes in unrealized gains or losses recorded in change in net assets for the years ended June 30, 2010 and 2009, for Level 3 assets:

	2010	2009
Balance — July 1	\$ 439,329	\$ 668,767
Purchases	54,085	55,078
Sales	(113,213)	(170,838)
Realized and change in unrealized gains (losses) — net	57,283	(113,678)
Transfers in/out of Level 3 — net	<u>(58,369)</u>	<u> </u>
Balance — June 30	<u>\$ 379,115</u>	<u>\$ 439,329</u>
The amount of total gains (losses) for the year included in changes in net assets attributable to the change in unrealized gains/losses relating to assets still held at June 30	<u>\$ 40,283</u>	<u>\$ (53,747)</u>

Investments that the Archdiocese is able to fully redeem at the NAV in the “near term” have been classified as Level 2 investments, in accordance with ASU 2009-12. Investments that cannot be fully redeemed at the NAV in the “near term” have been classified as Level 3. The Archdiocese has determined that investments that are not able to be redeemed at the NAV in the “near term” are investments that generally have one or more of the following characteristics: gated redemptions, all or a portion of the investment is side-pocketed, or have lock-up periods greater than 90 days. As a result, in accordance with ASU 2009-12, the Archdiocese transferred certain investment funds from Level 3 to Level 2 in the fair value hierarchy at year-end on a prospective basis. Certain investments may be split between Level 2 and Level 3 if different share classes have different redemption or liquidity characteristics. As of June 30, 2010, the Archdiocese did not have any investments split between Level 2 and Level 3 in the fair value hierarchy.

A summary of the nature and risk of the Archdiocese’s alternative investments by major category in accordance with ASU 2009-12 as of June 30, 2010, is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Side Pocket Investments (e)	Lockups / Gates
Marketable alternative equity (a)	\$354,211	\$ -	1 day–36 months	1–120 days	\$ 7,017	1/3 annually rolling
Fixed income (b)	72,307		1–12 months	10–65 days		1/3 annually rolling
Marketable energy and commodities (c)	58,553		1–12 months	22–90 days	9,432	1/3 annually rolling
Private equity (d)	<u>158,367</u>	<u>75,771</u>	N/A	N/A	<u>N/A</u>	N/A
Total	<u>\$643,438</u>	<u>\$75,771</u>			<u>\$16,449</u>	

- (a) Marketable alternative equity investments are comprised of investments in fund of funds and hedge funds which invest primarily in marketable equity securities and equity-related underlying securities.
- (b) Fixed income alternative investments are comprised of hedge funds investments, which invest in primarily fixed income securities and fixed income-related underlying securities.
- (c) Marketable energy and commodities are comprised of limited partnerships and hedge funds, which invest in marketable securities of the energy and commodity sectors.
- (d) Private equity includes investments in limited partnerships and private equity funds primarily invested in oil and gas, natural gas, and real estate. These investments are not redeemable periodically at the discretion of the investor. Instead, the nature of the investments in this category is that distributions are received through the general partner’s liquidation of the underlying assets of the fund. It is estimated that the underlying assets of these funds will be liquidated in 7 to 15 years.
- (e) The Archdiocese may participate in side pocket investments, either at the Archdiocese’s discretion or that of the investment adviser who manages the investment fund in which the Archdiocese invests. A side pocket investment is generally less liquid than others in an investment fund and will be subject to different terms and conditions, including more significant restrictions on redemptions.

The following section describes the valuation methodologies used to measure different assets at fair value, including an indication of the level in the fair value hierarchy in which the asset is generally classified. The Archdiocese uses prices and inputs that are current as of the measurement date, obtained through a third-party custodian from independent pricing services or the underlying investment managers.

Invested cash includes money market mutual funds and are generally categorized in Level 1 of the fair value hierarchy.

Common stock is valued based on quoted prices from an exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are generally categorized in Level 1 of the fair value hierarchy.

Equity mutual funds and fixed income mutual funds are valued based on the NAV as computed once per day based on the quoted market prices of the securities in the fund's portfolio and are generally categorized in Level 1 of the fair value hierarchy.

Marketable alternative equity investments are comprised of investments in fund of funds and hedge funds. Marketable alternative equity investments that cannot be fully redeemed at the NAV in the "near term" are investments that cannot be redeemed at its NAV within 90 days after June 30, 2010. The marketable alternative equity investments that can be redeemed within the "near term" are categorized in Level 2 of the fair value hierarchy. The marketable alternative equity investments that cannot be redeemed within the "near term" are categorized in Level 3 of the fair value hierarchy. These investments are valued using estimates developed by external investment managers and are accepted or adjusted through a valuation review performed by management.

