

Archdiocesan Pastoral Center — Archdiocese of Chicago

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

ARCHDIOCESAN PASTORAL CENTER — ARCHDIOCESE OF CHICAGO

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INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the Archdiocesan Pastoral Center — Archdiocese of Chicago (the "Pastoral Center") as of June 30, 2010 and 2009, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Pastoral Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pastoral Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Pastoral Center as of June 30, 2010 and 2009, and its activities and changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 6, 2010

ARCHDIOCESAN PASTORAL CENTER — ARCHDIOCESE OF CHICAGO

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

	2010	2009		2010	2009
ASSETS			LIABILITIES		
CASH AND CASH EQUIVALENTS	\$ 5,064	\$ 5,069	DEPOSITS:		
INVESTMENTS	<u>200,195</u>	<u>203,936</u>	Parishes	\$174,980	\$165,399
RECEIVABLES:			Other religious organizations	<u>5,287</u>	<u>4,845</u>
Loans to parishes and religious orders — net	86,602	90,384	Total deposits	<u>180,267</u>	<u>170,244</u>
Operating — net	15,548	11,175	ACCOUNTS PAYABLE	<u>25,738</u>	<u>26,747</u>
Development fund — net	<u>436</u>	<u>1,037</u>	BANK BORROWINGS	<u>61,875</u>	<u>57,180</u>
Total receivables	<u>102,586</u>	<u>102,596</u>	LIABILITIES OF AFFILIATED AGENCIES	<u>5,784</u>	<u>5,043</u>
ASSETS OF AFFILIATED AGENCIES	<u>20,249</u>	<u>17,933</u>	ASSET RETIREMENT OBLIGATIONS	<u>1,414</u>	<u>1,333</u>
PREPAID PENSION ASSET	<u>44,436</u>	<u>58,288</u>	OTHER LIABILITIES:		
LAND, BUILDINGS, AND EQUIPMENT:			Insurance claims	96,095	90,023
Land	17,262	16,996	Unearned rental income	17,600	17,805
Buildings and equipment	148,210	139,692	Undistributed collections	2,369	2,960
Undeveloped real estate	9,953	12,390	Annuity obligations	<u>2,981</u>	<u>2,803</u>
Closed parish property	<u>19,742</u>	<u>19,742</u>	Total other liabilities	<u>119,045</u>	<u>113,591</u>
Total land, buildings, and equipment	195,167	188,820	Total liabilities	<u>394,123</u>	<u>374,138</u>
Less accumulated depreciation	<u>(89,224)</u>	<u>(83,623)</u>	NET ASSETS:		
Land, buildings, and equipment — net	<u>105,943</u>	<u>105,197</u>	Unrestricted — undesignated	3,435	36,648
OTHER ASSETS	5,405	2,004	Unrestricted — designated	48,746	44,440
	<u> </u>	<u> </u>	Temporarily restricted	22,920	25,148
	<u> </u>	<u> </u>	Permanently restricted	<u>14,654</u>	<u>14,649</u>
	<u> </u>	<u> </u>	Total net assets	<u>89,755</u>	<u>120,885</u>
TOTAL	<u>\$483,878</u>	<u>\$495,023</u>	TOTAL	<u>\$483,878</u>	<u>\$495,023</u>

See notes to financial statements.

ARCHDIOCESAN PASTORAL CENTER — ARCHDIOCESE OF CHICAGO

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR 2009)

(Amounts in thousands)

	2010				2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUES:					
Parishes assessment	\$ 24,147	\$ -	\$ -	\$ 24,147	\$ 23,756
Cemeteries assessment	7,100			7,100	6,725
Assessments for insurance	97,673			97,673	93,386
Investment return designated for current operations	13,412			13,412	(5,788)
Interest income — parish and agency loans	7,850			7,850	7,680
Food service	43,764			43,764	44,535
Publications	7,860			7,860	7,836
Pastoral Center services	15,766			15,766	14,291
Seminaries	10,062			10,062	11,121
Annual Catholic Appeal	8,134			8,134	10,023
Contributions and bequests	10,126	3,324	5	13,455	4,995
Other	1,886			1,886	1,787
Total revenues	<u>247,780</u>	<u>3,324</u>	<u>5</u>	<u>251,109</u>	<u>220,347</u>
EXPENSES:					
Parish and agency grants:					
Operating	11,539			11,539	12,094
Capital	5,355			5,355	2,455
Provision for uncollectible loans and operating receivables	15,103			15,103	18,778
Insurance and retirement benefits program	115,706			115,706	99,045
Deposit valuation	9,148			9,148	(11,233)
Interest expense:					
Deposits	1,231			1,231	1,999
Bank borrowings	1,324			1,324	1,904
Change in value of gift annuities	528			528	(460)
Food service	39,418			39,418	39,966
Publications	7,548			7,548	8,877
Pastoral Center services	51,252			51,252	50,965
Seminaries	14,610			14,610	11,991
Annual Catholic Appeal distributions and fund-raising expenses	2,560			2,560	2,421
Depreciation	5,602			5,602	4,742
Other	3,087			3,087	3,022
Total expenses	<u>284,011</u>	<u>-</u>	<u>-</u>	<u>284,011</u>	<u>246,566</u>
(LOSS) GAIN FROM OPERATIONS	(36,231)	3,324	5	(32,902)	(26,219)
NET ASSETS RELEASED FROM RESTRICTIONS	9,800	(9,800)			-
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION EXPENSE	(12,186)			(12,186)	(29,590)
INVESTMENT RETURN IN EXCESS OF RETURNS FOR CURRENT OPERATIONS	7,370	4,248		11,618	(27,408)
NET PROPERTY GAINS (LOSSES)	3,566			3,566	(2,733)
DEVELOPMENT FUND REVENUES	27			27	30
DEVELOPMENT FUND EXPENSES	(569)			(569)	(1,551)
INTERENTITY TRANSFERS	(263)			(263)	8,254
PARISH IMPROVEMENT FUND GRANTS	(421)			(421)	(387)
CHANGE IN NET ASSETS	(28,907)	(2,228)	5	(31,130)	(79,604)
NET ASSETS — Beginning of year	<u>81,088</u>	<u>25,148</u>	<u>14,649</u>	<u>120,885</u>	<u>200,489</u>
NET ASSETS — End of year	<u>\$ 52,181</u>	<u>\$ 22,920</u>	<u>\$ 14,654</u>	<u>\$ 89,755</u>	<u>\$ 120,885</u>

