

Archdiocese of Chicago

Consolidated Financial Statements
as of and for the Years Ended
June 30, 2007 and 2006, and
Independent Accountants' Review Report

ARCHDIOCESE OF CHICAGO

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated financial statements of the Archdiocese of Chicago as of June 30, 2007 and 2006, and for the years then ended, as listed in the foregoing table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of the Archdiocese of Chicago.

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

As discussed in Note 3 to the financial statements, the financial statements include investments valued at \$819,655,019 (27% of total assets) and \$712,920,195 (26% of total assets) as of June 30, 2007 and 2006, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. In addition, the defined benefit pension plan assets disclosed in Note 10 include investments of \$274,716,831 and \$442,349,622 as of June 30, 2007 and 2006, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

As discussed in Note 10 to the consolidated financial statements, effective June 30, 2007, the Archdiocese of Chicago adopted Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. In addition, as discussed in Note 2 to the consolidated financial statements, the Archdiocese of Chicago changed its method of accounting for conditional asset retirement obligations in 2006.

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

Deloitte & Touche LLP

December 14, 2007

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2007 AND 2006 (Amounts in thousands)

| | 2007 | 2006 | | 2007 | 2006 |
|--------------------------------------|-----------------------------|--------------------|---------------------------------------|--------------------|--------------------|
| ASSETS | | | LIABILITIES AND NET ASSETS | | |
| CASH AND CASH EQUIVALENTS: | | | LIABILITIES: | | |
| Parishes | \$ 83,249 | \$ 77,990 | Savings deposits | \$ 1,831 | \$ 1,421 |
| Other | <u>53,977</u> | <u>41,950</u> | Accounts payable and accrued expenses | 122,177 | 124,379 |
| Total cash and cash equivalents | <u>137,226</u> | <u>119,940</u> | Short-term borrowings | 17,403 | 16,623 |
| INVESTMENTS | <u>1,404,514</u> | <u>1,221,943</u> | Deferred revenue | 132,478 | 124,677 |
| RECEIVABLES: | | | Asset retirement obligations | 63,364 | 61,827 |
| Notes and accounts receivable — net | 88,031 | 99,769 | Accrued future care costs | 319,233 | 304,327 |
| Cemeteries installment contracts | <u>49,674</u> | <u>48,608</u> | Insurance claims | 100,451 | 88,826 |
| Total receivables | <u>137,705</u> | <u>148,377</u> | Accrued pension cost | 1,949 | 122,438 |
| PREPAID PENSION BENEFITS | <u> </u> | <u>1,700</u> | Postretirement liability | 109,193 | 76,091 |
| INTANGIBLE PENSION ASSET | <u> </u> | <u>3,086</u> | Refundable advances from HUD | 115,316 | 98,530 |
| UNSOLD GRAVES AND CRYPTS | <u>55,163</u> | <u>48,598</u> | Long-term borrowings | <u>28,512</u> | <u>38,915</u> |
| LAND, BUILDINGS, AND EQUIPMENT: | | | Total liabilities | <u>1,011,907</u> | <u>1,058,054</u> |
| Undeveloped realty | 20,439 | 20,720 | NET ASSETS (DEFICIENCY): | | |
| Held for sale | 591 | | Unrestricted — undesignated | 52,055 | (87,078) |
| Land, buildings, and equipment | 2,272,841 | 2,192,161 | Unrestricted — board designated | 1,827,680 | 1,724,241 |
| Less accumulated depreciation | <u>(1,054,319)</u> | <u>(995,618)</u> | Temporarily restricted | 101,433 | 82,972 |
| Land, buildings, and equipment — net | <u>1,239,552</u> | <u>1,217,263</u> | Permanently restricted | <u>18,276</u> | <u>17,512</u> |
| OTHER ASSETS | <u>37,191</u> | <u>34,794</u> | Total net assets | 1,999,444 | 1,737,647 |
| TOTAL | <u>\$3,011,351</u> | <u>\$2,795,701</u> | TOTAL | <u>\$3,011,351</u> | <u>\$2,795,701</u> |

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

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006) (Amounts in thousands)

