Archdiocese of Chicago

Consolidated Financial Statements as of and for the
Years Ended June 30, 2017 and 2016, and
Independent Accountants’ Review Report

ARCHDIOCESE OF CHICAGO

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Deloitte.

Deloitte & Touche LLP
111 South Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

His Eminence Cardinal Blase J. Cupich
Archbishop of Chicago:

We have reviewed the accompanying consolidated financial statements of the Archdiocese of Chicago (the "Archdiocese"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Archdiocese's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

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

Deloitte & Touche LLP

March 27, 2018

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016
(Dollars in thousands)

ASSETS	2017	2016
CASH AND CASH EQUIVALENTS	$ 227,420	$ 200,040
RESTRICTED CASH	13,054	11,542
INVESTMENTS	1,800,373	1,645,613
RECEIVABLES:		
Notes, accounts, and pledges receivable—net	246,609	216,849
Cemetery installment contracts	40,598	39,186
Total receivables	287,207	256,035
CEMETERY PROPERTY—Ready and available for use	56,095	57,205
LAND, BUILDINGS, AND EQUIPMENT:		
Undeveloped realty	25,719	26,756
Land	245,497	243,401
Buildings and equipment	2,642,207	2,578,205
Construction in progress	2,419	4,650
Total land, buildings, and equipment	2,915,842	2,853,012
Less accumulated depreciation	(1,604,348)	(1,541,417)
Land, buildings, and equipment—net	1,311,494	1,311,595
OTHER ASSETS	42,246	42,313
TOTAL	$ 3,737,889	$ 3,524,343

LIABILITIES AND NET ASSETS	2017	2016
LIABILITIES:		
Accounts payable and accrued expenses	$ 217,797	$ 219,563
Deferred revenue	182,798	178,042
Deposits	3,529	2,836
Borrowings (less debt issuance costs of $2,091 and $1,757, respectively)	204,786	168,595
Insurance claims	133,710	167,108
Unearned rental income	16,167	16,371
Accrued pension cost	188,867	218,520
Postretirement liabilities	203,316	205,785
Asset retirement obligations	73,951	72,800
Accrued cemetery maintenance costs	496,001	486,159
Refundable grant advances	154,895	154,895
Total liabilities	1,875,817	1,890,674
NET ASSETS:		
Unrestricted—undesignated	(168,919)	(165,473)
Unrestricted—designated	1,804,249	1,587,871
Temporary restricted	162,439	152,243
Permanently restricted	64,303	59,028
Total net assets	1,862,072	1,633,669
TOTAL	$ 3,737,889	$ 3,524,343

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

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)
(Dollars in thousands)

	2017				2016
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
REVENUES:					
Parishes:					
Collections and activities	$ 320,587	$ -	$ -	$ 320,587	$ 315,688
Tuition and related fees	299,659			299,659	308,871
Charitable activities:					
Program services	225,482			225,482	236,012
Fund appeals and bequests	83,673	16,706	271	100,650	88,403
Cemeteries sales and services	52,519			52,519	50,498
Archdiocesan Pastoral Center	91,255	3,269	3,053	97,577	99,052
PRMAA	3,661			3,661	1,740
Annual Catholic Appeal	16,119			16,119	14,769
TTWCI campaign revenue	3,630	14,313		17,943	40,759
Investment income	20,113	45	357	20,515	21,691
Other	6,275		(130)	6,145	6,829
Net assets released from restrictions	34,474	(34,474)			
Total revenues	1,157,447	(141)	3,551	1,160,857	1,184,312
EXPENSES:					
Parishes:					
School programs	310,239			310,239	330,270
General operations	298,639			298,639	280,503
Charitable activities	312,744			312,744	317,907
Cemeteries	53,654			53,654	53,091
Archdiocesan Pastoral Center	132,487			132,487	144,540
PRMAA	14,567			14,567	12,949
Annual Catholic Appeal fundraising expenses	1,275			1,275	1,610
Depreciation and accretion	67,064			67,064	66,498
Interest expense	10,416			10,416	8,049
Total expenses	1,201,085	-	-	1,201,085	1,215,417
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	(43,638)	(141)	3,551	(40,228)	(31,105)

(Continued)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)
(Dollars in thousands)

	2017				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**2016 Total**
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	$ (43,638)	$ (141)	$ 3,551	$ (40,228)	$ (31,105)
NET INVESTMENT RETURN	140,910	5,899	1,724	148,533	(61,685)
NET GAINS ON PROPERTY SALES	15,231			15,231	8,706
PARISH BUILDING FUND REVENUES		4,438		4,438	4,387
TTWCI REVENUES	77,272			77,272	76,155
CHANGE IN FUTURE CEMETERY CARE COSTS	(9,842)			(9,842)	(67,528)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	21,734			21,734	(76,007)
POSTRETIREMENT-RELATED CHANGES OTHER THAN NET PERIODIC POSTRETIREMENT COSTS	11,265			11,265	(10,644)
CHANGE IN NET ASSETS	212,932	10,196	5,275	228,403	(157,721)
NET ASSETS—Beginning of year	1,422,398	152,243	59,028	1,633,669	1,791,390
NET ASSETS—End of year	$ 1,635,330	$ 162,439	$ 64,303	$ 1,862,072	$ 1,633,669

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

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(Dollars in thousands)

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUES:				
Parishes:				
Collections and activities	$ 315,688	$ -	$ -	$ 315,688
Tuition and related fees	308,871			308,871
Charitable activities:				
Program services	236,012			236,012
Fund appeals and bequests	74,724	12,207	1,472	88,403
Cemeteries sales and services	50,498			50,498
Archdiocesan Pastoral Center	98,550	376	126	99,052
PRMAA	1,740			1,740
Annual Catholic Appeal	14,769			14,769
TTWCI campaign revenue	40,759			40,759
Investment income	20,723	58	910	21,691
Other	6,880		(51)	6,829
Net assets released from restrictions	29,467	(29,467)		
Total revenues	1,198,681	(16,826)	2,457	1,184,312
EXPENSES:				
Parishes:				
School programs	330,270			330,270
General operations	280,503			280,503
Charitable activities	317,907			317,907
Cemeteries	53,091			53,091
Archdiocesan Pastoral Center	144,540			144,540
PRMAA	12,949			12,949
Annual Catholic Appeal fundraising expenses	1,610			1,610
Depreciation and accretion	66,498			66,498
Interest expense	8,049			8,049
Total expenses	1,215,417	-	-	1,215,417
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	(16,736)	(16,826)	2,457	(31,105)