Fixed income alternative investments are comprised of hedge funds investments. Fixed income alternative investments that cannot be fully redeemed at the NAV in the "near term" are investments that cannot be redeemed at its NAV within 90 days after June 30, 2010. The fixed income alternative investments that can be redeemed within the "near term" are categorized in Level 2 of the fair value hierarchy. The fixed income alternative investments that cannot be redeemed within the "near term" are categorized in Level 3 of the fair value hierarchy. These investments are valued using estimates developed by external investment managers and are accepted or adjusted through a valuation review performed by management.

Marketable energy and commodities are investments in marketable alternative equity fund of funds and hedge funds. Marketable energy and commodities that cannot be fully redeemed at the NAV in the "near term" are investments that cannot be redeemed at its NAV within 90 days after June 30, 2010. The marketable energy and commodities investments that can be redeemed within the "near term" are categorized in Level 2 of the fair value hierarchy. The marketable energy and commodities investments that cannot be redeemed within the "near term" are categorized in Level 3 of the fair value hierarchy. These investments are valued using estimates developed by external investment managers and are accepted or adjusted through a valuation review performed by management.

Private equity investments include investments in limited partnerships and private equity funds. These investments are valued using estimates developed by external investment managers and are accepted or adjusted through a valuation review performed by management. Private equity investments are generally categorized in Level 3 of the fair value hierarchy.

Liabilities Measured at Fair Value — The Archdiocese entered into interest rate swap agreements to hedge a portion of its variable-rate borrowings against adverse changes in interest rates. The related liability is categorized in Level 2 and is recorded at fair value of \$129 and \$334 at June 30, 2010 and 2009, respectively. This liability is valued using current market interest rates applicable to similar loan instruments.

9. EMPLOYEE BENEFITS

Parishes — Certain insurance (medical, life, and auto) and other aid are provided to retired priests. Retired priests do not contribute to the cost of these benefit plans, and the plans are currently not funded. These benefits are administered and partially funded through PRMAA.

Pastoral Center — The Archdiocese has a noncontributory defined benefit pension plan covering substantially all lay employees of the Pastoral Center, Parishes, and participating charitable organizations. The Pastoral Center charges Parishes and participating charitable organizations for pension costs. The plan provides annual retirement benefits (over and above normal Social Security benefits) equal to 1.375% of annual pay for each year of employment based on the career average salary without limitation as to amount of salary or term of service before normal retirement age. For employment years prior to 1997, the salary was updated for the average salary during 1997 to 2001. A participant is 100% vested after five years of service.

During 2007, the pension plan was amended, effective July 1, 2007, to freeze benefit accruals and participation as of that date.

The Pastoral Center also has a defined contribution plan under Internal Revenue Code Section 403(b) that includes a matching program. The matching program is available to all lay benefits eligible employees of the Pastoral Center, Parishes, and certain other Archdiocesan entities. The match is 50% of contributions up to a maximum of 4% of gross salary. Vesting in the match occurs at 25% per year. Employees with four or more years of service are fully vested in their match. The Archdiocese contributed and incurred expense of \$4,256 and \$7,215 related to the plan in 2010 and 2009, respectively.

Effective July 1, 2007, the Archdiocese implemented the Share Plan contribution to replace the defined benefit pension plan for full-time and benefits-eligible part-time employees. Under the Share Plan, the Archdiocese makes a contribution to the eligible employees' 403(b) retirement plan accounts. The contribution is a percentage of gross pay and is deposited each quarter. For eligible employees hired on or before June 30, 2007, the quarterly contribution is an age-weighted percentage of the employee's gross earnings, and that percentage increases as employees advance in age, based on age as of January 1 each year.

Share Plan contributions for employees who became eligible or were hired on or after July 1, 2007, is based on a flat percentage of gross earnings, regardless of age. The flat contribution can range from 1.25% to 5% as determined annually by the Archdiocese. The Share Plan has the same five-year cliff vesting as the defined benefit pension plan. The Archdiocese contributed and incurred expense of \$13,549 and \$10,872 for the Share Plan in 2010 and 2009, respectively.

