

# Parishes — Archdiocese of Chicago

Combined Financial Statements as of and for the  
Years Ended June 30, 2010 and 2009 (Restated),  
and Independent Accountants' Review Report

# PARISHES — ARCHDIOCESE OF CHICAGO

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT ACCOUNTANTS' REVIEW REPORT	1
COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (RESTATED):	
Combined Statements of Financial Position	2
Combined Statements of Activities	3–6
Combined Statements of Cash Flows	7
Notes to Combined Financial Statements	8–23

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the combined financial statements of the Parishes — Archdiocese of Chicago (the “Parishes”) as of June 30, 2010 and 2009, and for the years then ended, as listed in the foregoing table of contents, in accordance with Statements on Standards for Account and Review Services issued by the American Institute of Certified Public Accountants. All information included in these combined 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 financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying combined financial statements (as restated for 2009) in order for them to be in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

February 4, 2011

## PARISHES — ARCHDIOCESE OF CHICAGO

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

	2010	2009 (As Restated, see Note 10)
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 75,732	\$ 79,475
DEPOSITS WITH ARCHDIOCESAN PASTORAL CENTER	174,980	165,399
BUILDING FUND PLEDGES RECEIVABLE — Net	21,080	20,794
GIFT ANNUITIES RECEIVABLE	298	182
LAND, BUILDINGS, AND EQUIPMENT:		
Land	161,246	161,148
Buildings and equipment	1,679,835	1,650,510
Accumulated depreciation	(935,544)	(896,830)
Land, buildings, and equipment — net	905,537	914,828
TOTAL	<u>\$ 1,177,627</u>	<u>\$ 1,180,678</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Loans from Archdiocesan Pastoral Center	\$ 148,909	\$ 146,299
Interest payable on loans from Archdiocesan Pastoral Center	13,126	10,579
Accounts payable and other liabilities	50,106	49,180
Accrued postretirement liability	70,112	74,742
Asset retirement obligations	63,618	62,607
Total liabilities	345,871	343,407
NET ASSETS:		
Unrestricted	757,655	771,876
Temporarily restricted	74,101	65,395
Total net assets	831,756	837,271
TOTAL	<u>\$ 1,177,627</u>	<u>\$ 1,180,678</u>

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

# PARISHES — ARCHDIOCESE OF CHICAGO

## COMBINED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010 (Dollars in thousands)

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES:</b>			
Parish operations:			
Collections and bequests	\$ 215,041	\$ -	\$ 215,041
Other revenues	108,822		108,822
Return on deposits with Archdiocesan Pastoral Center	<u>10,379</u>		<u>10,379</u>
Total parish operations	<u>334,242</u>	<u>-</u>	<u>334,242</u>
Educational activities:			
Tuition and fees	225,004		225,004
Other revenues	<u>45,001</u>		<u>45,001</u>
Total educational activities	<u>270,005</u>	<u>-</u>	<u>270,005</u>
Total revenues	<u>604,247</u>	<u>-</u>	<u>604,247</u>
<b>EXPENSES:</b>			
Parish operations:			
Salaries, wages, and benefits	131,723		131,723
Utilities, repairs, and insurance	79,650		79,650
Religious education (CCD)	19,362		19,362
Archdiocesan assessments	24,147		24,147
Office, printing, and postage	8,298		8,298
Depreciation	27,280		27,280
Other expenses	31,761		31,761
Interest expense	<u>7,835</u>		<u>7,835</u>
Total parish operations	<u>330,056</u>	<u>-</u>	<u>330,056</u>
Educational activities:			
Salaries, wages, and benefits	250,163		250,163
Utilities, repairs, and insurance	27,913		27,913
Books and instructional materials	10,738		10,738
Depreciation	11,666		11,666
Other expenses	<u>23,202</u>		<u>23,202</u>
Total educational activities	<u>323,682</u>	<u>-</u>	<u>323,682</u>
Total expenses	<u>653,738</u>	<u>-</u>	<u>653,738</u>

(Continued)