See notes to financial statements.

ARCHDIOCESAN PASTORAL CENTER — ARCHDIOCESE OF CHICAGO

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

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES:				
Parishes assessment	\$ 23,756	\$ -	\$ -	\$ 23,756
Cemeteries assessment	6,725			6,725
Assessments for insurance	93,386			93,386
Investment return designated for current operations	(5,788)			(5,788)
Interest income — parish and agency loans	7,680			7,680
Food service	44,535			44,535
Publications	7,836			7,836
Pastoral Center services	14,291			14,291
Seminaries	11,121			11,121
Annual Catholic Appeal	10,023			10,023
Contributions and bequests	4,717	257	21	4,995
Other	1,787			1,787
Total revenues	<u>220,069</u>	<u>257</u>	<u>21</u>	<u>220,347</u>
EXPENSES:				
Parish and agency grants:				
Operating	12,094			12,094
Capital	2,455			2,455
Provision for uncollectible loans and operating receivables	18,778			18,778
Insurance and retirement benefits program	99,045			99,045
Deposit valuation	(11,233)			(11,233)
Interest expense:				
Deposits	1,999			1,999
Bank borrowings	1,904			1,904
Change in value of gift annuities	(460)			(460)
Food service	39,966			39,966
Publications	8,877			8,877
Pastoral Center services	50,965			50,965
Seminaries	11,991			11,991
Annual Catholic Appeal distributions and fund-raising expenses	2,421			2,421
Depreciation	4,742			4,742
Other	3,022			3,022
Total expenses	<u>246,566</u>	<u>-</u>	<u>-</u>	<u>246,566</u>
(LOSS) GAIN FROM OPERATIONS	(26,497)	257	21	(26,219)
NET ASSETS RELEASED FROM RESTRICTIONS	5,193	(5,193)		-
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION EXPENSE	(29,590)			(29,590)
NET ASSET RECLASSIFICATIONS	(6,675)	6,736	(61)	-
INVESTMENT RETURN IN EXCESS OF RETURNS FOR CURRENT OPERATIONS	(21,199)	(6,209)		(27,408)
NET PROPERTY LOSSES	(2,733)			(2,733)
DEVELOPMENT FUND REVENUES	30			30
DEVELOPMENT FUND EXPENSES	(1,551)			(1,551)
INTERENTITY TRANSFERS	8,254			8,254
PARISH IMPROVEMENT FUND GRANTS	(387)			(387)
CHANGE IN NET ASSETS	(75,155)	(4,409)	(40)	(79,604)
NET ASSETS — Beginning of year	<u>156,243</u>	<u>29,557</u>	<u>14,689</u>	<u>200,489</u>
NET ASSETS — End of year	<u>\$ 81,088</u>	<u>\$25,148</u>	<u>\$14,649</u>	<u>\$120,885</u>

See notes to financial statements.

ARCHDIOCESAN PASTORAL CENTER — ARCHDIOCESE OF CHICAGO

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$(31,130)	\$(79,604)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in unrealized gains/losses and realized (gains) losses on investments — net	(22,630)	37,112
Property (gains) losses — net	(3,566)	2,733
Fair value of noncash contribution received		(844)
Noncash transfer of property and other	1,457	
Provision for uncollectible receivables	15,103	18,778
Depreciation and accretion	5,683	4,818
Permanently restricted contributions	(5)	(21)
Noncash credit for changes in defined benefit pension plan other than periodic pension expense	12,186	29,590
Changes in assets and liabilities:		
Receivables	(25,953)	(12,975)
Prepaid pension asset	1,666	(1,630)
Assets of affiliated agencies	(2,316)	1,621
Accounts payable	(200)	(1,945)
Liabilities of affiliated agencies	741	(1,025)
Other assets	(3,401)	(1,024)
Annuity obligations	(75)	
Asset retirement obligations		(344)
Other liabilities	<u>5,529</u>	<u>(17,019)</u>
Net cash used in operating activities	<u>(46,911)</u>	<u>(21,779)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	79,827	85,739
Purchases of investments	(53,456)	(60,209)
Proceeds from sales of land, buildings, and equipment	3,673	131
Purchases of land, buildings, and equipment	(9,163)	(31,191)
Principal collected on loans to parishes and religious orders	23,102	21,785
Loans to parishes and religious orders	<u>(11,174)</u>	<u>(20,521)</u>
Net cash provided by (used in) investing activities	<u>32,809</u>	<u>(4,266)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Savings deposits	45,324	27,589
Savings withdrawals	(35,927)	(50,733)
Bank borrowings	31,875	53,130
Bank repayments	(27,180)	(26,100)
Permanently restricted contributions	5	21
Other		(88)
Net cash provided by financing activities	<u>14,097</u>	<u>3,819</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(5)	(22,226)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>5,069</u>	<u>27,295</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 5,064</u>	<u>\$ 5,069</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest:		
Deposits	<u>\$ 1,772</u>	<u>\$ 1,589</u>
Bank borrowings	<u>\$ 1,358</u>	<u>\$ 1,791</u>
Accrued accounts payable for construction and fixed asset purchases	<u>\$ 22</u>	<u>\$ 9</u>

See notes to financial statements.