Cemeteries — Cemeteries has a contributory defined benefit retirement plan for field employees and a noncontributory defined benefit plan for administrative employees. Eligibility for both plans is based on certain minimum service requirements. Benefits for both plans are based on compensation and years of service. The contributory defined benefit plan is funded through contracts administered by Metropolitan Life Insurance Company. The noncontributory defined benefit plan is funded through contracts administered by Metropolitan Life Insurance Company and Prudential Insurance Company. Cemeteries funds the plans based on actuarial funding recommendations using the aggregate cost method. Cemeteries also provides health care benefits to retired employees. The postretirement health care plan is unfunded.

Charitable Activities — Charities sponsors a noncontributory defined benefit pension plan covering substantially all lay employees. The plan is funded through the plan trustee. The plan provides annual retirement benefits (over and above normal Social Security benefits) equal to 1% of average earnings within the last five years of service multiplied by the number of years of full-time service up to 15 years, plus 1.5% of average earnings, as defined above, multiplied by the number of years of service in excess of 15 years. Plan assets consist primarily of common stock and fixed income securities.

Charities has a defined contribution plan under Internal Revenue Service Code Section 403(b) covering all new employees hired after July 1, 2002, as well as employees hired before July 1, 2002, who have opted out of the postretirement medical and dental benefits plan. The eligibility guidelines are based on one year of service and employees who work at least 20 hours per week. Charities contributes 1% of all participants' compensation, plus matching contributions of 1.5% of the individual participant's compensation. Total employer contributions and expense for the years ended June 30, 2010 and 2009, were approximately \$491 and \$456, respectively.

Charities offers certain medical and dental benefits for retired employees. Charities amended this policy as of February 1, 2002. A cap was placed on the net employer contribution to the cost of medical coverage for employees retiring on or after July 1, 2002. The cap is equal to \$0.5 per month for retirees with single coverage and \$0.7 per month for retirees with family coverage. The amended policy also states that all new employees hired after July 1, 2002, would not be offered postretirement medical and dental benefits, and employees must maintain coverage in the active employee medical plan to be eligible for medical coverage during retirement. Employees hired before July 1, 2002, had a choice of continuing their eligibility for postretirement medical and dental benefits or electing to participate in the 403(b) plan and permanently forgo any eligibility for future postretirement medical and dental benefits.

Maryville provides certain medical and dental benefits for retired employees. Maryville's employees do not contribute to the cost of this benefit plan. The obligation is funded by Maryville on an annual basis and the assets for this plan are segregated and held in a separate legal trust.

PRMAA — In 1999, PRMAA established a defined contribution plan covering substantially all active priests. The plan operates as a deferred salary arrangement under Section 403(b) of the Internal Revenue Code. Under the plan, participating priests may defer a portion of their pretax earnings. PRMAA matches 50% of each priest's contributions up to a maximum matching contribution of \$0.5; however, PRMAA's contributions are discretionary. PRMAA's contributions and expense to the plan for 2010 and 2009 were \$320 and \$340, respectively.

The Archdiocese sponsors, through PRMAA, a defined benefit pension plan covering all the priests of the Archdiocese. The pension plan provides a flat benefit that varies depending on whether the retired priest resides in an ecclesiastical institution. The plan is funded based on actuarial funding determinations. Plan assets consist of deposits in an insurance company separate account and in a bank trust account. Plan expenses are borne by the pension plan.

The Archdiocese uses a June 30 measurement date for its plans.