(Continued)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(Dollars in thousands)

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	$ (16,736)	$ (16,826)	$ 2,457	$ (31,105)
NET INVESTMENT RETURN	(58,282)	(2,444)	(959)	(61,685)
NET GAINS ON PROPERTY SALES	8,706			8,706
PARISH BUILDING FUND REVENUES		4,387		4,387
TTWCI REVENUES	76,155			76,155
CHANGE IN FUTURE CEMETERY CARE COSTS	(67,528)			(67,528)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(76,007)			(76,007)
POSTRETIREMENT-RELATED CHANGES OTHER THAN NET PERIODIC POSTRETIREMENT COSTS	(10,644)			(10,644)
CHANGE IN NET ASSETS	(144,336)	(14,883)	1,498	(157,721)
NET ASSETS—Beginning of year	1,566,734	167,126	57,530	1,791,390
NET ASSETS—End of year	$ 1,422,398	$ 152,243	$ 59,028	$ 1,633,669

See independent accountants’ review report and notes to consolidated financial statements. (Concluded)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(Dollars in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 228,403	$ (157,721)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in defined benefit pension and postretirement plans other than periodic pension and postretirement expense	(32,999)	86,651
Change in future cemetery care costs	9,842	67,528
Net gains on property sales	(15,232)	(8,706)
Net investment return	(148,533)	61,685
Depreciation and accretion	67,090	66,498
Permanently restricted contributions and contributions for parish property	(3,324)	(21,303)
Other	(2,589)	(2,824)
Changes in assets and liabilities:		
Receivables	(31,172)	(59,696)
Cemetery property ready and available for use	1,110	(123)
Other assets	67	191
Deposits and accounts payable and accrued expenses	(626)	(1,546)
Deferred revenue	4,756	3,341
Insurance claims	(33,398)	(1,519)
Unearned rental income	(204)	(205)
Asset retirement obligations	159	100
Accrued pension and postretirement costs	877	5,518
Net cash provided by operating activities	44,227	37,869
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	466,161	366,968
Purchases of investments	(471,496)	(382,052)
Proceeds from sales of property	20,446	14,835
Purchases of land, buildings, and equipment	(69,961)	(47,374)
Other	(1,512)	1,270
Net cash used in investing activities	(56,362)	(46,353)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of borrowings	(11,309)	(4,343)
Issuance of borrowings	47,500	2,000
Permanently restricted contributions and contributions for parish property	3,324	21,303
Net cash provided by financing activities	39,515	18,960
CHANGE IN CASH AND CASH EQUIVALENTS	27,380	10,476
CASH AND CASH EQUIVALENTS—Beginning of year	200,040	189,564
CASH AND CASH EQUIVALENTS—End of year	$ 227,420	$ 200,040
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 8,932	$ 8,726
Accounts payable for construction and fixed asset purchases	$ 1,034	$ 1,367

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

1. NATURE OF OPERATIONS

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Subsequent Events—The Archdiocese evaluated subsequent events through March 27, 2018, the date the consolidated financial statements were available for issuance.

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

Temporarily restricted net assets as of June 30, 2017 and 2016, are available for the following purposes:

	2017	**2016**
Time-restricted contributions	$ 2,961	$ 1,591
Program operations (including other endowments)	61,133	45,633
Capital development	97,195	103,819
Other	1,150	1,200
	$162,439	$152,243

Permanently restricted net assets are donated with stipulations that they be invested to provide a permanent source of income (e.g., endowment funds); such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose.

Permanently restricted net assets as of June 30, 2017 and 2016, are available for the following purposes:

	2017	2016
Seminary Endowment Fund	$20,208	$17,155
Mercy Home Scholarships	21,230	21,050
Misericordia Endowment	15,696	13,544
Other	7,169	7,279
	$64,303	$59,028

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

Restricted Cash—Restricted cash includes amounts included in a separate bank account for the benefit of lenders for debt service in accordance with a debt agreement.

Investments—Investments are carried at fair value.

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

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

Investments also include interest receivable on investments of $132 and $219 as of June 30, 2017 and 2016, respectively.

Capital Campaign—The To Teach Who Christ Is (TTWCI) capital fundraising campaign is an effort to raise $350,000 in funds to support parishes, Catholic education and faith formation initiatives over a five year period. The campaign is being managed in two distinct areas: a major gift portion with a fundraising goal of $100,000 and a parish phase seeking $250,000. Within the parish phase, 60% of the goal amount ($150,000) will be retained at parishes for parish specific needs; 40% ($100,000) will be allocated to Archdiocese level needs. Overall, the campaign is expected to provide $150,000 for parishes, $150,000 for a scholarship endowment, $30,000 for urgent capital repairs, $12,000 for religious education programs, and $8,000 for academic excellence in Catholic schools. An independent trust has been established to oversee and manage the scholarship endowment.

TTWCI revenue for the Pastoral Center is presented as a component of total revenues on the consolidated statement of activities. Since TTWCI revenue for Parishes will primarily be used to address their capital needs, TTWCI revenue for Parishes is presented as an Other Item on the consolidated statement of activities. TTWCI expenses are included in Archdiocesan Pastoral Center expenses in the consolidated statements of activities and were $15,479 and $11,180 in 2017 and 2016, respectively.

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

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

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

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

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

Asset Impairment—The Archdiocese reviews long-lived assets for impairment by comparing the future cash flows expected from the asset to the carrying value of the asset. The Archdiocese did not record an impairment loss on long-lived assets in 2017 or 2016.

Accrued Cemetery Maintenance—Accrued cemetery maintenance costs represents the liability for the estimated cost to maintain the Cemeteries' existing graves and crypts in the future, discounted to present value. For this estimate, the discount rates used for the years ended June 30, 2017 and 2016, are 4.26% and 4.29%, respectively, and current maintenance costs are assumed to escalate 2.00% and 2.03% for 2017 and 2016, respectively. The undiscounted estimated costs may vary materially from actual future costs. Annually, management updates its estimates and assumptions, including the discount rate. Any change in the present value of the estimated future costs is recorded in the year such change is made. Such changes may be material to the consolidated financial statements.

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

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

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

During 2017 and 2016, the Pastoral Center settled several legal claims related to allegations of past sexual misconduct by priests with settlements totaling $40,973 and $15,080, respectively.

Asset Retirement Obligations—Management records all known asset retirement obligations for which the fair value can be reasonably estimated. A liability is initially recorded at fair value if the fair value of the obligation to retire an asset can be reasonably estimated.