ARCHDIOCESAN PASTORAL CENTER — ARCHDIOCESE OF CHICAGO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (Dollars in thousands)

1. NATURE OF OPERATIONS

The Archdiocesan Pastoral Center (the “Pastoral Center”) is the ministerial and administrative center for the Archdiocese of Chicago (the “Archdiocese”). Its purpose is to provide support and services to the parishes, schools, shrines and other oratories in Cook and Lake Counties (the “Parishes”) and other church agencies. It operates the Archdiocesan Bank, which provides 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 three biweekly newspapers and various liturgical-related publications; and invests endowment funds. Operating support is derived primarily from parish and cemetery assessments, employee benefit and property and casualty insurance program assessments, contributions and bequests, food service revenue, interest on loans to parishes, and investment earnings.

Assets and liabilities of affiliated agencies represent the aggregate assets and liabilities, with the exception of investments and property, of several departments of the Pastoral Center, which are operated independently of the Pastoral Center’s primary operations. Affiliated agencies include Saint Joseph’s Seminary, University of Saint Mary of the Lake, Liturgy Training Publications, Catholic New World, Chicago Catolico, Katolik, Ceres Food Group, Inc., and Food Service Professionals. All significant interorganizational balances and transactions have been eliminated.

These financial statements reflect only the operations of the agencies and other organizations of The Catholic Bishop of Chicago, a corporation sole, that are identified above. These financial statements 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 the 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, 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 Pastoral Center evaluated subsequent events through December 6, 2010, the date the financial statements were available for issuance.

Cash Equivalents — Cash equivalents are defined to include highly liquid debt instruments purchased with a maturity of three months or less 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.

The Pastoral Center, Catholic Cemeteries, parishes, Priests Retirement & Mutual Aid Association (PRMAA), Catholic Charities, and Mercy Home for Boys and Girls manage a portion of their investments through a pooled investment fund.

Pooled investment fund interest and dividend income, realized gains and losses, and unrealized gains and losses are allocated based on a proportionate share of each entity's fair value at the time of allocation. The entities have no cross interest in the funds of the other entities, and therefore, the financial statements of each entity reflect only that entity's share of the pooled fund.

Land, Buildings, and Equipment —

Land, Buildings, and Equipment — Land, buildings, and equipment represent active property and is 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.

Undeveloped Real Estate — Undeveloped real estate represents sites held for future development and is carried at cost.

Closed Parish Property — Closed parish property represents parish property transferred from parishes to the Pastoral Center after the parish was closed. Depreciation is recorded on buildings and equipment.

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

Asset Description	Useful Life
Buildings	20–50 years
Land and building improvements	10–20 years
Equipment, furniture, and fixtures	3–10 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 Pastoral Center has a liability for asset retirement obligations of \$1,414 and \$1,333 as of June 30, 2010 and 2009, respectively.

Asset Impairment — The Pastoral Center reviews long-lived assets for impairment by comparing the future cash flows expected from the asset to the carrying value of the asset when certain conditions exist or events occur. The Pastoral Center recorded an impairment loss on long-lived assets of \$2,864 in 2009.

Classification of Net Assets — In accordance with ASC 958 (formerly 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 which are expendable for any purpose in performing the primary objectives of the organization. Included in unrestricted net assets are designated funds that are designated by The Catholic Bishop of Chicago for the seminary operations. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted. The unrestricted net assets of the Pastoral Center are primarily derived from parish and Cemeteries assessments, insurance program assessments, sale of real estate, and investment returns.

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 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
Seminary programs	\$ 19,092	\$ 20,114
School programs	2,996	3,082
Ministry programs	<u>832</u>	<u>1,952</u>
	<u>\$ 22,920</u>	<u>\$ 25,148</u>

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. The restricted portion of the Seminary Endowment Fund has been classified as permanently restricted. This fund is the recipient of contributions that specify that only the earnings of the fund may be spent in support of seminaries' operations.

Annuity Obligation — Annuity obligations result from funds granted to the Pastoral Center by individuals in return for payments to those individuals during their lifetime. Annuity obligations are actuarially determined using the market interest rate at the inception of the gift annuity and are based upon the annuitant's age and life expectancy. The excess of the funds granted to the Pastoral Center over the calculated annuity payable is recorded as contributions. At the end of the year, the liability for all existing annuity contracts is actuarially determined and the adjustment to annuities payable is recorded as interest expense — change in value of gift annuities on the statements of activities.

Revenue Recognition — Unconditional promises to give cash and other assets to the Pastoral Center 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 or when the promise becomes unconditional. Parishes, Cemeteries, and insurance assessments are recorded as revenue when billed. Food service revenue is recognized when the food is delivered to customers. Seminary tuition revenue is recognized during the related academic year. Gift annuity contributions are recognized when the contract is signed and the assets are received. From time to time, the Pastoral Center is named as a beneficiary of a revocable estate. It is the Pastoral Center's policy to recognize revenue on such estate when either the cash is received or the commitment from the estate becomes irrevocable.

Receivables — Loans to parishes and religious orders and operating receivables are presented net of an allowance for uncollectible balances. The allowance for uncollectible loans to parishes and religious orders and operating receivables is for amounts due from parishes that are scheduled to receive grants from the Pastoral Center, as well as other parishes that have operating deficits.