Summary information for all plans as of June 30, 2010 and 2009, is as follows:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Accumulated benefit obligation — overfunded plans	\$ 625,469	\$ 529,907	\$ 4,160	\$ 3,644
Accumulated benefit obligation — underfunded plans	<u>184,820</u>	<u>155,877</u>	<u>120,606</u>	<u>125,523</u>
Accumulated benefit obligation — total	<u>\$ 810,289</u>	<u>\$ 685,784</u>	<u>\$ 124,766</u>	<u>\$ 129,167</u>
Projected benefit obligation — overfunded plans	\$ 625,469	\$ 529,907	\$ 4,160	\$ 3,644
Projected benefit obligation — underfunded plans	<u>207,499</u>	<u>173,872</u>	<u>120,606</u>	<u>125,523</u>
Projected benefit obligation — total	<u>\$ 832,968</u>	<u>\$ 703,779</u>	<u>\$ 124,766</u>	<u>\$ 129,167</u>
Plan assets at fair value — overfunded plans	\$ 669,905	\$ 588,195	\$ 4,767	\$ 4,856
Plan assets at fair value — underfunded plans	<u>101,287</u>	<u>92,116</u>		
Plan assets at fair value — total	<u>\$ 771,192</u>	<u>\$ 680,311</u>	<u>\$ 4,767</u>	<u>\$ 4,856</u>
Funded status	<u>\$ (61,776)</u>	<u>\$ (23,468)</u>	<u>\$ (119,999)</u>	<u>\$ (124,311)</u>
Prepaid pension asset (accrued benefit cost)	<u>\$ (61,776)</u>	<u>\$ (23,468)</u>	<u>\$ (119,999)</u>	<u>\$ (124,311)</u>
Amounts recognized in statements of financial position:				
Assets	\$ 44,436	\$ 58,288	\$ 607	\$ 1,212
Liabilities	<u>(106,212)</u>	<u>(81,756)</u>	<u>(120,606)</u>	<u>(125,523)</u>
Net amount recognized at end of year	<u>\$ (61,776)</u>	<u>\$ (23,468)</u>	<u>\$ (119,999)</u>	<u>\$ (124,311)</u>
Benefit cost	<u>\$ 14,935</u>	<u>\$ 4,585</u>	<u>\$ 11,745</u>	<u>\$ 10,417</u>
Employer contributions	<u>\$ 5,675</u>	<u>\$ 4,396</u>	<u>\$ 4,769</u>	<u>\$ 4,475</u>
Participant contributions	<u>\$ 239</u>	<u>\$ 230</u>	<u>\$ 337</u>	<u>\$ 299</u>
Benefits paid	<u>\$ (30,861)</u>	<u>\$ (28,910)</u>	<u>\$ (5,455)</u>	<u>\$ (5,108)</u>

The pension and postretirement plans accumulated losses and prior service credits not yet recognized as a component of periodic pension and postretirement expense but accumulated in unrestricted net assets for the years ended June 30, 2010 and 2009, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Unrecognized actuarial loss (gain)	\$ 23,855	\$ (5,620)	\$ 25,716	\$ 37,725
Unrecognized transition asset	(4)	(21)		
Unrecognized prior service cost (credit)	<u>3,617</u>	<u>4,000</u>	<u>(5,120)</u>	<u>(5,794)</u>
Total accumulated in unrestricted net assets	<u>\$ 27,468</u>	<u>\$ (1,641)</u>	<u>\$ 20,596</u>	<u>\$ 31,931</u>

An estimated \$409 in prior service costs, \$4 in transition asset, and \$3,780 in net actuarial loss will be included as components of periodic pension expense in 2011. An estimated \$673 in prior service credit and \$941 in net actuarial loss will be included as components of periodic postretirement expense in 2011.

The pension plans and postretirement plans items not yet recognized as a component of periodic pension and postretirement expense, but included as a separate charge to net assets during 2010 and 2009, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Prior service credit arising during the period	\$ -	\$ 4,250	\$ -	\$ 2,220
Actuarial loss (gain) arising during the period	33,092	72,483	(10,369)	7,671
Reclassification adjustment for recognition of prior service (cost) credit	(2,948)	(629)	673	956
Reclassification adjustment for recognition of transition asset	18	18		
Reclassification adjustment for recognition of actuarial loss	<u>(1,053)</u>	<u>(34)</u>	<u>(1,639)</u>	<u>(1,285)</u>
Total recognized as a separate charge to net assets	<u>\$ 29,109</u>	<u>\$ 76,088</u>	<u>\$ (11,335)</u>	<u>\$ 9,562</u>

Actuarial assumptions for the plans as of June 30, 2010 and 2009, are as follows:

	2010		2009	
	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
Weighted-average assumptions used to determine benefit obligations and cost as of June 30:				
Discount rate (obligation)	5.10%–5.43%	5.17%–5.74%	6.19%–6.50%	6.20%–6.27%
Discount rate (cost)	6.19–6.50	6.20–6.27	6.75–7.00	6.27–7.00
Expected return on plan assets	5.50–8.00	0–2.00	5.50–8.00	0–2.00
Rate of compensation increase	0–4.00	0–4.00	0–4.00	0–4.00

The Archdiocese determined the overall long-term rate of return on the plans' assets by considering the historical returns and expected future returns for each asset class, as well as the target asset allocation of each plan.

The Archdiocese's investment strategy is to meet its obligations to retired employees. To achieve this objective, the Archdiocese generally invests in a diversified portfolio of investments, including fixed income securities.