## PARISHES — ARCHDIOCESE OF CHICAGO

### COMBINED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010 (Dollars in thousands)

	Unrestricted	Temporarily Restricted	Total
CHANGE IN NET ASSETS BEFORE GRANTS FROM ARCHDIOCESAN PASTORAL CENTER, OTHER OPERATING ACTIVITIES, AND POSTRETIREMENT-RELATED CHANGES	\$ (49,491)	\$ -	\$ (49,491)
GRANTS FROM ARCHDIOCESAN PASTORAL CENTER	<u>16,090</u>	<u>          </u>	<u>16,090</u>
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ACTIVITIES AND POSTRETIREMENT-RELATED CHANGES	(33,401)	-	(33,401)
OTHER OPERATING ACTIVITIES:			
Gains on land, building, and equipment sales — net	981		981
Building fund commitments received and collections		18,421	18,421
Accretion expense of asset retirement obligations	(1,011)		(1,011)
Interentity transfers	396		396
Net assets released from restrictions	<u>9,715</u>	<u>(9,715)</u>	<u>-</u>
Change in net assets before postretirement-related changes	(23,320)	8,706	(14,614)
POST-RETIREMENT RELATED CHANGES OTHER THAN NET PERIODIC POSTRETIREMENT COST	<u>9,099</u>	<u>          </u>	<u>9,099</u>
CHANGE IN NET ASSETS	(14,221)	8,706	(5,515)
NET ASSETS — Beginning of year (As Restated, See Note 10)	<u>771,876</u>	<u>65,395</u>	<u>837,271</u>
NET ASSETS — End of year	<u>\$ 757,655</u>	<u>\$ 74,101</u>	<u>\$ 831,756</u>

See independent accountants' review report and notes to combined financial statements. (Concluded)

## PARISHES — ARCHDIOCESE OF CHICAGO

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

	Unrestricted (As Restated, See Note 10)	Temporarily Restricted	Total (As Restated, see Note 10)
REVENUES:			
Parish operations:			
Collections and bequests	\$ 216,650	\$ -	\$ 216,650
Other revenues	108,075		108,075
Loss on deposits with Archdiocesan Pastoral Center	<u>(9,229)</u>		<u>(9,229)</u>
Total parish operations	<u>315,496</u>	<u>-</u>	<u>315,496</u>
Educational activities:			
Tuition and fees	229,034		229,034
Other revenues	<u>45,534</u>		<u>45,534</u>
Total educational activities	<u>274,568</u>	<u>-</u>	<u>274,568</u>
Total revenues	<u>590,064</u>	<u>-</u>	<u>590,064</u>
EXPENSES:			
Parish operations:			
Salaries, wages, and benefits	133,133		133,133
Utilities, repairs, and insurance	85,967		85,967
Religious education (CCD)	19,830		19,830
Archdiocesan assessments	23,756		23,756
Office, printing, and postage	8,547		8,547
Depreciation	26,508		26,508
Other expenses	39,946		39,946
Interest expense	<u>7,678</u>		<u>7,678</u>
Total parish operations	<u>345,365</u>	<u>-</u>	<u>345,365</u>
Educational activities:			
Salaries, wages, and benefits	255,996		255,996
Utilities, repairs, and insurance	30,298		30,298
Books and instructional materials	12,312		12,312
Depreciation	11,334		11,334
Other expenses	<u>22,714</u>		<u>22,714</u>
Total educational activities	<u>332,654</u>	<u>-</u>	<u>332,654</u>
Total expenses	<u>678,019</u>	<u>-</u>	<u>678,019</u>

(Continued)

## PARISHES — ARCHDIOCESE OF CHICAGO

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

	Unrestricted (As Restated, See Note 10)	Temporarily Restricted	Total (As Restated, see Note 10)
CHANGE IN NET ASSETS BEFORE ARCHDIOCESAN PASTORAL CENTER SUPPORT, OTHER OPERATING ACTIVITIES, AND POSTRETIREMENT-RELATED CHANGES	\$ (87,955)	\$ -	\$ (87,955)
GRANTS FROM THE ARCHDIOCESAN PASTORAL CENTER	<u>15,329</u>	<u>          </u>	<u>15,329</u>
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ACTIVITIES AND POSTRETIREMENT-RELATED CHANGES	(72,626)	-	(72,626)
OTHER OPERATING ACTIVITIES:			
Gains on land, building, and equipment sales — net	1,598		1,598
Grants received for noise abatement projects	1,298		1,298
Building fund commitments received and collections		15,494	15,494
Accretion expense of asset retirement obligations	(991)		(991)
Interentity transfers	39		39
Net assets released from restrictions	<u>32,350</u>	<u>(32,350)</u>	<u>-</u>
Change in net assets before postretirement-related changes	(38,332)	(16,856)	(55,188)
POSTRETIREMENT-RELATED CHANGES OTHER THAN PERIODIC POSTRETIREMENT COST	<u>(5,440)</u>	<u>          </u>	<u>(5,440)</u>
CHANGE IN NET ASSETS	(43,772)	(16,856)	(60,628)
NET ASSETS — Beginning of year (As Restated, see Note 10)	<u>815,648</u>	<u>82,251</u>	<u>897,899</u>
NET ASSETS — End of year	<u>\$ 771,876</u>	<u>\$ 65,395</u>	<u>\$ 837,271</u>