The development fund is presented net of an allowance for uncollectible balances. This fund accumulates amounts due from parishes and other outside parties for the Millennium Campaign (the “Campaign”) and other capital campaigns, which the Pastoral Center administers, and records the distribution of funds as they are spent or awarded.

Related Parties — Related parties include Catholic Charities, Mercy Home for Boys and Girls, Maryville Academy (“Maryville”), Misericordia Home, Catholic Cemeteries, PRMAA, Parishes, Society for the Propagation of the Faith, Big Shoulders Fund, and Catholic Conference of Illinois.

During 2009, the Pastoral Center issued a long-term note payable to Maryville of \$2,100 to reimburse Maryville’s funding of net operating expenses and capital improvements at Our Lady of the Gardens School for fiscal year 2009. The balance at June 30, 2010 and 2009, was \$1,625 and \$2,007, respectively, with quarterly payments due through March 2014 at an interest rate of 5.25%.

On June 30, 2010, the Pastoral Center sold two parcels of undeveloped realty to Catholic Cemeteries, a related party, for \$1,200. Accounts receivable of \$1,200 relating to the sale is recorded in the statement of financial position as of June 30, 2010.

Loans to Parishes and Religious Orders and Deposits — Loans to Parishes and religious orders bear interest at rates believed to be below prevailing commercial interest rates.

Deposits bear interest at rates that vary depending on the amount and availability of the deposit. During 2010 and 2009, interest rates paid on deposits ranged from 0.75% to 1.7% and 0.75% to 2.5%, respectively.

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

Property and casualty risks of the parishes and participating religious organizations are covered in part by self-insurance programs administered through the Pastoral Center. Property and casualty losses in excess of self-insured retention levels are insured under commercial excess policies. Medical and health insurance for employees is 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. Subsequent to June 30, 2010, the Pastoral Center settled an additional \$1,158 in claims. The costs of these subsequent settlements are included in the insurance claims reserve at June 30, 2010.

Food Service, Publications, and Seminars Expenses — Expenses for food service, publications, and seminars as reported in the statements of activities do not include expenses that result from insurance and other related assessments from the Pastoral Center. The following related-party expenses and related assessment revenues have been eliminated from the statements of activities:

	2010	2009
Food service	\$3,303	\$3,711
Publications	560	677
Seminaries	1,428	1,400

Unearned Rental Income — In May 2008, The Catholic Bishop of Chicago executed a land lease agreement for the site of the then Pastoral Center operational headquarters building. The lease has a term of 99 years that commenced on January 1, 2009, and gives the tenant a right to renew the term of 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.

Undistributed Collections — Undistributed collections represent the proceeds from special collections that will be distributed to the applicable third-party organization.

Interest Rate Swaps — The Pastoral Center entered into interest rate swap agreements to hedge a portion of its variable rate borrowings against adverse changes in interest rates. In accordance with ASC Topic 815, *Derivatives and Hedging*, (formerly, FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*), the interest rate swaps are recorded at fair value in the statements of financial position with the corresponding adjustment to interest expense in the statements of activities. The adjustments recorded in 2010 and 2009, resulted in recognizing a (decrease) increase of the liability and expense in the amount of \$(205) and \$154, respectively.

Tax-Exempt Status — The Pastoral Center is a tax-exempt organization under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code.

Accounting Standards Adopted — In June 2009, the FASB issued FASB Standards 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 financial statements resulted in the Pastoral Center adjusting references to authoritative accounting literature in the financial statements, but did not impact the Pastoral Center's financial position or changes in net assets.

In June 2006, the FASB issued 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 Pastoral Center evaluates its uncertain tax positions using the provisions of ASC Topic 740. It previously followed ASC Topic 405, *Liabilities*. The Pastoral Center's adoption of the updated ASC Topic 740 guidance had no impact on the Pastoral Center's 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 Pastoral Center for the year ended June 30, 2010. The Pastoral Center 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 Pastoral Center adopted ASU 2009-12 as of June 30, 2010. The adoption of ASU 2009-12 had no impact on the net assets of the Pastoral Center; however, the adoption did impact the classification of the Pastoral Center's investments in the fair value hierarchy as disclosed in Note 10.

Accounting Standard Updates Not Yet 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. The Pastoral Center is in the process of evaluating the impact of this new standard, which must be adopted in fiscal year 2011, on the 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 Pastoral Center's 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 roll forward of activity in Level 3 fair value measurements (which are effective for fiscal years beginning after December 15, 2010). The Pastoral Center is currently assessing the impact that the adoption of ASU 2010-06 will have on the financial statement disclosures.

3. INVESTMENTS

The Pastoral Center's investment portfolio as of June 30, 2010 and 2009, consisted of the following:

	2010	2009
Invested cash	\$ 2,041	\$ 6,065
Common stock and equity mutual funds	<u>11,348</u>	<u>10,824</u>
Fixed income mutual funds	<u>38,637</u>	<u>37,547</u>
Alternative investments:		
Marketable alternative equity	74,721	77,461
Fixed income	29,391	30,592
Marketable energy and commodities	12,166	13,829
Private equity	<u>31,891</u>	<u>27,618</u>
Total alternative investments	<u>148,169</u>	<u>149,500</u>
Total	<u>\$ 200,195</u>	<u>\$ 203,936</u>

Invested cash includes short-term investments and 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 fair values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

Investments as of June 30, 2010 and 2009, are allocated as follows:

	2010	2009
Pastoral Center	\$ 46,965	\$ 67,103
Seminary	62,542	58,807
Archdiocesan Bank	14,251	9,197
Parish-directed investments through Archdiocesan Bank	75,779	68,251
Other affiliated agencies	<u>658</u>	<u>578</u>
Total investments	<u>\$ 200,195</u>	<u>\$ 203,936</u>