The Archdiocese plans to contribute \$6,931 to the pension plans and \$5,129 to the postretirement plans in 2011.

The following benefit payments, which reflect expected future services, as appropriate, as of June 30, 2010, are expected to be paid:

Years Ending June 30	Pension Benefits	Postretirement Benefits
2011	\$ 35,257	\$ 5,370
2012	39,930	5,599
2013	42,302	5,830
2014	44,784	6,178
2015	47,481	6,623
2016–2020	270,785	38,824

For measurement purposes, a 5%–9% gross health care trend rate was used for 2010 and 2009 disclosures. Trend rates were assumed to decrease gradually to 5% in fiscal year 2011 and remain at that level beyond.

Plan Assets — The primary return objectives of the plans are (a) the preservation of principal, (b) to earn a competitive total return consistent with prudent levels of risk, and (c) to create a stream of investment returns to insure the systematic and adequate funding of actuarially determined benefits through contributions from the Archdiocese and professional management of the plan assets.

This is accomplished through diversification of assets in accordance with the investment policy. The pension plan assets are primarily invested in fixed income securities to perform similar to the BC Aggregate Bond Index with a 5.5% long-term rate of return. The pension assets do also include some invested cash, marketable alternative equity investments, and marketable alternative energy and commodity investments.

Invested cash includes money market mutual funds and are generally categorized in Level 1 of the fair value hierarchy.

Fixed income is comprised of U.S. government securities, U.S. government agency securities, and corporate bond securities. U.S. government securities are valued using quoted market prices and, accordingly, are categorized in Level 1 of the fair value hierarchy. U.S. government agency securities are comprised of noncallable agency-issued debt securities and are generally valued using quoted market prices. Actively traded noncallable agency-issued debt securities are categorized in Level 2 of the fair value hierarchy. The fair value of corporate bond securities is estimated using recently executed transactions, market price quotations (where observable), or bond spreads. If the spread data does not reference the issuer, then data that reference a comparable issuer are used. These corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

Equity separate accounts are privately managed accounts with underlying investments primarily in equity securities of large-cap, mid-cap, and small-cap companies located in both the United States and offshore. The underlying equity securities are valued based on quoted prices from an exchange, but the separate equity accounts are not actively traded and are therefore categorized in Level 2 of the fair value hierarchy.

Fixed income alternative investment separate accounts are privately managed accounts with underlying investments in U.S. government securities, U.S. government agency securities, and corporate bond securities. The U.S. government securities are valued using quoted market prices. The U.S. government agency securities are comprised of noncallable agency-issued debt securities and are generally valued using quoted market prices. The fair value of corporate bond securities are estimated using recently executed transactions, market price quotations (where observable), or bond spreads. If the spread data does not reference the issuer, then data that reference a comparable issuer are used. These fixed income alternative investments are categorized in Level 2 of the fair value hierarchy.

Real estate separate accounts are privately managed accounts with underlying investments primarily in Real Estate Investment Trust (REIT) investments. The underlying REIT investments are valued based on quoted prices from an exchange, but the separate accounts are not actively traded and are therefore categorized in Level 2 of the fair value hierarchy.

Marketable alternative equity investments are comprised of investments in fund of funds and hedge funds. Marketable alternative equity investments that cannot be fully redeemed at the NAV in the “near term” are investments that cannot be redeemed at its NAV within 90 days after June 30, 2010. The marketable alternative equity investments that can be redeemed within the “near term” are categorized in Level 2 of the fair value hierarchy. The marketable alternative equity investments that cannot be redeemed within the “near term” are categorized in Level 3 of the fair value hierarchy. These investments are valued using estimates developed by external investment managers and are accepted or adjusted through a valuation review performed by management.

Marketable energy and commodities are investments in marketable alternative equity fund of funds and hedge funds with a concentration in the energy and commodities sectors. Marketable energy and commodities that cannot be fully redeemed at the NAV in the “near term” are investments that cannot be redeemed at its NAV within 90 days after June 30, 2010. The marketable energy and commodities investments that can be redeemed within the “near term” are categorized in Level 2 of the fair value

hierarchy. The marketable energy and commodities investments that cannot be redeemed within the “near term” are categorized in Level 3 of the fair value hierarchy. These investments are valued using estimates developed by external investment managers and are accepted or adjusted through a valuation review performed by management.