Unearned Rental Income—In May 2008, the CBC executed a land lease agreement for the site of the then Pastoral Center operational headquarters building. The lease has a term of 99 years commencing January 1, 2009, and gives the tenant the right to renew the term of the lease for two additional 25-year periods. The agreement allows for escalating rental payments during each rent adjustment year. In addition, base rent will be adjusted annually by a factor of the percentage increase in the Consumer Price Index, not to exceed 5% annually, commencing with the third lease year. The tenant made an initial rent payment of $18,000 at the inception of the agreement, which will be recognized on a straight-line basis over the 99-year lease term.

Refundable Grant Advances—Development and construction are being or have been substantially funded under non-interest-bearing mortgage agreements with the U.S. Department of Housing and Urban Development (HUD). The residences are not required to make principal or interest payments on the mortgage notes, provided they maintain housing in accordance with the Capital Advance Program Use and Regulatory Agreements. If all requirements continue to be met, the grant advances will be considered earned between 40 and 55 years or an earlier date if approved by HUD. The refundable grant advances are collateralized by the residences' property and equipment associated with the advance.

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

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

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

Gift annuity 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 Archdiocese over the calculated annuity payable is recorded as contributions.

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

Accounting Standards Updates (ASUs) Adopted -In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU No. 2015-03. During fiscal year 2017, management adopted the provisions of ASU No. 2015-03 and retrospectively applied the provisions to the fiscal year 2016 consolidated financial statements. As a result of the retrospective application of these provisions to fiscal year 2016, $1,757 of bond issuance costs were removed from other assets and included with borrowings on the consolidated statement of financial position as of June 30, 2016.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU No. 2015-07 addresses the diversity in practice related to how certain investments measured at net asset value with future redemption dates are categorized, the amendments in this ASU remove the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limits disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. ASU No. 2015-07 is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Management has early adopted ASU No. 2015-07 effective for the year ended June 30, 2017. Fiscal year 2016 disclosures have been restated to reflect the implementation of the new guidance retrospectively, as required by the ASU. See Notes 8 and 9 for further detail. The new guidance amended disclosure requirements and did not have any impact on the consolidated statements of financial position, consolidated statements of activities, or consolidated statements of cash flows for the years presented.

ASUs Issued Not Yet Adopted—In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 creates Topic 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*. ASU No. 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer and indicates an entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU No. 2015-14 deferred the effective date of ASU No. 2014-09. ASU No. 2014-09 is now effective for the Archdiocese beginning on July 1, 2019. Management has not yet determined the impact adopting this new guidance will have on their consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. ASU No. 2016-02 is effective for the Archdiocese beginning on July 1, 2020. Management has not yet determined the impact adopting this new guidance will have on their consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. ASU No 2016-13 is effective for the Archdiocese beginning on July 1, 2021. Management has not yet determined the impact adopting this new guidance will have on their consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. ASU No. 2016-14 reexamines existing standards for financial statement presentation by not for profit entities (NFP), focusing on improving net asset classification requirements and information provided in financial statements and notes about liquidity, financial performance, and cash flows. The main provisions of this ASU include presenting on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, an NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions. Additionally, an NFP shall continue to present on the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting, but is no longer required to present or disclose the indirect method (reconciliation) if using the direct method. Furthermore, an NFP shall enhance disclosures about governing board imposed restrictions and liquidity. ASU No. 2016-14 is effective for the Archdiocese beginning on July 1, 2018. Management has not yet determined the impact on their consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU No. 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. ASU No. 2017-07 is effective for the Archdiocese beginning on July 1, 2019. Management has not yet determined the impact adopting this new guidance will have on their consolidated financial statements and disclosures.

3. INVESTMENTS

As of June 30, 2017 and 2016, the Archdiocese's investments consisted of the following:

	2017		2016	
Invested cash	17 %	$ 301,950	8 %	$ 126,983
Common stock and equity mutual funds	30	537,950	29	468,861
Fixed income securities and fixed income mutual funds	13	243,383	20	334,818
Alternative investments:				
Marketable alternative equity	31	562,406	30	490,789
Fixed income	1	7,613	4	69,896
Marketable energy and commodities	1	21,788	1	21,650
Real estate	2	31,830	2	29,830
Private equity	5	93,321	6	102,549
Total alternative investments	40	716,958	43	714,714
Total	100 %	$ 1,800,241	100 %	$ 1,645,376

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

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

As of June 30, 2017 and 2016, investments are held by the following entities:

	2017	2016
Cemeteries	$ 609,794	$ 560,035
Pastoral Center	190,853	172,409
Pastoral Center—on behalf of Parishes	104,424	97,662
Pastoral Center—on behalf of seminaries	72,917	69,423
Misericordia	564,877	498,771
Maryville	65,077	65,520
Charities	82,680	77,575
Mercy	104,442	98,411
PRMAA	5,177	5,570
Total	$ 1,800,241	$ 1,645,376

Net investment income and return for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Investment income—interest and dividends	$ 20,341	$ 22,722
Investment return:		
Realized gains—net	41,382	49,273
Change in unrealized gains/losses—net	107,151	(110,958)
Investment income and return	$ 168,874	$ (38,963)

4. PARISHES

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

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

Expenses—General Operations—For the years ended June 30, 2017 and 2016, the summary of the general operations, other than for the school programs, prior to consolidation, eliminations, and reclassifications, is as follows:

	2017	2016
Salaries, wages, and benefits	$137,992	$130,532
Utilities, repairs, and insurance	93,377	86,071
Religious education (CCD)—including salaries and expenses	19,747	19,684
Other expenses—including administrative, depreciation, church and rectory operating costs	120,990	117,370
Total expenses—general operations	$372,106	$353,657

Each parish pays an annual assessment to the Pastoral Center for continuing Archdiocesan programs. Ordinary income is the main factor considered in arriving at the individual assessments. The assessment is used to support the activities of the Pastoral Center and amounted to $25,243 and $25,179 in 2017 and 2016, respectively. This assessment is eliminated in the consolidated financial statements.

Expenses—School Programs—As of June 30, 2017, the Archdiocese and Parishes operated 176 elementary schools and four high schools. A summary of school programs expenses for the years ended June 30, 2017 and 2016, prior to consolidation, eliminations, and reclassifications is as follows:

	2017	2016
Salaries, wages, and benefits	$ 261,020	$270,704
Utilities, repairs, and insurance	16,225	24,138
Books and instructional materials	12,305	13,226
Depreciation and other expenses	33,783	35,698
Total expenses—school programs	$ 323,333	$343,766

Expenses exceeded school revenues (tuition and related fees) by $23,674 and $34,895 in 2017 and 2016, respectively. These excess costs were financed from general parish revenues and reserves, special fundraising activities, and grants from the Archdiocese. The data above does not include seven private elementary schools and 30 private high schools within Cook and Lake counties of Illinois operated by various religious orders.