See independent accountants' review report and notes to combined financial statements. (Concluded)

## PARISHES — ARCHDIOCESE OF CHICAGO

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

	2010	2009 (As Restated, see Note 10)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (5,515)	\$ (60,628)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and accretion	39,957	38,833
Postretirement changes other than net periodic postretirement cost	(9,099)	5,440
Gains on land, buildings, and equipment sales — net	(981)	(1,598)
Noncash interentity property transfer	(396)	(133)
Contributions for acquisition and construction of parish property	(18,241)	(22,362)
Change in assets and liabilities:		
Interest payable on loans from Archdiocesan Pastoral Center	2,547	2,046
Accounts payable and other liabilities	926	14,521
Accrued postretirement liability	4,469	3,946
	<u>13,667</u>	<u>(19,935)</u>
Net cash provided by (used in) operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of land, buildings, and equipment	1,263	1,947
Purchases of land, buildings, and equipment	(29,541)	(47,853)
Net change in deposits with Archdiocesan Pastoral Center	(9,581)	23,682
	<u>(37,859)</u>	<u>(22,224)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Building fund pledges receivable — net	(286)	6,888
Gift annuities receivable	(116)	151
Loan borrowings from Archdiocesan Pastoral Center	14,197	27,029
Loan repayments to Archdiocesan Pastoral Center	(11,587)	(12,627)
Contributions for acquisition and construction of parish property	18,241	22,362
	<u>20,449</u>	<u>43,803</u>
Net cash provided by financing activities		
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(3,743)	1,644
<b>CASH AND CASH EQUIVALENTS — Beginning of year</b>	<u>79,475</u>	<u>77,831</u>
<b>CASH AND CASH EQUIVALENTS — End of year</b>	<u>\$ 75,732</u>	<u>\$ 79,475</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid during the year for interest</b>		
	<u>\$ 5,227</u>	<u>\$ 5,102</u>

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

# PARISHES — ARCHDIOCESE OF CHICAGO

## NOTES TO COMBINED 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 Parishes** — Archdiocese of Chicago (the “Parishes”) include the parishes, schools, and various shrines and oratories of the Archdiocese 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 church. The Parishes’ fiscal operations include sacramental services, religious education training, formal preschool through 12th grade educational instruction, fund-raising, and investment of reserve funds. Operating support is derived primarily from parishioners’ contributions, tuition and fees, and fund-raising activities.

These combined financial statements only reflect the operations of the Parishes and do not reflect the operations of the other agencies and organizations that also are a part of the Catholic Bishop of Chicago, a corporation sole.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Use of Estimates** — The preparation of 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** — The Parishes evaluated subsequent events through February 4, 2011, the date the combined financial statements were available for issuance.

**Cash and Cash Equivalents** — Cash and cash equivalents are defined as all highly liquid debt instruments with original maturities of three months or less and are stated at cost, which approximates fair value.

**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 significant assumptions regarding the outstanding pledges and ultimate collectability of these receivables. Actual results could differ from those estimates.

**Land, Buildings, and Equipment** — Land, buildings, and equipment is carried at cost. Where historical cost is unavailable Parish buildings are carried at reported insurable value as of July 1, 1980, with subsequent major additions recorded at cost. Land associated with these properties is carried at the estimated fair value at July 1, 1980, with subsequent additions recorded at cost.

Depreciation is computed using the straight-line method based upon the following lives:

Land and building improvements	20 years
Buildings (new construction)	50–75 years
Equipment, furniture, fixtures, and contents	25 years

Repairs and maintenance that do not extend the life of the applicable assets are charged to expense as incurred.

**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 Parishes have recorded a liability for asset retirement obligations related to asbestos remediation of \$63,618 and \$62,607 in 2010 and 2009, respectively.

**Asset Impairment** — Management reviews the carrying amount of long-lived assets by comparing the future cash flows expected from the asset to the carrying value of asset when certain conditions exist or events occur. In management’s opinion, no impairment exists as of June 30, 2010 or 2009.

**Classification of Net Assets** — In accordance with Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities* (formerly Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*), resources are classified into three classifications of net assets according to externally (donor) imposed restrictions:

*Unrestricted* — Net assets that are expendable for any purpose in performing the primary objectives of the organization.