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

	2010	2009
Interest and dividends	\$ 2,400	\$ 3,916
Realized gains (losses) on investments — net	7,700	(3,133)
Change in unrealized gains/losses on investments — net	<u>14,930</u>	<u>(33,979)</u>
Net investment return	<u>\$ 25,030</u>	<u>\$ (33,196)</u>

4. LOANS AND OPERATING RECEIVABLES

The Pastoral Center has a parish loan program, which lends at rates generally believed to be below the prevailing commercial interest rate. This program is funded by deposits of surplus funds from Parishes and other religious organizations. At June 30, 2010 and 2009, there were loans outstanding to Parishes, net of allowance for doubtful accounts, aggregating \$84,985 and \$88,581, respectively, and loans outstanding to other religious organizations, net of allowance for doubtful accounts, of \$1,617 and \$1,803, respectively.

The activity for the allowance for impaired loans to Parishes and religious orders included in the net loan balances as of June 30, 2010 and 2009, is as follows:

	2010	2009
Allowance for impaired loans — beginning of year	\$ (57,763)	\$ (42,305)
Current-year activity:		
Provision	(6,631)	(12,315)
Write-offs — net of recoveries	7,052	917
Transfer of allowance on impaired receivables reclassified as loans	<u>(6,629)</u>	<u>(4,060)</u>
Allowance for impaired loans — end of year	<u>\$ (63,971)</u>	<u>\$ (57,763)</u>

The activity for the allowance for doubtful accounts included in the net operating receivables, which includes interest receivable on loans, as of June 30, 2010 and 2009, is as follows:

	2010	2009
Allowance for doubtful accounts — beginning of year	\$ (10,065)	\$ (7,074)
Current-year activity:		
Provision	(8,472)	(6,515)
Appeal provision	(1,995)	(2,077)
Write-offs — net of recoveries	2,204	1,541
Transfer of allowance on impaired receivables reclassified as loans	<u>6,629</u>	<u>4,060</u>
Allowance for doubtful accounts — end of year	<u>\$ (11,699)</u>	<u>\$ (10,065)</u>

5. DEVELOPMENT FUND

During 2000, the Archdiocese launched the Campaign with a goal to raise a minimum of \$250,000 over the following four years. The Campaign consisted of two subcampaigns. The first subcampaign was the School Major Gift Campaign, the purpose of which is to raise funds for the capital needs of Archdiocesan schools. This subcampaign is administered by Big Shoulders Fund, an independent organization dedicated to raising funds for Catholic schools of the Archdiocese. All funds raised by Big Shoulders Fund under this subcampaign will be remitted to the Pastoral Center or directly to the Archdiocesan schools. All outstanding pledge receivables recorded by Big Shoulders Fund as of June 30, 2010 and 2009, are recorded by the Pastoral Center as a Development Fund receivable.

The second subcampaign was Sharing Christ's Gifts, the purpose of which was to raise funds for the capital, endowment, and ministerial needs of parishes. As part of the subcampaign, parishes 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. These sharing funds were remitted to the Pastoral Center

and used to support various Archdiocesan-wide capital projects (e.g., priests' retirement home, repairs at University of Saint Mary of the Lake), grants to support Archdiocesan programs at needy parishes, and to pay for the primary expenses of the subcampaign. The Pastoral Center has recorded sharing amounts due from those parishes in the year in which the subcampaign was commenced.

The School Major Gift Campaign recognizes revenue consistent with other pledges. Unconditional promises to give cash and other assets to the Pastoral Center 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 or when the promise becomes unconditional. Sharing Christ's Gifts recognizes 100% of the revenue due from each parish in the year in which the parish participates in the fund-raising campaign as designated by the Pastoral Center. Sharing Christ's Gifts revenue is recorded in development fund revenues in the statements of activities.

In addition to the parish operating grants expense reported in the statements of activities, the Pastoral Center administered grants of \$1,800 in 2010 and \$2,000 in 2009 funded by Big Shoulders Fund.

The Development Fund receivable, net of reserves of \$28 and \$130 in 2010 and 2009, respectively, as of June 30, 2010 and 2009, consisted of the following:

	2010	2009
Due from Big Shoulders Fund — School Major Gift Campaign	\$ 371	\$ 764
Due from Parishes — Sharing Christ's Gifts	<u>65</u>	<u>273</u>
Total development fund receivable	<u>\$ 436</u>	<u>\$ 1,037</u>

6. BANK BORROWINGS

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

	2010	2009
\$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
Note payable, due December 27, 2010, interest rate is LIBOR, plus 35 bps (.70% and .67% at June 30, 2010 and 2009, respectively)	5,800	5,800
\$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
\$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
\$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
Note payable, due January 7, 2010, interest rate is fixed (4.57% at June 30, 2009)		<u>1,375</u>
Total bank borrowings	<u>\$ 61,875</u>	<u>\$ 57,180</u>

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 various repayments dates through the 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 14 for additional disclosure about this credit agreement.

Total principal payments are due as follows:

Years Ending June 30	Amount
2011	\$ 22,943
2012	17,218
2013	7,143
2014	7,143
2015	7,143
Thereafter	<u>285</u>
Total bank borrowings	<u>\$ 61,875</u>

The carrying value of debt approximates fair value. Certain debt agreements require that the Pastoral Center, along with Catholic Cemeteries, meet certain debt covenants related to minimum liquidity levels and investment to debt ratios. The Pastoral Center, along with Catholic Cemeteries, was in compliance with all debt covenants at June 30, 2010 and 2009.