5. LAND, BUILDINGS, AND EQUIPMENT

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

Undeveloped realty as of June 30, 2017 and 2016, consists of the following sites for future development:

	2017	2016
Future parish sites	$ 7,404	$ 9,838
Cemeteries	18,315	16,918
	$25,719	$26,756

In addition to undeveloped realty, the Archdiocese had land, buildings, and equipment as of June 30, 2017, as follows:

	Land	Buildings and Equipment	Construction in Progress	Accumulated Depreciation	Total
Parishes	$ 162,569	$ 1,909,208	$ -	$ (1,235,244)	$ 836,533
Charitable activities	51,190	458,813	2,419	(204,724)	307,698
Pastoral Center	24,986	204,948		(126,603)	103,331
Cemeteries	6,752	69,238		(37,777)	38,213
Total	$ 245,497	$ 2,642,207	$ 2,419	$ (1,604,348)	$ 1,285,775

In addition to undeveloped realty, the Archdiocese had land, buildings, and equipment as of June 30, 2016, as follows:

	Land	Buildings and Equipment	Construction in Progress	Accumulated Depreciation	Total
Parishes	$ 162,569	$ 1,863,335	$ -	$ (1,191,596)	$ 834,308
Charitable activities	49,094	451,034	4,555	(192,930)	311,753
Pastoral Center	24,986	195,796		(121,141)	99,641
Cemeteries	6,752	68,040	95	(35,750)	39,137
Total	$ 243,401	$ 2,578,205	$ 4,650	$ (1,541,417)	$ 1,284,839

Depreciation expense for the years ended June 30, 2017 and 2016, was $67,064 and $66,498, respectively.

6. BORROWINGS

A summary of borrowings as of June 30, 2017 and 2016, is as follows:

	2017	2016
Pastoral Center $100,000 notes payable, due April 25, 2032, interest rate is fixed at 5.14%	$ 83,630	$ 87,247
Pastoral Center $60,000 notes payable, due October 2, 2024, interest rate is fixed at 5.85%	60,000	60,000
Pastoral Center $75,000 term loan, due January 18, 2022, interest rate is 1 month LIBOR plus 165bps (2.71% at June 30, 2017)	42,000	
Catholic Charities revenue refunding bond: Series 2014, loan payable to Wintrust Bank, due January 1, 2028, interest rate adjusted monthly, weighted-average interest rate 1.46% in 2017 and 1.19% in 2016	10,070	10,070
Porta Coeli note payable to City of Chicago, due in a lump sum on December 1, 2054, interest free	760	760
St. Sabina note payable to City of Chicago, due in a lump sum on June 1, 2039, interest free	388	388
All Saints note payable to City of Chicago, due in a lump sum on December 2, 2052, interest free	893	893
Catholic Charities note payable to Sisters of Saint Casimir, due in annual installments through December 1, 2034, interest free	3,600	3,800
Catholic Charities note payable to Illinois Facilities Fund, due 2023, interest rate 4.3%	507	579
Catholic Charities mortgages payable to HUD due in equal monthly installments through 2033, interest rate 8.375%	4,823	4,971
Catholic Charities mortgages payable to Illinois Housing Development Authority, due in equal monthly installments, with additional principal payments required based on residual receipts, interest free	997	1,012
Mercy Home line of credit payable, due December 10, 2016, interest rate is 3 month LIBOR plus 2%		1,500
	207,668	171,220
Less discount of interest free note payable	(791)	(868)
	$ 206,877	$ 170,352

On January 18, 2017, the Pastoral Center entered into a term loan agreement involving two lenders. The new credit agreement consists of a $75,000 term loan facility with an interest rate of 1-month London Interbank Offered Rate (LIBOR) plus 165 basis points and final maturity date of January 18, 2022. In fiscal 2017, the Pastoral Center drew $42,000 of the available $75,000.

Principal payments as of June 30, 2017, are due as follows:

Years Ending June 30	
2018	$ 4,243
2019	4,462
2020	4,689
2021	10,555
2022	51,560
Thereafter	132,159
Total	$207,668

Debt Covenants—The Pastoral Center, along with Cemeteries, and Charities are required to meet certain debt covenants related to minimum liquidity levels and investment-to-debt ratios. The Pastoral Center, along with Cemeteries, and Charities were in compliance with financial debt covenants at June 30, 2017 and 2016.

Deferred Debt Issuance Costs— Expenses related to the procurement and underwriting of the direct obligation notes and revenue bonds have been deferred and are being amortized. These costs, net of accumulated amortization are $2,091 and $1,757 as of June 30, 2017 and 2016, respectively, and are recorded as a reduction in borrowings in the consolidated statements of financial position.

7. REFUNDABLE GRANT ADVANCES

Under the terms of the federally funded program, Catholic Charities received certain HUD Supportive Housing for the Elderly (Section 202) grant advances and Affordable Housing Project Loans.

Total advances as of June 30, 2017 and 2016, were as follows:

Project	Advance 2017	Advance 2016	End of Commitment
Matthew Manor	$ 4,016	$ 4,016	December 2035
Tolton Manor	5,515	5,515	July 2036
Frances Manor	4,823	4,823	April 2037
Lawrence Manor	8,215	8,215	October 2039
Bernardin Manor	13,990	13,990	June 2040
St. Ailbe Faith Apartments	6,836	6,836	July 2040
St. Sabina Elders Village	6,728	6,728	September 2040
St. Ailbe Hope Apartments	814	814	March 2041
Ozanam Village Apartments	5,152	5,152	May 2041
St. Ailbe Love Apartments	6,300	6,300	February 2042
St. Peter Claver Courts	7,749	7,749	March 2043
Bishop Goedert Residence	9,592	9,592	December 2044
St. Vincent De Paul Residence	10,891	10,891	November 2045
Donald W. Kent Residence	8,975	8,975	January 2046
Pope John Paul II Residence	2,253	2,253	September 2046
Roseland Manor	912	912	March 2047
St. Francis of Assisi Residence	11,319	11,319	November 2047
Hayes Manor	631	631	June 2048
St. Brendan Apartments	8,828	8,828	July 2060
All Saints Residence	7,017	7,017	November 2052
Porta Coeli Residence	14,357	14,357	November 2054
Total HUD grant advances	144,913	144,913	
Affordable housing project loans	9,982	9,982	Various through 2060
Total refundable grant advances	$154,895	$154,895	

8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Investments Using Net Asset Value—As discussed in Note 2, the Archdiocese adopted the provisions of ASU No. 2015-07 in fiscal year 2017 with retrospective application to fiscal year 2016 disclosures. In presenting the investments fair value hierarchy tables as of June 30, 2016 to comply with the adoption of ASU No. 2015-07, the investment holdings in alternative investments of $714,714 were removed from Level 2 and Level 3 within the fair value hierarchy to being reported under assets measured at net asset value, or its equivalent, ("NAV") as the practical expedient.