*Temporarily Restricted* — Net assets whose use is limited by donor-imposed restrictions that either expire with the passage of time or can be removed by fulfillment of the stipulated purpose for which the donation was restricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions. Temporarily restricted net assets as of June 30, 2010 and 2009, represent building fund pledges used to assist in the financing of capital projects for parishes.

*Permanently Restricted* — Net assets donated with stipulations that they be invested to provide a permanent source of income; such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose. There are no permanently restricted net assets as of June 30, 2010 or 2009.

**Revenue Recognition** — Unconditional promises to give cash and other assets to the Parishes 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 date the contribution is received. Cash received through parish collections or fundraisers is recognized when received. Tuition and fees for educational activities are recognized during the related academic year.

**Tax Status** — The agencies that comprise the Parishes are tax-exempt organizations under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code.

**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-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 combined financial statements resulted in the Parishes adjusting references to authoritative accounting literature in the combined financial statements, but did not impact the Parishes' combined financial position or changes in net assets.

In June 2006, the FASB issued FASB Interpretation (FIN) 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 Parishes evaluate its uncertain tax positions using the provisions of ASC Topic 740. The Parishes previously followed ASC Topic 405, *Liabilities*. The Parishes' adoption of the updated ASC Topic 740 guidance had no impact on the Parishes' combined financial statements.

In February 2008, the FASB issued updated accounting guidance, which delayed the effective date of fair value measurement disclosures for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until the fiscal year beginning after November 15, 2008. The Parishes adopted the provisions of this updated accounting guidance as of July 1, 2009. The adoption of these provisions had no impact on the Parishes' combined financial statements.

In December 2008, the FASB issued FASB Staff Position No. 132R-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 Parishes for the year ended June 30, 2010. The adoption of these provisions had no impact on the Parishes' combined financial statements.

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)*. ASU 2009-12 provides guidance on estimating fair value of alternative investments when using the net asset value (NAV) per share provided by the investment entity. ASU 2009-12 is effective for the Parishes' fiscal year ending June 30, 2010. The Parishes adopted ASU 2009-12 as of June 30, 2010. The adoption of ASU 2009-12 had no impact on the net assets of the Parishes; however, the adoption did impact the classification of the Parishes' investments in the fair value hierarchy as disclosed at Note 5.

Accounting Standards Updates Not Yet Adopted — In April 2009, the FASB issued ASC Topic 958-805 (formerly FASB Statement No. 164), *Not-for-Profit Entities: Mergers and Acquisitions — including an amendment of ASC 350* (formerly 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. The Parishes is in the process of evaluating the impact of this new standard, which must be adopted in fiscal year 2011, on the combined 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 Parishes' combined 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 which 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 rollforward of activity in Level 3 fair value measurements (which are effective for fiscal years beginning after December 15, 2010). The Parishes' management is currently assessing the impact that the adoption of ASU 2010-06 will have on the financial statement disclosures.

### **3. DEPOSITS WITH ARCHDIOCESAN PASTORAL CENTER**

The Archdiocesan Finance Council and its Investment Committee oversee a pooled investment fund for various entities in the Archdiocese including the Parishes. The deposits made by Parishes are invested in the pooled investment fund. The pooled investment fund invests with a number of investment managers in various equity and fixed income products. A portion of the investments is in nonmarketable investments through limited partnerships. The Parishes own investments through participation in the Archdiocese pooled investment fund.

Deposits at June 30, 2010 and 2009, consisted of the following:

	<b>2010</b>	<b>2009</b>
Savings accounts	\$ <u>99,200</u>	\$ <u>97,150</u>
Investments:		
Invested cash	<u>773</u>	<u>2,030</u>
Common stock and equity mutual funds	<u>4,296</u>	<u>3,622</u>
Fixed income mutual funds	<u>14,625</u>	<u>12,565</u>
Alternative investments:		
Marketable alternative equity	28,284	25,923
Fixed income	11,125	10,238
Marketable energy and commodities	4,605	4,628
Private equity	<u>12,072</u>	<u>9,243</u>
Total alternative investments	<u>56,086</u>	<u>50,032</u>
Total investments	<u>75,780</u>	<u>68,249</u>
Total	<u>\$ 174,980</u>	<u>\$ 165,399</u>

Returns (losses) on deposits with Archdiocesan Pastoral Center for the years ended June 30, 2010 and 2009, are as follows:

	<b>2010</b>	<b>2009</b>
Interest income on savings accounts and investments	\$ 1,231	\$ 1,999
Realized/unrealized gain (loss) on investments — net	<u>9,148</u>	<u>(11,228)</u>
Total	<u>\$ 10,379</u>	<u>\$ (9,229)</u>

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 combined statements of financial position and in the combined statements of activities.