The information about the Archdiocese’s pension plan assets measured at fair value as of June 30, 2010, by fair value hierarchy, is as follows:

	Level 1	Level 2	Level 3	Total
Invested cash	<u>\$ 13,632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,632</u>
Common stock and equity mutual funds	<u>31,996</u>	<u>11,773</u>	<u> </u>	<u>43,769</u>
Fixed income:				
Corporate bonds		355,407		355,407
U.S. government agency		56,334		56,334
U.S. government	<u>261,601</u>	<u> </u>	<u> </u>	<u>261,601</u>
Total fixed income	<u>261,601</u>	<u>411,741</u>	<u>-</u>	<u>673,342</u>
Separate accounts:				
Equity		11,274		11,274
Fixed income alternative		8,409		8,409
Real estate		801		801
Total separate accounts	<u>-</u>	<u>20,484</u>	<u>-</u>	<u>20,484</u>
Alternative investments:				
Marketable alternative equity			15,313	15,313
Marketable energy and commodities			4,652	4,652
Total alternative investments	<u>-</u>	<u>-</u>	<u>19,965</u>	<u>19,965</u>
Total	<u>\$307,229</u>	<u>\$443,998</u>	<u>\$ 19,965</u>	<u>\$771,192</u>

The information about the Archdiocese’s postretirement plan assets measured at fair value as of June 30, 2010, by fair value hierarchy, is as follows:

	Level 1	Level 2	Level 3	Total
Invested cash and short-term investments	<u>\$ 135</u>	<u>\$ 1,586</u>	<u>\$ -</u>	<u>\$ 1,721</u>
Fixed income:				
Corporate bonds		787		787
U.S. government	<u>2,259</u>	<u> </u>	<u> </u>	<u>2,259</u>
Total fixed income	<u>2,259</u>	<u>787</u>	<u>-</u>	<u>3,046</u>
Total	<u>\$2,394</u>	<u>\$2,373</u>	<u>\$ -</u>	<u>\$4,767</u>

The table below presents the reconciliation of all pension plan assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), and presents changes in unrealized gains or losses included within pension-related changes other than net periodic pension expense, a component of the change in net assets for the year ended June 30, 2010, for Level 3 assets and liabilities.

Balance — July 1, 2009	\$ 22,304
Sales	(4,827)
Realized and unrealized gains (losses) — net	<u>2,488</u>
 Balance — June 30, 2010	 <u>\$ 19,965</u>
 The amount of total gains or losses for the year included in pension-related changes other than net periodic pension expense attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2010	 <u>\$ 2,000</u>

10. NONCASH ASSISTANCE

During the years ended June 30, 2010 and 2009, Charities received certain food commodities with a value of approximately \$3,675 and \$3,395, respectively, under the terms of a federally funded program whereby Charities acts as a distributor. The receipt and subsequent distribution of these commodities are not shown as revenues or expenditures in the consolidated financial statements.

Charities recorded in-kind donations of gifts in the amount of \$1,102 and \$1,063 during the years ended June 30, 2010 and 2009, respectively, which it distributed to the families it serves.

11. NET ASSETS

Net assets as of June 30, 2010, comprise the following:

	Unrestricted Undesignated	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Parishes	\$ -	\$ 757,655	\$ 74,101	\$ -	\$ 831,756
Charitable					
Activities		485,560	20,631	8,288	514,479
Cemeteries		152,844			152,844
Pastoral Center	3,435	48,746	22,920	14,654	89,755
PRMAA		(21,527)			(21,527)
Reclassifications		1,071	(1,071)		-
Consolidating entries		<u>73,571</u>			<u>73,571</u>
 Total	 <u>\$ 3,435</u>	 <u>\$ 1,497,920</u>	 <u>\$ 116,581</u>	 <u>\$ 22,942</u>	 <u>\$ 1,640,878</u>

Net assets as of June 30, 2009, comprise the following:

	Unrestricted Undesignated	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Parishes	\$ -	\$ 833,304	\$ 65,395	\$ -	\$ 898,699
Charitable Activities		455,296	20,632	5,010	480,938
Cemeteries		144,023			144,023
Pastoral Center	36,648	44,440	25,148	14,649	120,885
PRMAA		(14,934)			(14,934)
Reclassifications		1,156	(1,156)		-
Total	<u>\$ 36,648</u>	<u>\$ 1,463,285</u>	<u>\$ 110,019</u>	<u>\$ 19,659</u>	<u>\$ 1,629,611</u>

All net assets are designated for the use of the specific consolidating entity, with the exception of the Pastoral Center's net assets.