Assets Measured at Fair Value—Assets measured at fair value on a recurring basis as of June 30, 2017 and 2016, are summarized below:

2017	**Level 1**	**Level 2**	**Level 3**	**Assets Measured at NAV**	**Total**
Invested cash	$ 301,950	$ -	$ -	$ -	$ 301,950
Common stock and equity mutual funds	517,999	19,951			537,950
Fixed income securities and fixed income mutual funds	73,628	169,744	11		243,383
Alternative investments:					
Marketable alternative equity				562,406	562,406
Fixed income				7,613	7,613
Marketable energy and commodities				21,788	21,788
Real estate				31,830	31,830
Private equity				93,321	93,321
Total alternative investments	-	-	-	716,958	716,958
Total	$ 893,577	$ 189,695	$ 11	$ 716,958	$ 1,800,241

2016	Level 1	Level 2	Level 3	Assets Measured at NAV	Total
Invested cash	$ 126,983	$ -	$ -	$ -	$ 126,983
Common stock and equity mutual funds	452,787	16,074			468,861
Fixed income securities and fixed income mutual funds	159,741	175,066	11		334,818
Alternative investments:					
Marketable alternative equity				490,789	490,789
Fixed income				69,896	69,896
Marketable energy and commodities				21,650	21,650
Real estate				29,830	29,830
Private equity				102,549	102,549
Total alternative investments	-	-	-	714,714	714,714
Total	$ 739,511	$ 191,140	$ 11	$ 714,714	$ 1,645,376

The balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of June 30, 2017 and 2016 was $11. There were no purchases, sales, or realized gains or losses for the years ended June 30, 2017 and 2016, nor were there any changes in net assets attributable to the change in unrealized gains related to assets held at June 30, 2017 and 2016. The Archdiocese of Chicago did not transfer any investments between levels within the general investment portfolio.

A summary of the nature and risk of the Archdiocese's alternative investments by major category as of June 30, 2017 and 2016, is as follows:

2017	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Side Pocket Investments [f]	Lockups/ Gates
Marketable alternative equity [a]	$562,406	$ -	1 day–36 months	1–120 days	$2,325	1/3 annually rolling
Fixed income [b]	7,613		1–12 months	10–65 days		1/3 annually rolling
Marketable energy and commodities [c]	21,788		1–12 months	22–90 days		1/3 annually rolling
Real estate [d]	31,830	9,595	Monthly	>90 days		2–6 years
Private equity [e]	93,321	57,267	N/A	N/A		N/A
Total	$716,958	$66,862			$2,325	

2016	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Side Pocket Investments [f]	Lockups/ Gates
Marketable alternative equity [a]	$490,789	$ -	1 day–36 months	1–120 days	$183	1/3 annually rolling
Fixed income [b]	69,896		1–12 months	10–65 days		1/3 annually rolling
Marketable energy and commodities [c]	21,650		1–12 months	22–90 days		1/3 annually rolling
Real estate [d]	29,830		Monthly	>90 days		2–6 years
Private equity [e]	102,549	43,332	N/A	N/A		N/A
Total	$714,714	$43,332			$183	

[a] 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.

[b] Fixed income alternative investments are comprised of hedge funds investments that 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 that invest in marketable securities of the energy and commodity sectors.

[d] Private equity includes investments in limited partnerships and private equity funds primarily invested in oil and gas, natural gas, and real estate. These investments are not redeemable periodically at the discretion of the investor. Instead, the nature of the investments in this category is that distributions are received through the general partner's liquidation of the underlying assets of the fund. It is estimated that the underlying assets of these funds will be liquidated in 7 to 15 years.

[e] The Archdiocese may participate in side pocket investments, either at the Archdiocese's discretion or that of the investment adviser who manages the investment fund in which the Archdiocese invests. A side pocket investment is generally less liquid than others in an investment fund and will be subject to different terms and conditions, including more significant restrictions on redemptions.

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

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

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

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

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

Marketable alternative equity investments are composed of investments in fund of funds and hedge funds. The marketable alternative equity investments that can be redeemed at NAV are categorized in "Assets Measured at NAV" 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 composed of hedge fund investments. The fixed-income alternative investments that cannot be redeemed at the NAV are categorized in "Assets Measured at NAV" 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 investments are investments in marketable alternative equity fund of funds and hedge funds. The marketable energy and commodities investments that can be redeemed at NAV are categorized in "Assets Measured at NAV" 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.

Real estate alternative investments are comprised of investments in diversified real estate funds. Real estate alternative investments that can be redeemed at NAV are categorized in "Assets Measured at NAV" 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 not redeemable and distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next ten years. Private equity investments that can be redeemed at NAV or its equivalent are categorized in "Assets Measured at NAV" 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.

9. EMPLOYEE BENEFITS

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

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

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

The Pastoral Center has a defined contribution plan under Internal Revenue Code Section 403(b), which includes an employer matching contribution. The matching contribution is available to all lay benefits-eligible employees of the Pastoral Center, Parishes, and certain other Archdiocesan entities. The employer match is 50% of an employee's contribution, up to a maximum of 2% of gross salary. Vesting in the match occurs at 25% per year. The Archdiocese contributed to the plan and incurred expense of $4,447 and $4,025 in 2017 and 2016, respectively.

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

Share plan contributions for employees who became eligible or were hired on or after July 1, 2007, 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 Archdiocese contributed to the plan and incurred expense of $11,814 and $12,470 in 2017 and 2016, respectively.

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

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

Effective July 1, 2016, the plan was amended and no employees hired after June 30, 2016 will be eligible to participate in the plan. Effective May 2, 2017, the plan was additionally amended to remove the lump sum death benefit. This change resulted in a reduction of the pension obligation by $1,286.