#### **4. BUILDING FUND PLEDGES RECEIVABLE**

As of June 30, 2010 and 2009, the Parishes have remaining uncollected unconditional pledges totaling \$22,429 and \$20,794, 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 at 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>
Total building fund pledges receivable — net	<u>\$7,596</u>	<u>\$ 13,484</u>	<u>\$ 21,080</u>

## 5. 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 Parishes attempt to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Parishes are responsible for the valuation process and seek to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Parishes use independent pricing services to establish fair value.

*Assets Measured at Fair Value* —

Assets, inclusive of those investments through participation in the Archdiocese pooled investment fund, measured at fair value on a recurring basis as of June 30, 2010 and 2009, are as follows:

<b>2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Invested cash	<u>\$ 773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773</u>
Common stock and equity mutual funds	<u>4,296</u>	<u>          </u>	<u>          </u>	<u>4,296</u>
Fixed income mutual funds	<u>14,625</u>	<u>          </u>	<u>          </u>	<u>14,625</u>
Alternative investments:				
Marketable alternative equity		16,645	11,639	28,284
Fixed income		5,808	5,317	11,125
Marketable energy and commodities		1,457	3,148	4,605
Private equity	<u>          </u>	<u>          </u>	<u>12,072</u>	<u>12,072</u>
Total alternative investments	<u>-</u>	<u>23,910</u>	<u>32,176</u>	<u>56,086</u>
Total	<u>\$ 19,694</u>	<u>\$ 23,910</u>	<u>\$ 32,176</u>	<u>\$ 75,780</u>
<b>2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Invested cash	<u>\$ 2,030</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,030</u>
Common stock and equity mutual funds	<u>3,622</u>	<u>          </u>	<u>          </u>	<u>3,622</u>
Fixed income mutual funds	<u>12,565</u>	<u>          </u>	<u>          </u>	<u>12,565</u>
Alternative investments:				
Marketable alternative equity		11,561	14,362	25,923
Fixed income			10,238	10,238
Marketable energy and commodities			4,628	4,628
Private equity	<u>          </u>	<u>          </u>	<u>9,243</u>	<u>9,243</u>
Total alternative investments	<u>-</u>	<u>11,561</u>	<u>38,471</u>	<u>50,032</u>
Total	<u>\$ 18,217</u>	<u>\$ 11,561</u>	<u>\$ 38,471</u>	<u>\$ 68,249</u>

The Parishes' investment balance includes \$75,780 and \$68,249 of investments through participation in the Archdiocese pooled investment fund as of June 30, 2010 and 2009, respectively. These balances include \$32,176 and \$38,471 of Level 3 investments as of June 30, 2010 and 2009, respectively. The table below presents a reconciliation for total Archdiocese pooled investment fund assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) and presents changes in unrealized gain or losses recorded in changes in net assets for the years ended June 30, 2010 and 2009, for Level 3 assets:

	<b>2010</b>	<b>2009</b>
Balance — July 1	\$ 432,110	\$ 662,187
Purchases	48,750	54,535
Sales	(106,712)	(170,833)
Realized and unrealized gains (losses) — net	55,694	(113,779)
Transfers in/out of Level 3 — net	<u>(59,449)</u>	<u>                    </u>
Balance — June 30	<u>\$ 370,393</u>	<u>\$ 432,110</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>\$ 38,607</u>	<u>\$ (113,523)</u>

Investments that the Parishes are 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 Parishes have 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, management 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 Parishes 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 Parishes' alternative investments by major category in accordance with ASU 2009-12 as of June 30, 2010, is as follows:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>	<b>Side Pocket Investments (e)</b>	<b>Lockups/ Gates</b>
Marketable alternative equity (a)	\$ 28,284	\$ -	1 day–36 months	1–120 days	\$ 562	1/3 annually rolling
Fixed income (b)	11,125		1–12 months	10–65 days		1/3 annually rolling
Marketable energy and commodities (c)	4,605		1–12 months	22–90 days	<u>755</u>	1/3 annually rolling
Private equity (d)	<u>12,072</u>	<u>6,069</u>	N/A	N/A	N/A	N/A
Total	<u>\$ 56,086</u>	<u>\$ 6,069</u>			<u>\$ 1,317</u>	

- (a) Marketable alternative equity alternative 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 primarily in 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 the oil and gas, natural gas, and real estate sectors. 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 the fund would be liquidated in 7 to 15 years.
- (e) The Parishes may participate in side pocket investments, either at the Parishes' discretion or that of the investment adviser who manages the investment fund in which the Parishes invest. 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 Parishes use 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 which invest in primarily fixed income and fixed income-related underlying assets. 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 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.