12. ENDOWMENTS

The Archdiocese endowments include funds established for a variety of purposes and include both donor-restricted endowment funds and designated funds designated to function as endowments. As required by GAAP, net assets associated with permanently restricted funds, including designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Archdiocese has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor permanently restricted funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Archdiocese classifies as permanently restricted net assets (a) the original value of gifts, (b) the original value of subsequent gifts, and (c) accumulations made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Endowment net asset composition by type of fund as of June 30, 2010 and 2009, is as follows:

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ (254)	\$ 9,398	\$ 22,942	\$ 32,086
Designated funds	<u>306,115</u>	<u> </u>	<u> </u>	<u>306,115</u>
Total funds	<u>\$ 305,861</u>	<u>\$ 9,398</u>	<u>\$ 22,942</u>	<u>\$ 338,201</u>
2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ (1,353)	\$ 11,378	\$ 19,659	\$ 29,684
Designated funds	<u>273,998</u>	<u> </u>	<u> </u>	<u>273,998</u>
Total funds	<u>\$ 272,645</u>	<u>\$ 11,378</u>	<u>\$ 19,659</u>	<u>\$ 303,682</u>

Changes in endowment net assets for the years ended June 30, 2010 and 2009, are as follows:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$272,645	\$ 11,378	\$ 19,659	\$303,682
Investment return:				
Dividend and interest income — net	7,213	270		7,483
Realized and unrealized gains/losses — net	<u>27,753</u>	<u>2,021</u>	<u>63</u>	<u>29,837</u>
Total investment return	34,966	2,291	63	37,320
Contributions	2,244	31	3,283	5,558
Transfer of net assets	651			651
Appropriation of endowment assets for expenditures	<u>(4,645)</u>	<u>(4,302)</u>	<u>(63)</u>	<u>(9,010)</u>
Endowment net assets — end of year	<u>\$305,861</u>	<u>\$ 9,398</u>	<u>\$ 22,942</u>	<u>\$338,201</u>

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets — beginning of year	\$336,078	\$ 8,939	\$ 19,055	\$364,072
Net asset reclassification based on change in law	<u>(6,675)</u>	<u>6,675</u>	<u> </u>	<u>-</u>
Endowment net asset after reclassification	<u>329,403</u>	<u>15,614</u>	<u>19,055</u>	<u>364,072</u>
Investment return:				
Dividend and interest income — net	8,756	432		9,188
Realized and unrealized (losses) gains	<u>(57,435)</u>	<u>(4,251)</u>	<u>128</u>	<u>(61,558)</u>
Total investment return	(48,679)	(3,819)	128	(52,370)
Contributions	762	25	604	1,391
Transfer of net assets	225	61	(61)	225
Appropriation of endowment assets for expenditures	<u>(9,066)</u>	<u>(503)</u>	<u>(67)</u>	<u>(9,636)</u>
Endowment net assets — end of year	<u>\$272,645</u>	<u>\$ 11,378</u>	<u>\$ 19,659</u>	<u>\$303,682</u>

Funds With Deficiencies — From time to time, the fair value of assets associated with individual donor permanently restricted funds may fall below the level that the donor or UPMIFA requires the Archdiocese to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and were \$254 and \$1,353 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable investment performance due to unfavorable market conditions for the investments supporting the permanently restricted and designated funds during fiscal 2010 and 2009.

Return Objectives and Risk Parameters — The Archdiocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Archdiocese must hold in perpetuity or for a donor-specified period, as well as designated funds. The Archdiocese expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives — To satisfy its long-term rate-of-return objectives, the Archdiocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy — The Archdiocese has a policy of appropriating for distribution each year 5% of its designated endowment fund's average fair value over the prior four quarters through March 31 preceding the fiscal year in which the distribution is planned. In establishing this policy, the Archdiocese considered the long-term expected return on its endowment. Accordingly, over the long term, the Archdiocese expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

13. COMMITMENTS AND CONTINGENCIES

Cemeteries owns two landfills, which are the subject of certain environmental remediation plans required by the Illinois Environmental Protection Agency. Both landfills are now closed and have been closed for more than 15 years. The ultimate cost of the remediation will be shared by two parties, including Cemeteries, who is the owner, and an unrelated party, who was the operator. While the owner and the operator have each engaged engineers to study the issues related to these sites and develop plans and estimates related to remediation, and remediation has begun, the future costs are only estimable within a wide range covering a period of more than 20 years. The engineering estimates for the total costs of remediation for both the owner and the operator are likely to fall in a range of \$8,000 to \$33,000. The accrued landfill liability balance related to the owner's landfill liability was \$12,300 and \$14,800 as of June 30, 2010 and 2009, respectively. The estimates will change in the future and are sensitive to factors, such as testing results, the success of current remediation efforts, technological developments in the field of environmental remediation, regulatory changes, and the continued participation of the operator in funding remediation.