Charities has a defined contribution plan under Internal Revenue Service Code Section 403(b) covering all new employees hired after July 1, 2002, as well as employees hired before July 1, 2002, who have opted out of the postretirement medical and dental benefits plan. The eligibility guidelines are based on one year of service and employees who work at least 20 hours per week. Charities contributes 1% of all participants' compensation, plus matching contributions of 1.5% of the individual participant's compensation. Total employer contributions and expense for the years ended June 30, 2017 and 2016, were approximately $940 and $720, respectively.

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

Maryville sponsors a noncontributory defined benefit pension plan covering substantially all lay employees. The plan is funded through the plan trustee. The plan provides annual retirement benefits (over and above normal Social Security benefits) equal to 1.125% of average earnings within the last five years of service multiplied by the number of years of full-time service up to 15 years, plus 1.5% of average earnings, as defined above, multiplied by the number of years of service in excess of 15 years. Plan assets consist primarily of mutual funds and fixed income securities.

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

Mercy offers a 403(b) plan to all full-time and benefits-eligible employees of Mercy. The plan offers both a matching and a gift component to all eligible employees. There are separate vesting periods for the matching and gift components. Mercy made contributions and expensed $510 and $704 for the years ended June 30, 2017 and 2016, respectively.

PRMAA—In 1999, PRMAA established a defined contribution plan covering substantially all active priests. The plan operates as a deferred salary arrangement under Section 403(b) of the Internal Revenue Code. Under the plan, participating priests may defer a portion of their pretax earnings. PRMAA matches 50% of each priest's contributions up to a maximum matching contribution of $0.5; however, PRMAA's contributions are discretionary. PRMAA's contributions to the plan and incurred expense for 2017 and 2016 were $0 and $533, respectively.

The Archdiocese sponsors, through PRMAA, a defined benefit pension plan covering all the priests of the Archdiocese. The pension plan provides a flat benefit that varies depending on whether the retired priest resides in an ecclesiastical institution. The plan is funded based on actuarial funding determinations. Plan assets primarily consist of equity mutual funds and marketable alternative equity investments. Plan expenses are borne by the pension plan.

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

Summary information for all plans as of June 30, 2017 and 2016, is as follows:

	2017		2016	
	Pension Benefits	**Postretirement Benefits**	**Pension Benefits**	**Postretirement Benefits**
Accumulated benefit obligation	$1,138,952	$ 207,441	$1,154,672	$ 202,231
Projected benefit obligation	$1,138,952	$ 207,441	$1,185,845	$ 209,897
Plan assets at fair value	950,085	4,125	967,325	4,112
Funded status	$ (188,867)	$(203,316)	$ (218,520)	$(205,785)
Accrued benefit cost	$ (188,867)	$(203,316)	$ (218,520)	$(205,785)
Amounts recognized in the combined statements of financial position—liability	$ (188,867)	$(203,316)	$ (218,520)	$(205,785)
Benefit cost	$ 2,378	$ 15,137	$ 4,594	$ 14,867
Employer contributions	$ 10,295	$ 6,462	$ 8,245	$ 5,853
Participant contributions	$ 218	$ 487	$ 223	$ 374
Medicare Part D subsidy	$ -	$ 303	$ -	$ 206
Benefits paid	$ (51,376)	$ (6,912)	$ (51,777)	$ (6,066)

The pension and postretirement plans accumulated losses and prior service credits not yet recognized as a component of periodic pension and postretirement expense but accumulated in unrestricted net assets for the years ended June 30, 2017 and 2016, are as follows:

	Pension Benefits		Postretirement Benefits	
	2017	**2016**	**2017**	**2016**
Unrecognized actuarial loss	$183,797	$204,379	$60,117	$63,055
Unrecognized prior service cost (credit)	(1,622)	(470)	(9,801)	(1,474)
Total accumulated in unrestricted net assets	$182,175	$203,909	$50,316	$61,581

An estimated $137 in prior service costs and $8,342 in net actuarial loss will be included as components of periodic pension expense in 2017. An estimated $435 in prior service costs and $2,881 in net actuarial loss will be included as components of periodic postretirement expense in 2017.

The pension plans and postretirement plans items not yet recognized as a component of periodic pension and postretirement expense, but included as a separate charge to net assets during 2017 and 2016, are as follows:

	Pension Benefits		Postretirement Benefits	
	2017	**2016**	**2017**	**2016**
Actuarial (gain) loss arising during the year	$(14,057)	$ 80,538	$ (9,370)	$12,096
Curtailment gain				
Reclassification adjustment for recognition of prior service (cost) credit	(4,306)	(2,621)	551	437
Reclassification adjustment for recognition of actuarial loss	(3,371)	(1,910)	(2,446)	(1,889)
Total recognized as a separate charge (credit) to net assets	$(21,734)	$ 76,007	$(11,265)	$10,644

Actuarial assumptions for the plans as of June 30, 2017 and 2016, are as follows:

	2017		2016	
	Pension Benefits	**Postretirement Benefits**	**Pension Benefits**	**Postretirement Benefits**
Range of weighted-average assumptions used to determine benefit obligations and cost as of June 30:				
Discount rate (obligation)	3.80-3.90%	3.59-4.10%	3.53–3.90%	3.18–4.00%
Discount rate (cost)	3.53-3.90	3.18-4.00	4.38–4.60	4.11–4.70
Expected return on plan assets	6.00-8.00	0-5.00	6.00–8.00	0–4.00
Rate of compensation increase	0-4.00	0–4.00	0–4.00	0–4.00

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

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

The Archdiocese plans to contribute $6,447 to the pension plans and $4,636 to the postretirement plans in 2018.

The benefit payments, which reflect expected future services, as appropriate, as of June 30, 2017, are expected to be paid as follows:

Years Ending June 30	Pension Benefits	Postretirement Benefits
2018	$ 56,068	$ 7,085
2019	52,974	7,519
2020	54,598	7,915
2021	56,505	8,314
2022	58,279	8,787
2023–2027	309,755	53,638

For measurement purposes, a 8% and 8.5% gross health care trend rate was used for 2017 and 2016, respectively. Trend rates were assumed to decrease gradually to 5% in fiscal year 2022 and remain at that level beyond.

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

This is accomplished through diversification of assets in accordance with the various investment policies. The pension plan assets are primarily invested in fixed-income securities. The pension assets also include invested cash, mutual funds, common stock, marketable alternative equity investments, and marketable alternative energy and commodity investments.

Invested cash includes money market mutual funds and is 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 if they have a published NAV and Level 2 of the fair value hierarchy if they do not have a published NAV.