Private equity investments include investments in limited partnerships and private equity funds invested in oil and gas, natural gas, and real estate. These investments 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.

## 6. LOANS FROM ARCHDIOCESAN PASTORAL CENTER

The Archdiocesan Pastoral Center has a parish loan program, which lends at rates generally believed to be below the prevailing commercial interest rate. At June 30, 2010 and 2009, there were loans from Archdiocesan Pastoral Center aggregating \$148,909 and \$146,299, respectively. Interest rates on such loans were 0% to 8.55% and 0% to 9.50% for 2010 and 2009, respectively. Total principal payments are due as follows:

<b>Years Ending June 30</b>	<b>Amount</b>
2011	\$ 49,508
2012	24,263
2013	24,041
2014	6,932
2015	3,825
Thereafter	<u>40,340</u>
Total loans from Archdiocesan Pastoral Center	<u>\$ 148,909</u>

## 7. COMMITMENTS

At June 30, 2010 and 2009, contractual commitments on construction in process amounted to \$10,048 and \$29,632, respectively. There were no purchases pending at June 30, 2010 or 2009.

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.

## **8. RETIREMENT BENEFITS**

**Employee Benefits** — The Archdiocese of Chicago has noncontributory pension plans covering substantially all priests and eligible lay employees of the Archdiocesan Pastoral Center (the “Pastoral Center”), Parishes, and participating agencies. The lay employees’ plan provides retirement benefits (over and above normal Social Security benefits) based on length of service and annual salary. The priests’ plan provides level benefits at normal retirement (age 70) and also covers disability prior to retirement. Priests are also able to participate in a defined contribution plan with a match funded from the Priests’ Retirement & Mutual Aid Association (PRMAA) assessment. During 2007, the lay employees’ plan was amended, effective July 1, 2007, to freeze benefit accruals and participation as of that date.

Parishes are assessed for fringe benefits by the Pastoral Center based on the parish payroll. The assessment for these costs was \$17,683 and \$19,787 for 2010 and 2009, respectively.

Parishes are also assessed for health and medical benefits related to priests by the PRMAA. The assessment for these costs was \$7,503 and \$7,478 for 2010 and 2009, respectively, and is reflected in parish operations — salaries, wages, and benefits on the combined statements of activities.

Since the pension plans cover many agencies, benefit and asset information applicable to the Parishes is not available. The Pastoral Center has recorded the total pension liability on its combined statements of financial position. The Parishes are responsible for their related costs. This liability may be transferred to the Parishes in the future.

**Postretirement Benefits** — 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 the PRMAA.

Summary information for the priests' postretirement benefit plan at June 30, 2010 and 2009, is as follows:

	<b>2010</b>	<b>2009</b>
Change in benefit obligation:		
Benefit obligation — beginning of year	\$ 74,742	\$ 65,356
Service cost	1,909	1,633
Interest cost	4,534	4,310
Actuarial losses (gains)	(7,854)	6,368
Benefits paid	<u>(3,219)</u>	<u>(2,925)</u>
Benefit obligation — end of year	<u>\$ 70,112</u>	<u>\$ 74,742</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ -	\$ -
Employer contributions	3,219	2,925
Benefits paid	<u>(3,219)</u>	<u>(2,925)</u>
Fair value of plan assets — end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status — end of year	<u>\$ (70,112)</u>	<u>\$ (74,742)</u>
Net accrued benefit cost	<u>\$ (70,112)</u>	<u>\$ (74,742)</u>
Amounts recognized in the combined statements of financial position — accrued postretirement cost	<u>\$ (70,112)</u>	<u>\$ (74,742)</u>

The components of net periodic benefit cost for the years ended June 30, 2010 and 2009, are as follows:

	<b>2010</b>	<b>2009</b>
Components of net periodic benefit cost:		
Service cost	\$ 1,909	\$ 1,633
Interest cost	4,534	4,310
Recognized net actuarial loss	<u>1,245</u>	<u>927</u>
Total net periodic benefit cost	<u>\$ 7,688</u>	<u>\$ 6,870</u>