7. ANNUAL CATHOLIC APPEAL

The Annual Catholic Appeal (the "Appeal") supports the work of the schools, programs, agencies, and ministries of the Archdiocese that serve the educational, physical, and spiritual needs of its people. Through Catholic Relief Services, the Appeal also serves those overseas devastated by natural disasters, illness, wars, and famine. Parish goals for the Appeal are set at 6% of its offertory income. Donations received by a parish in excess of its goal are returned to the parish as a rebate.

Appeal activity for the years ended June 30, 2010 and 2009, are as follows:

	2010	2009
Contributions	\$ 17,467	\$ 17,219
Parish rebates	(7,338)	(5,119)
Uncollectible pledge provision	<u>(1,995)</u>	<u>(2,077)</u>
Net contributions after Parish rebates and uncollectible pledge provision	<u>\$ 8,134</u>	<u>\$ 10,023</u>
Pastoral Center program and grant support	\$ 5,574	\$ 7,602
Fundraising expenses	1,920	1,781
Specific distribution to Catholic Relief Services	<u>640</u>	<u>640</u>
Total distributions	<u>\$ 8,134</u>	<u>\$ 10,023</u>

8. LEASES

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

Future minimum payments under this agreement are as follows:

Years Ending June 30	Amount
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 2012.

In accordance with ASC Topic 840, *Leases*, (formerly FASB Statement No. 13, *Accounting for Leases*), the Pastoral Center recognizes the rental expense on a straight-line basis over the term of the lease.

9. RETIREMENT BENEFITS

Defined Benefit Plan — The Archdiocese has a noncontributory pension plan (the “Plan”) covering substantially all lay employees of the Pastoral Center, parishes, and certain participating charitable organizations. The Pastoral Center charges parishes and the 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 computed using the average salary during 1997–2001. A participant is 100% vested after five years of service.

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

The Pastoral Center has recorded the total funded status of the Plan in the statements of financial position. This asset is related to all participants of the Plan, which includes those employed by parishes and participating charitable organizations. The information to allocate the asset to the parishes and other charitable organizations is available, and those parties are responsible for their related costs. This asset may be transferred to those other organizations in the future.

The Pastoral Center uses a June 30 measurement date for its Plan.

Summary information for the Plan as of June 30, 2010 and 2009, is as follows:

	2010	2009
Change in benefit obligation:		
Projected benefit obligation — beginning of year	\$ 529,907	\$ 476,796
Interest cost	33,670	32,574
Actuarial losses	84,658	41,697
Benefits paid	<u>(22,766)</u>	<u>(21,160)</u>
Projected benefit obligation — end of year	<u>\$ 625,469</u>	<u>\$ 529,907</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ 588,195	\$ 563,044
Actual return on plan assets	104,476	46,311
Benefits paid	<u>(22,766)</u>	<u>(21,160)</u>
Fair value of plan assets — end of year	<u>\$ 669,905</u>	<u>\$ 588,195</u>
Funded status — end of year	<u>\$ 44,436</u>	<u>\$ 58,288</u>
Amounts recognized in the statements of financial position — prepaid pension asset	<u>\$ 44,436</u>	<u>\$ 58,288</u>

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

	2010	2009
Components of net periodic benefit cost (income):		
Interest cost	\$ 33,670	\$ 32,574
Expected return on plan assets	(31,594)	(30,232)
Amortization of actuarial gain	<u>(410)</u>	<u>(3,972)</u>
Total net periodic benefit cost (income)	<u>\$ 1,666</u>	<u>\$ (1,630)</u>

Pension-related changes, other than net periodic pension expense, that have been included as a separate charge to unrestricted net assets during the years ended June 30, 2010 and 2009, consist of actuarial losses arising during the period of \$12,186 and \$29,590, respectively.

The Plan's accumulated net actuarial gain not yet recognized as a component of periodic pension expense but accumulated in unrestricted net assets as of June 30, 2010 and 2009, are \$50,279 and \$62,465, respectively. The Pastoral Center estimates that there will be no amortization of the net actuarial gain included as a component of periodic pension expense in 2011.

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

	2010	2009
Weighted-average assumptions:		
Discount rate — benefit obligation	5.30 %	6.50 %
Discount rate — benefit cost	6.50	7.00
Expected return on plan assets — benefit cost	5.50	5.50
Rate of compensation increase	N/A	N/A

The Pastoral Center does not plan to contribute to the Plan in 2011.

The following benefit payments are expected to be paid as follows:

Years Ending June 30	Amount
2011	\$ 26,022
2012	30,446
2013	32,536
2014	34,747
2015	36,793
2016–2020	206,669

Plan Assets — The primary return objectives of the Plan 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 Pastoral Center 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 investment in fixed income securities to perform similar to the Barclays Capital U. S. Aggregate Bond Index with a 5.5% long-term rate of return. The pension assets also include 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 securities are comprised of U.S. government securities, U.S. government agency securities, and corporate bonds. 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 bonds 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.

Marketable alternative equity investments are comprised of investments in fund of funds and hedge funds that invest primarily in marketable equity securities and equity-related underlying securities. 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, which primarily invest in securities 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 following fair value hierarchy table presents information about the Pastoral Center’s Plan assets measured at fair value as of June 30, 2010.