Fixed-income securities are comprised of U.S. government securities, U.S. government agency securities, foreign government agency securities, foreign government securities, municipal bonds, and corporate bonds. The fair value of U.S. government securities, U.S. government agency securities, foreign government agency securities, foreign government securities, municipal bonds, and 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 fixed-income securities are generally categorized in Level 2 of the fair value hierarchy.

The commingled fund is an unregistered investment fund with a daily NAV that invests in large-cap companies located in the United States. This commingled fund allows investors to sell their interests with a one-day notice. Such commingled fund is categorized in Level 2 of the fair value hierarchy.

Marketable alternative equity investments are composed of investments in fund of funds and hedge funds. The marketable alternative equity investments that can be redeemed at NAV are categorized in "Assets Measured at NAV" 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 composed of hedge fund investments. The fixed-income alternative investments that cannot be redeemed at the NAV are categorized in "Assets Measured at NAV" 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 investments are investments in marketable alternative equity fund of funds and hedge funds. The marketable energy and commodities investments that can be redeemed at NAV are categorized in "Assets Measured at NAV" 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.

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

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

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

Repurchase agreements are short term borrowings that mature in three months or less, and as a result of this short-term nature, the estimated fair value equals the carrying value and have been categorized as a Level 2 fair value measurement. The pension plans pledge securities owned to collateralize these repurchase agreements.

As discussed in Note 2, the Archdiocese adopted the provisions of ASU No. 2015-07 in fiscal year 2017 with retrospective application to fiscal year 2016 disclosures. In presenting the Plan asset fair value hierarchy tables as of June 30, 2016 to comply with the adoption of ASU No. 2015-07, the investment holdings in alternative investments of $36,907 were removed from Level 2 and Level 3 within the fair value hierarchy to being reported under "Assets Measured at NAV".

The information about the Archdiocese's pension plan assets and liabilities measured at fair value as of June 30, 2017 and 2016, by fair value hierarchy, is as follows:

2017	**Level 1**	**Level 2**	**Level 3**	**Assets Measured at NAV**	**Total**
Assets:					
Invested cash	$ 30,023	$ -	$ -	$ -	$ 30,023
Common stock and equity mutual funds	57,360	144,626			201,986
Commingled fund		22,367			22,367
Fixed income:					
Corporate bonds		378,760			378,760
Municipal bonds		14,089			14,089
U.S. government agency		104,066			104,066
U.S. government		207,196			207,196
Total fixed income	-	704,111	-	-	704,111
Separate accounts:					
Equity		21,372			21,372
Fixed income alternative		15,569			15,569
Real estate		1,161			1,161
Total separate accounts	-	38,102	-	-	38,102
Alternative investments:					
Marketable alternative equity				35,969	35,969
Fixed income				151	151
Total alternative investments	-	-	-	36,120	36,120
Total pension plan assets	$ 87,383	$ 909,206	$	$ 36,120	1,032,709
Payable for investment purchase					(82,624)
Total fair value of pension plan net assets					$ 950,085

2016	Level 1	Level 2	Level 3	Assets Measured at NAV	Total
Assets:					
Invested cash	$ 6,622	$ -	$ -	$ -	$ 6,622
Common stock and equity mutual funds	55,167	138,452			193,619
Commingled fund		18,405			18,405
Fixed income:					
Corporate bonds		339,302			339,302
Municipal bonds		18,701			18,701
U.S. government agency		144,846			144,846
U.S. government		209,408			209,408
Total fixed income	-	712,257	-	-	712,257
Separate accounts:					
Equity		18,220			18,220
Fixed income alternative		12,123			12,123
Real estate		1,087			1,087
Total separate accounts	-	31,430	-	-	31,430
Alternative investments:					
Marketable alternative equity				29,951	29,951
Marketable energy and commodities				335	335
Fixed income				6,621	6,621
Total alternative investments	-	-	-	36,907	36,907
Total pension plan assets	$ 61,789	$ 900,544	$ -	$ 36,907	999,240
Liabilities—repurchase agreements	$ -	$ (20,872)	$ -	$ -	(20,872)
					978,368
Payable for investment purchase					(11,043)
Total fair value of pension plan net assets					$ 967,325

The information about the Archdiocese's postretirement plan assets measured at fair value as of June 30, 2017 and 2016, by fair value hierarchy, is as follows:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Invested cash and short-term investments	$ 202	$ -	$ -	$ 202
Equity mutual funds	2,408			2,408
Fixed income:				
Corporate bonds		583		583
U.S. government agency		385		385
U.S. government		547		547
Total fixed income	-	1,515	-	1,515
Total	$2,610	$1,515	$ -	$4,125

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Invested cash and short-term investments	$ 113	$ -	$ -	$ 113
Equity mutual funds	1,721			1,721
Fixed income:				
Corporate bonds		820		820
U.S. government agency		428		428
U.S. government		1,030		1,030
Total fixed income	-	2,278	-	2,278
Total	$1,834	$2,278	$ -	$4,112

10. NONCASH ASSISTANCE

During the years ended June 30, 2017 and 2016, Charities received certain food commodities with a value of approximately $4,065 and $3,867, respectively, under the terms of a federally funded program whereby Charities acts as a distributor. The receipt and subsequent distribution of these commodities are not shown as revenues or expenditures in the combined financial statements.

Charities recorded in-kind donations of gifts in the amount of $1,541 and $1,365 during the years ended June 30, 2017 and 2016, respectively, which it distributed to the families it serves

11. NET ASSETS

Net assets as of June 30, 2017, comprise the following:

	Unrestricted Undesignated	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Parishes	$ -	$ 772,398	$ 87,207	$ -	$ 859,605
Charitable activities		829,404	28,608	44,095	902,107
Cemeteries		19,040			19,040
Pastoral Center	(168,919)	52,621	46,624	20,208	(49,466)
PRMAA		(28,448)			(28,448)
Consolidating entries		159,234			159,234
Total	$ (168,919)	$ 1,804,249	$ 162,439	$ 64,303	$ 1,862,072

Net assets as of June 30, 2016, comprise the following:

	Unrestricted Undesignated	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Parishes	$ -	$ 727,289	$ 92,844	$ -	$ 820,133
Charitable activities		709,375	24,306	41,873	775,554
Cemeteries		(25,320)			(25,320)
Pastoral Center	(165,473)	47,793	34,482	17,155	(66,043)
PRMAA		(28,448)			(28,448)
Reclassifications		(611)	611		-
Consolidating entries		157,793			157,793
Total	$ (165,473)	$ 1,587,871	$ 152,243	$ 59,028	$ 1,633,669