The postretirement plan items not yet recognized as a component of periodic postretirement cost, but included as a separate (benefit) charge to net assets during 2010 and 2009, are as follows:

	<b>2010</b>	<b>2009</b>
Actuarial (gain) loss arising during the period	\$ (7,854)	\$ 6,367
Reclassification adjustment for recognition of actuarial loss	<u>(1,245)</u>	<u>(927)</u>
Total recognized as a separate (benefit) charge to net assets	<u>\$ (9,099)</u>	<u>\$ 5,440</u>

The postretirement plan accumulated net actuarial loss not yet recognized as a component of periodic postretirement cost but accumulated in unrestricted net assets as of June 30, 2010 and 2009, are \$16,688 and \$25,787, respectively. An estimated \$651 of net actuarial loss will be included as a component of periodic postretirement cost in 2011.

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

	2010	2009
Weighted-average assumptions used to determine benefit obligations as of June 30:		
Discount rate	5.74 %	6.20 %
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine benefit cost for the years ended June 30:		
Discount rate	6.20 %	6.75 %
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

For measurement purposes, 8.5% net health care trend rate was used for both fiscal year 2010 and 2009. Trend rates were assumed to decrease gradually to 5% in fiscal year 2017 and remain at this level beyond.

Benefits paid in fiscal years 2010 and 2009 of \$3,219 and \$2,925, respectively, have been recorded in the PRMAA financial statements. The excess of total postretirement benefit expense over such benefits paid (\$4,469 in 2010 and \$3,945 in 2009) has been recorded in the Parishes' combined financial statements.

The Parishes expect to contribute, via assessments collected by PRMAA, \$2,913 to this plan in 2011.

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

2011	\$ 2,913
2012	2,989
2013	3,092
2014	3,260
2015	3,555
2016–2020	21,313

## 9. TRANSACTIONS WITH RELATED PARTIES

**Archdiocesan Assessments** — Each parish is assessed annually from the Pastoral Center for the support of Pastoral Center activities. This assessment is computed as 10% of operating revenue from two years prior. For example, the 2010 assessment was 10% of 2008 operating revenue. Archdiocesan assessments were \$24,147 and \$23,756 in 2010 and 2009, respectively.

**PRMAA Assessments** — Each parish is assessed annually from the PRMAA to reimburse the PRMAA for health and medical benefits for current and retired priests. This assessment is computed as 3.5% of prior-year ordinary income. PRMAA assessments were \$7,503 and \$7,478 in 2010 and 2009, respectively, and were recorded in parish salaries, wages, and benefits.

**Sharing Christ's Gifts Assessment** — The purpose of the Sharing Christ's Gifts Campaign is to raise funds for the capital, endowment, and ministerial needs of the Parishes. As part of the campaign, the Parishes will provide 20% of their ordinary income (defined as total revenues from parish operations) for the fiscal year prior to their participation in Sharing Christ's Gifts. The portion of funds to be shared will be remitted to the Pastoral Center and used to support various Archdiocesan-wide capital projects (e.g., grants to support Archdiocesan programs at needy parishes, priests' retirement home, repairs at University of St. Mary of the Lake) and pay for the primary expenses of the campaign. The Parishes have recorded sharing amounts due to the Pastoral Center in the year that the campaign was commenced. Included in accounts payable is the net amount due to the Pastoral Center related to prior-year's Sharing Christ's Gifts assessments totaling \$65 and \$273 at June 30, 2010 and 2009, respectively.

**Insurance Program** — The Parishes participate in a self-insurance program coordinated by the Archdiocese. In 2010 and 2009, the Parishes incurred expense of \$83,081 and \$84,872, respectively, to the Archdiocese for insurance. In the event that the Parishes withdraw from participation in the program, amounts may be payable to the Archdiocese for residual liabilities relating to historical claims experience or for claims incurred but not yet reported.

**Grants** — Certain parishes receive financial assistance from the Pastoral Center.

**Deposits With and Loans From Archdiocesan Pastoral Center** — Generally, deposits bear interest at rates that are contingent upon the amount and availability of the deposit. During 2010 and 2009, the interest rates paid on deposits ranged from 0.75% to 1.7% and 0.75% to 2.5%, respectively. The Parishes may invest in pooled investment accounts that are in various investments and whose returns are dependent upon market conditions. The estimated fair values of investments that do not have readily determinable fair values, and of other investments, are based on estimates provided by external investment managers and are examined 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 used had a ready market for these securities existed.