	Level 1	Level 2	Level 3	Total
Invested cash	<u>\$ 10,820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,820</u>
Fixed income:				
Corporate bonds		348,788		348,788
U.S. government agency		49,090		49,090
U.S. government	<u>257,063</u>	<u> </u>	<u> </u>	<u>257,063</u>
Total fixed income	<u>257,063</u>	<u>397,878</u>	<u>-</u>	<u>654,941</u>
Alternative investments:				
Marketable alternative equity			1,215	1,215
Marketable energy and commodities			2,929	2,929
Total alternative investments	<u>-</u>	<u>-</u>	<u>4,144</u>	<u>4,144</u>
Total	<u>\$ 267,883</u>	<u>\$ 397,878</u>	<u>\$ 4,144</u>	<u>\$ 669,905</u>

The table below presents the reconciliation of all 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 as of July 1, 2009	\$ 6,572
Sales	(3,392)
Realized and change in unrealized gains (losses), net	<u>964</u>
 Balance as of June 30, 2010	 <u>\$ 4,144</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>\$ 343</u>

Defined Contribution Plans — The Archdiocese also has a defined contribution plan, which includes an employer matching contribution. The matching contribution is available to all lay benefit-eligible employees of the Pastoral Center, parishes, and certain other Archdiocesan entities. The employer match is 50% of an employee’s contributions up to a maximum of 2% of gross salary. Vesting in the matching contribution occurs at 25% per year. Employees with four or more years of service are fully vested in their match. The Pastoral Center contributed and incurred expense of \$4,256 and \$7,215 for 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 benefit-eligible part-time employees. Under the Share Plan, the Archdiocese will make 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 will be an age-weighted percentage of the employee’s gross earnings, and that percentage will increase as employees advance in age, based on age as of January 1st each year.

Share Plan contributions for employees who became eligible or were hired on or after July 1, 2007, are 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 Pastoral Center contributed to the Share Plan and incurred expense of \$13,549 and \$10,872 in 2010 and 2009, respectively.

10. 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 Pastoral Center attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Pastoral Center 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 Pastoral Center 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 as follows:

2010	Level 1	Level 2	Level 3	Total
Invested cash	<u>\$ 2,041</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,041</u>
Common stock and mutual funds	<u>11,348</u>	<u> </u>	<u> </u>	<u>11,348</u>
Fixed income mutual funds	<u>38,637</u>	<u> </u>	<u> </u>	<u>38,637</u>
Alternative investments:				
Marketable alternative equity		43,974	30,747	74,721
Fixed income		15,343	14,048	29,391
Marketable energy and commodities		3,850	8,316	12,166
Private equity			<u>31,891</u>	<u>31,891</u>
Total alternative investments	<u>-</u>	<u>63,167</u>	<u>85,002</u>	<u>148,169</u>
Total	<u>\$ 52,026</u>	<u>\$ 63,167</u>	<u>\$ 85,002</u>	<u>\$ 200,195</u>
2009	Level 1	Level 2	Level 3	Total
Invested cash	<u>\$ 6,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,065</u>
Common stock and equity mutual funds	<u>10,824</u>	<u> </u>	<u> </u>	<u>10,824</u>
Fixed income mutual funds	<u>37,547</u>	<u> </u>	<u> </u>	<u>37,547</u>
Alternative investments:				
Marketable alternative equity		34,547	42,914	77,461
Fixed income			30,592	30,592
Marketable energy and commodities			13,829	13,829
Private equity			<u>27,618</u>	<u>27,618</u>
Total alternative investments	<u>-</u>	<u>34,547</u>	<u>114,953</u>	<u>149,500</u>
Total	<u>\$ 54,436</u>	<u>\$ 34,547</u>	<u>\$ 114,953</u>	<u>\$ 203,936</u>

The Pastoral Center’s investment balance includes \$85,002 and \$114,953 of Level 3 investments through participation in the Archdiocese pooled investment fund 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 gains or losses for the entire pooled investment fund for the years ended June 30, 2010 and 2009, for Level 3 assets.

	2010	2009
Balance as of July 1	\$ 432,110	\$ 662,187
Purchases	48,750	54,535
Sales	(106,712)	(170,833)
Realized and change in unrealized gains (losses) — net	55,694	(113,779)
Transfers in/out of Level 3	<u>(59,449)</u>	<u> </u>
 Balance as of June 30	 <u>\$ 370,393</u>	 <u>\$ 432,110</u>
 The amount of total net gains (losses) for the year attributable to the change in unrealized gains or losses relating to assets still held at June 30	 <u>\$ 38,607</u>	 <u>\$ (113,523)</u>

Investments that the Pastoral Center 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 Pastoral Center 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 Pastoral Center 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 Pastoral Center 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 Pastoral Center’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)	\$ 74,721	\$ -	1 day–36 months	1–120 days	\$1,485	1/3 annually rolling
Fixed income (b)	29,391		1–12 months	10–65 days		1/3 annually rolling
Marketable energy and commodities (c)	12,166		1–12 months	22–90 days	1,996	1/3 annually rolling
Private equity (d)	<u>31,891</u>	<u>16,032</u>	N/A	N/A	<u>N/A</u>	N/A
 Total	 <u>\$148,169</u>	 <u>\$16,032</u>			 <u>\$3,481</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 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 these funds will be liquidated in 7 to 15 years.
- (e) The Pastoral Center may participate in side pocket investments, either at the Pastoral Center's discretion or that of the investment adviser who manages the investment fund in which the Pastoral Center 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 Pastoral Center 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 Pastoral Center 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 at June 30, 2010. This liability is valued using current market interest rates applicable to similar loan instruments.