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

12. ENDOWMENTS

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

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

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

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

Endowment net asset composition by type of fund as of June 30, 2017 and 2016, is as follows:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor—restricted funds	$ (105)	$14,766	$64,303	$ 78,964
Designated funds	613,414			613,414
Total funds	$613,309	$14,766	$64,303	$692,378

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor—restricted funds	$ 398	$14,452	$59,028	$ 73,878
Designated funds	527,474			527,474
Total funds	$527,872	$14,452	$59,028	$601,352

Changes in endowment net assets for the years ended June 30, 2017 and 2016, are as follows:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—beginning of year	$527,008	$14,452	$59,028	$600,488
Investment return:				
Dividend and interest income—net	9,233	457	507	10,197
Realized and unrealized gains/losses—net	47,002	4,264	1,585	52,851
Total investment return	56,235	4,721	2,092	63,048
Contributions and transfers	33,644	116	3,324	37,084
Appropriation of endowment assets for expenditures	(3,578)	(4,523)	(141)	(8,242)
Endowment net assets—end of year	$613,309	$14,766	$64,303	$692,378

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—beginning of year	$531,081	$16,207	$57,530	$604,818
Investment return:				
Dividend and interest income—net	11,201	585	1,075	12,861
Realized and unrealized gains/losses—net	(11,896)	(1,492)	(1,046)	(14,434)
Total investment return	(695)	(907)	29	(1,573)
Contributions	1,224	272	1,598	3,094
Appropriation of endowment assets for expenditures	(3,738)	(1,120)	(128)	(4,986)
Endowment net assets—end of year	$527,872	$14,452	$59,028	$601,352

Funds with Deficiencies—From time to time, the fair value of assets associated with individual donor permanently restricted funds may fall below the level that the donor or UPMIFA requires the Archdiocese to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and were $105 and $465 as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable investment performance due to unfavorable market conditions for the investments supporting the permanently restricted and designated funds during fiscal years 2017 and 2016.

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

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

Spending Policy and how the Investment Objectives Relate to Spending Policy—The 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 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.

Misericordia Home's investment committee has a policy that provides a spending goal of 5% of 12-quarter moving-average fair value of the portfolio as of March 31 each year. This formula is set as a base to determine the spendable earnings for the next fiscal year. It is at the discretion of Misericordia Home's investment committee to spend more or less than the annual percentage goal. Accordingly, the return objective for the endowment is to generate a long term (five-year) real return of 5%, (i.e., Consumer Price Index, plus 5%), annually. This return is based on income received, as well as capital appreciation (a total return emphasis). Significant emphasis is placed on capital protection throughout the investment process.

Charities has a policy of appropriating endowment distributions each year of up to 5% of a rolling three-year average of its board-designated endowment fund's average fair value. In establishing this policy, Charities considered the long term expected return on its board-designated endowment.

13. COMMITMENTS AND CONTINGENCIES

Cemeteries owns two landfills, which are the subjects of certain environmental remediation plans required by the Illinois Environmental Protection Agency. Both landfills have been closed for more than 25 years. The ultimate cost of the remediation has been shared by two parties, including Cemeteries, who is the owner, and an unrelated party who is the operator. While the owner and the operator have each engaged engineers to study the issues related to these sites and develop plans and estimates related to remediation, and remediation has begun, the future costs are only estimable within a wide range covering a period of more than 20 years. The engineering estimates for the total costs of remediation for both the owner and the operator are likely to fall in a range of $8,000 to $36,000. The accrued landfill liability balance related to the Cemeteries' landfill liability obligation was $17,000 and $18,600 as of June 30, 2017 and 2016, respectively, and includes compensation and litigation costs. The estimates will change in the future and are sensitive to factors, such as testing results, the success of current remediation efforts, technological developments in the field of environmental remediation, regulatory changes, and the continued participation of the operator in funding remediation.

In 2012, the operator informed Cemeteries that they will no longer share in the funding of remediation. During 2014, the Cemeteries and the operator reached an agreement whereby all interest in the escrow and operating accounts assets were assigned to the Cemeteries and the operator was released from all past and future claims. In order to demonstrate financial assurance that the funds necessary to meet the costs of post-closure care for the landfills will be available when needed, an irrevocable standby letter of credit has been secured in the amount of $1,800 for the benefit of the Illinois Environmental Protection Agency (IEPA). During 2016, the standby letter of credit was released as it was no longer required by the IEPA.

The Archdiocesan Finance Council and its Investment Committee oversee a pooled investment fund for various entities in the Archdiocese, including the Pastoral Center, Parishes, the Cemeteries, PRMAA, and certain charitable activities' agencies. The Pooled Investment Fund invests with a number of investment managers in various equity and fixed income products. A portion of the investments are in nonmarketable investments through limited partnerships. At any point in time, the Archdiocese has open commitments to fund additional capital calls to the limited partnerships. The aggregate amount of open commitments for the Pooled Investment Fund as of June 30, 2017 and 2016, is $41,172 and $43,332, respectively.

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

14. LEASES

Charities leases office space under conditional operating leases that generally contain rent escalation provisions. Rent expense under the leases is recognized based on straight-line amortization of total rent over the term of the lease. Rent expense of $5,781 and $5,636 was incurred for the years ended June 30, 2017 and 2016, respectively.

Future minimum rental expense related to this operating lease as of June 30, 2017, is as follows:

Years Ending June 30	
2018	$ 5,391
2019	4,096
2020	1,875
2021	946
2022	272
Thereafter	6,490
Total	$19,070

15. FUNCTIONAL EXPENSES

The summary of expenses by functional classification and reconciliation to total expenses for the years ended June 30, 2017 and 2016, is as follows:

	2017	2016
Program activities:		
Pastoral Center program activities	$ 70,777	$ 90,897
Cemetery services	49,392	49,637
Educational activities	323,333	344,500
Parish operations	330,159	311,554
Charitable activities programs	289,938	292,297
PRMAA expense	14,567	12,949
Total program activities	1,078,166	1,101,834
Fundraising and development expenses	30,796	28,925
Management and general expenses	81,067	75,969
Total functional expenses	1,190,029	1,206,728
Annual appeal distributions	640	640
Interest expense	10,416	8,049
Expenses—net	$ 1,201,085	$ 1,215,417

16. TAX-EXEMPT STATUS

The CBC, Charities, Maryville, Mercy, and Misericordia Home are tax-exempt organizations under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code.

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