At June 30, 2010 and 2009, contractual commitments on construction in process or pending amounted to approximately \$6,300 and \$5, respectively.

The Archdiocese has entered into contracts with third parties to purchase substantially all of its natural gas needs until April 2011 and electricity needs until December 2012.

The Archdiocesan Finance Council and its Investment Committee oversee a pooled investment fund for various entities in the Archdiocese, including the Pastoral Center, Parishes, Cemeteries, PRMAA, and Charitable Activities' agencies. The Pooled Investment Fund invests with a number of investment managers in various equity and fixed income products. A portion of the investments are in nonmarketable investments through limited partnerships. At any point in time, the Archdiocese has open commitments to fund additional capital calls to the limited partnerships. The aggregate amount of open commitments for the Pooled Investment Fund as of June 30, 2010 and 2009, is \$75,771 and \$91,345, respectively.

Other various legal actions and governmental proceedings involve the CBC or separately incorporated religious organizations under its control. These actions can involve claims for compensatory or punitive damages, as well as other types of relief. Among the pending or potential legal claims against the Archdiocese are some related to allegations of past sexual misconduct by priests. Cost of settlement and legal defense for such claims are managed and reported through an insurance claims reserve (see Note 2). The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material effect on the net assets of the CBC beyond the reserve for insurance claims already reflected in the consolidated statements of financial position. The ultimate liability will change in the future and is sensitive to precedents established by pending court cases; possible legislative action, particularly related to the statutes of limitation; and additional claims that may be asserted in the future.

14. LEASES

The Pastoral Center entered into a lease agreement with Loyola University of Chicago in 2002 to lease Campion Hall for the use of St. Joseph Seminary. Total rental expense for the years ended June 30, 2010 and 2009, was \$718 and \$697, respectively.

As of June 30, 2010, future payments under this agreement are as follows:

Years Ending June 30	
2011	\$ 740
2012	<u>740</u>
Total	<u>\$1,480</u>

The Pastoral Center has an option to extend the lease for 10 years beyond 2013.

Charities leases office space under a conditional operating lease that contains a rent escalation provision. Rent expense under the lease is recognized based on straight-line amortization of total rent over the term of the lease.

At June 30, 2010, future minimum rental expense related to this operating lease is as follows:

Years Ending June 30	
2011	\$ 6,626
2012	5,162
2013	3,584
2014	2,185
2015	1,289
Thereafter	<u>9,503</u>
Total	<u>\$28,349</u>

15. FUNCTIONAL EXPENSES

The summary of expenses by functional classification and reconciliation to total expenses for the years ended June 30, 2010 and 2009, is as follows:

	2010	2009
Program activities:		
Pastoral Center program activities	\$ 97,680	\$ 84,150
Cemetery services	92,585	41,142
Educational activities	323,682	332,654
Parish operations	285,803	309,377
Charitable Activities programs	277,346	278,872
PRMAA expense	<u>11,798</u>	<u>9,502</u>
Total program activities	1,088,894	1,055,697
Fundraising and development expenses	13,730	14,121
Management and general expenses	<u>57,388</u>	<u>56,889</u>
Total functional expenses	1,160,012	1,126,707
Annual appeal disbursements	9,973	7,836
Interest expense	<u>1,852</u>	<u>2,430</u>
Expenses — net	<u>\$ 1,171,837</u>	<u>\$ 1,136,973</u>

16. TAX-EXEMPT STATUS

The Archdiocese is a tax-exempt organization under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code.

17. SUBSEQUENT EVENT

On October 29, 2010, the Pastoral Center entered into a single credit agreement with three separate lenders. The new credit agreement consists of a \$20,075 revolving loan and a \$50,000 term loan with termination dates of February 28, 2012, and October 1, 2015, respectively. The interest rate for the revolving loan and the term loan is variable and equal to the CB Floating rate (the higher of the Prime rate or the adjusted one-month LIBOR) and the alternate one-month LIBOR, respectively.

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