11. ENDOWMENTS

The Pastoral Center endowments include approximately 17 individual 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 Pastoral Center has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (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 Pastoral Center 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, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ 7,316	\$ 14,654	\$ 21,970
Designated funds	<u>29,804</u>	<u> </u>	<u> </u>	<u>29,804</u>
Total funds	<u>\$ 29,804</u>	<u>\$ 7,316</u>	<u>\$ 14,654</u>	<u>\$ 51,774</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ (685)	\$ 9,315	\$ 14,649	\$ 23,279
Designated funds	<u>26,163</u>	<u> </u>	<u> </u>	<u>26,163</u>
Total funds	<u>\$ 25,478</u>	<u>\$ 9,315</u>	<u>\$ 14,649</u>	<u>\$ 49,442</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	<u>\$ 25,478</u>	<u>\$ 9,315</u>	<u>\$ 14,649</u>	<u>\$ 49,442</u>
Investment return:				
Dividend and interest income	275	142		417
Realized gains and change in unrealized gains/losses on investments — net	<u>3,856</u>	<u>2,055</u>	<u> </u>	<u>5,911</u>
Total investment return	<u>4,131</u>	<u>2,197</u>	<u>-</u>	<u>6,328</u>
Contributions	<u>1,844</u>	<u>6</u>	<u>5</u>	<u>1,855</u>
Appropriation of endowment assets for expenditures	<u>(1,649)</u>	<u>(4,202)</u>	<u> </u>	<u>(5,851)</u>
Endowment net assets — end of year	<u>\$ 29,804</u>	<u>\$ 7,316</u>	<u>\$ 14,654</u>	<u>\$ 51,774</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$ 44,353	\$ 6,858	\$ 14,689	\$ 65,900
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>37,678</u>	<u>13,533</u>	<u>14,689</u>	<u>65,900</u>
Investment return:				
Dividend and interest income	409	269		678
Realized losses and change in unrealized gains/losses on investments — net	<u>(6,307)</u>	<u>(4,177)</u>	<u> </u>	<u>(10,484)</u>
Total investment return	<u>(5,898)</u>	<u>(3,908)</u>	<u>-</u>	<u>(9,806)</u>
Contributions	<u>1</u>	<u> </u>	<u>21</u>	<u>22</u>
Transfer of net assets	<u> </u>	<u>61</u>	<u>(61)</u>	<u>-</u>
Appropriation of endowment assets for expenditures	<u>(6,303)</u>	<u>(371)</u>	<u> </u>	<u>(6,674)</u>
Endowment net assets — end of year	<u>\$ 25,478</u>	<u>\$ 9,315</u>	<u>\$ 14,649</u>	<u>\$ 49,442</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 Pastoral Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and were \$0 and \$685 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 board designated funds during fiscal 2010 and 2009.

Return Objectives and Risk Parameters — The Pastoral Center 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 Pastoral Center must hold in perpetuity or for a donor-specified period(s) as well as designated funds. The Pastoral Center 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 Pastoral Center 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 Pastoral Center 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 Pastoral Center considered the long-term expected return on its designated endowment. Accordingly, over the long term, the Pastoral Center 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.

12. COMMITMENTS AND CONTINGENCIES

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, Catholic Cemeteries, PRMAA, Catholic Charities, and Mercy Home for Boys and Girls. The pooled investment fund invests with a number of investment managers in various equity and fixed-income products. An allocation of the investments is in nonmarketable investments through limited partnerships. At any point in time, the pooled investment fund has open commitments to fund additional capital calls to certain 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. The Pastoral Center's allocation of the open commitments as of June 30, 2010 and 2009, is \$16,032 and \$25,165, respectively.

As a part of normal operating activities, the Pastoral Center enters into various agreements providing financial or performance assurance to third parties on behalf of the parishes. Such agreements include standby letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a parish on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the parish's capital expenditures. The total letters of credit in existence as of June 30, 2010, are \$607.

Effective July 1, 2009, the Pastoral Center executed a guaranty agreement related to a letter of credit supporting the Series 1993A and Series 1993B adjustable demand revenue bonds issued by the Illinois Development Finance Authority to provide interim financing to Catholic Charities. The letter of credit, in the amount of \$10,164, expires July 1, 2011.

Other various legal actions and governmental proceedings involve the Catholic Bishop of Chicago or separately incorporated religious organizations under his 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 ultimate outcome of these matters is not presently known, but in the opinion of management, the ultimate liability will not have a material effect on the net assets of the Pastoral Center beyond the reserve for insurance claims already reflected in the 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.

In 2005, the State of Illinois passed the Fire Sprinkler Dormitory Act. This law requires the installation of fire sprinkler systems in the dormitories of all post-secondary educational institutions by 2013. The Pastoral Center estimates that approximately \$5,000 would be required to install the sprinkler systems in the seminary dormitories in order to comply with this law.

13. FUNCTIONAL EXPENSES

The following is a summary of expenses by functional classification and reconciliation to total expenses for the years ended June 30, 2010 and 2009. Certain expenses in the summary include the allocation of depreciation expense:

	2010	2009
Program activities:		
Insurance and retirement benefits program	\$ 115,706	\$ 99,045
Food service	39,418	39,966
Ministerial services	20,059	18,354
Seminaries	14,610	11,991
Publications	<u>7,548</u>	<u>8,877</u>
Total program activities	197,341	178,233
Management and general expense (including depreciation)	30,549	31,867
Fund-raising and development expense	<u>1,920</u>	<u>3,093</u>
Total functional expenses	229,810	213,193
Deposits valuations	9,148	(11,233)
Parish and agency grants	16,894	14,549
Interest expense for deposits, line of credit, and change in value of gift annuities	3,083	3,443
Annual appeal rebates and uncollectible pledge provision	9,333	7,196
Provision for uncollectible loans and operating receivables	15,103	18,778
Annual appeal distributions	<u>640</u>	<u>640</u>
Total expenses	<u>\$ 284,011</u>	<u>\$ 246,566</u>

14. 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 rate) and the alternate one-month LIBOR rate, respectively.

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