Loans bear interest at rates believed to be below the prevailing commercial interest rates.

## **10. RESTATEMENT OF PRIOR PERIOD**

Subsequent to the issuance of the 2009 combined financial statements, management identified certain errors and as a result, has restated the combined financial statements for the year ended June 30, 2009.

In prior periods, the Parishes erroneously presented the loans from Archdiocesan Pastoral Center and the corresponding interest payable on these loans and certain other payables net of the portion estimated as uncollectible by the Archdiocesan Pastoral Center. As a result, the loans from Archdiocesan Pastoral Center, the interest payable on loans from Archdiocesan Pastoral Center, and accounts payable and other liabilities as of June 30, 2009, were understated by \$15,458, \$1,838 and \$1,482 respectively. Also, grants from the Archdiocesan Pastoral Center for 2009 were overstated by \$18,778. The impact of the errors on opening net assets for years ending before 2009 was an overstatement of \$48,430.

Also, certain postretirement benefit payments made to retired priests were double counted in 2009 and prior periods. For the year ended June 30, 2009, this error resulted in a \$2,924 overstatement in net periodic benefit costs, which are included in salaries, wages and benefits, and accounts payable and other liabilities. For years ending prior to 2009, the impact of this error on opening net assets was an overstatement of net assets of \$2,856.

Furthermore, management determined that cash and cash equivalents and accounts payable and other liabilities were understated by \$12,075 as of June 30, 2009.

Accordingly, the statement of financial position, statement of activities, and statement of cash flows for 2009 have been restated for the correction of these errors.

The impact of the prior-period errors described above is summarized in the following table:

	<b>As Previously Reported</b>	<b>As Restated</b>	<b>Restatement Adjustment</b>
<b><i>Statement of financial position:</i></b>			
Cash and cash equivalents	\$ 67,400	\$ 79,475	\$ 12,075
Total assets	1,168,603	1,180,678	12,075
Loans from Archdiocesan Pastoral Center	88,581	146,299	(57,718)
Interest payable on loans from Archdiocesan Pastoral Center <sup>(1)</sup>		10,579	(10,579)
Accounts payable and other liabilities <sup>(1)</sup>	43,974	49,180	(5,206)
Total liabilities	269,904	343,407	(73,503)
Unrestricted net assets	833,304	771,876	61,428
Total net assets	898,699	837,271	61,428
<b><i>Statement of activities — Unrestricted <sup>(3):</sup></i></b>			
Salaries, wages, and benefits	\$ 136,057	\$ 133,133	\$ 2,924
Total parish operations expenses	348,289	345,365	2,924
Total expenses	680,943	678,019	2,924
Change in net assets before Archdiocesan Pastoral Center support, other operating activities and postretirement-related changes	(90,879)	(87,955)	(2,924)
Grants from Archdiocesan Pastoral Center	34,107	15,329	18,778
Change in net assets before other operating activities and postretirement-related changes	(56,772)	(72,626)	15,854
Change in net assets before postretirement-related changes	(39,334)	(55,188)	15,854
Change in net assets	(44,774)	(60,628)	15,854
Net assets — Beginning of year	861,222	815,648	45,574
Net assets — End of year	833,304	771,876	61,428
<b><i>Statement of cash flows:</i></b>			
Change in net assets	\$ (44,774)	\$ (60,628)	15,854
Noncash grants received	(18,778)		(18,778)
Change in assets and liabilities:			
Interest payable on loans from Archdiocesan Pastoral Center <sup>(2)</sup>		2,046	(2,046)
Accounts payable and other liabilities <sup>(2)</sup>	7,416	14,521	(7,105)
Net cash used in operating activities	(32,010)	(19,935)	(12,075)
Net change in cash and cash equivalents	(10,431)	1,644	(12,075)
Cash and cash equivalents — End of year	67,400	79,475	(12,075)

<sup>(1)</sup> Interest payable on loans from Archdiocesan Pastoral Center of \$2,571 was previously reported within Accounts payable and other liabilities. The As Restated amount is being presented on a separate line herein to conform with the current presentation.

<sup>(2)</sup> Change in interest payable on loans from Archdiocesan Pastoral Center of \$97 was previously reported within change in accounts payable and other liabilities. The As Restated amount is being presented on a separate line herein to conform with the current presentation.

<sup>(3)</sup> An adjustment equivalent to the unrestricted amount has been made to the total amount on the 2009 combined statement of activities.

\* \* \* \* \*