| | 2007 | | | 2006 Total | |
|--|------------------|---------------------------|---------------------------|------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | Total |
| REVENUES: | | | | | |
| Parishes: | | | | | |
| Collections and activities | \$ 324,467 | \$ - | \$ - | \$ 324,467 | \$ 310,677 |
| Tuition and related fees | 271,649 | | | 271,649 | 262,293 |
| Charitable activities: | | | | | |
| Fund appeals and bequests | 69,634 | 12,500 | | 82,134 | 82,435 |
| Program services | 209,326 | | | 209,326 | 217,984 |
| Cemeteries sales and services | 41,153 | | | 41,153 | 39,928 |
| Archdiocesan Pastoral Center | 78,282 | 2,160 | 348 | 80,790 | 79,859 |
| PRMAA revenue | 1,346 | | | 1,346 | 1,542 |
| Annual Catholic Appeal | 11,260 | | | 11,260 | 10,516 |
| Investment income | 34,991 | 576 | 63 | 35,630 | 27,392 |
| Other | 3,537 | 210 | 244 | 3,991 | 2,742 |
| Net assets released from restrictions | 15,391 | (15,346) | (45) | | |
| Total revenues | <u>1,061,036</u> | <u>100</u> | <u>610</u> | <u>1,061,746</u> | <u>1,035,368</u> |
| EXPENSES: | | | | | |
| Parishes: | | | | | |
| School programs | 302,468 | | | 302,468 | 296,126 |
| General operations | 255,932 | | | 255,932 | 253,197 |
| Charitable activities | 290,987 | | | 290,987 | 308,034 |
| Cemeteries | 52,583 | | | 52,583 | 40,637 |
| Archdiocesan Pastoral Center | 116,705 | | | 116,705 | 150,809 |
| PRMAA expense | 10,338 | | | 10,338 | 9,246 |
| Annual Catholic Appeal distributions and fundraising expenses | 2,522 | | | 2,522 | 2,230 |
| Depreciation | 48,787 | | | 48,787 | 47,867 |
| Interest expense | 3,532 | | | 3,532 | 1,701 |
| Total expenses | <u>1,083,854</u> | <u>-</u> | <u>-</u> | <u>1,083,854</u> | <u>1,109,847</u> |
| CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS | <u>(22,818)</u> | <u>100</u> | <u>610</u> | <u>(22,108)</u> | <u>(74,479)</u> |

(Continued)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007 (WITH COMPARATIVE TOTALS FOR 2006) (Amounts in thousands)

| | 2007 | | | 2006 Total | |
|--|--------------------|---------------------------|---------------------------|--------------------|--------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS | \$ (22,818) | \$ 100 | \$ 610 | \$ (22,108) | \$ (74,479) |
| NET INVESTMENT RETURN | 162,882 | 3,775 | 375 | 167,032 | 84,695 |
| NET PROPERTY GAINS | 22,733 | | | 22,733 | 32,806 |
| GRANTS FOR NOISE ABATEMENT PROJECTS | 485 | | | 485 | 1,296 |
| PARISH BUILDING FUND COMMITMENTS AND COLLECTIONS | | 14,586 | | 14,586 | 36,200 |
| DEVELOPMENT FUND REVENUES | 214 | | | 214 | 732 |
| DEVELOPMENT FUND EXPENSES | (2,666) | | | (2,666) | (4,622) |
| TRANSFER OF NET ASSETS | 221 | | (221) | | |
| EXTINGUISHMENT OF DEBT | | | | | (111) |
| ADOPTION OF FASB STATEMENT NO. 158 — <i>Pension</i> | 27,692 | | | 27,692 | |
| ADOPTION OF FASB STATEMENT NO. 158 — <i>Postretirement</i> | (31,194) | | | (31,194) | |
| MINIMUM PENSION LIABILITY RECOVERY | 1,293 | | | 1,293 | 121,879 |
| CURTAILMENT GAIN | 83,730 | | | 83,730 | |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | | | | | (60,824) |
| CHANGE IN NET ASSETS | 242,572 | 18,461 | 764 | 261,797 | 137,572 |
| NET ASSETS — Beginning of year | <u>1,637,163</u> | <u>82,972</u> | <u>17,512</u> | <u>1,737,647</u> | <u>1,600,075</u> |
| NET ASSETS — End of year | <u>\$1,879,735</u> | <u>\$ 101,433</u> | <u>\$18,276</u> | <u>\$1,999,444</u> | <u>\$1,737,647</u> |

See independent accountants' review report and notes to consolidated financial statements. - 4 -

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ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006 (Amounts in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|------------------|------------------------|------------------------|------------------|
| REVENUES: | | | | |
| Parishes: | | | | |
| Collections and activities | \$ 310,677 | \$ - | \$ - | \$ 310,677 |
| Tuition and related fees | 262,293 | | | 262,293 |
| Charitable activities: | | | | |
| Fund appeals and bequests | 70,415 | 11,527 | 493 | 82,435 |
| Program services | 217,984 | | | 217,984 |
| Cemeteries sales and services | 39,928 | | | 39,928 |
| Archdiocesan Pastoral Center | 78,704 | 537 | 618 | 79,859 |
| PRMAA revenue | 1,542 | | | 1,542 |
| Annual Catholic Appeal | 10,516 | | | 10,516 |
| Investment income | 26,188 | 1,204 | | 27,392 |
| Other | 2,742 | | | 2,742 |
| Net assets released from restrictions | 26,966 | (26,966) | | - |
| Total revenues | <u>1,047,955</u> | <u>(13,698)</u> | <u>1,111</u> | <u>1,035,368</u> |
| EXPENSES: | | | | |
| Parishes: | | | | |
| School programs | 296,126 | | | 296,126 |
| General operations | 253,197 | | | 253,197 |
| Charitable activities | 308,034 | | | 308,034 |
| Cemeteries | 40,637 | | | 40,637 |
| Archdiocesan Pastoral Center | 150,809 | | | 150,809 |
| PRMAA expense | 9,246 | | | 9,246 |
| Annual Catholic Appeal distributions and fundraising expenses | 2,230 | | | 2,230 |
| Depreciation | 47,867 | | | 47,867 |
| Interest expense | 1,701 | | | 1,701 |
| Total expenses | <u>1,109,847</u> | <u>-</u> | <u>-</u> | <u>1,109,847</u> |
| CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS | <u>(61,892)</u> | <u>(13,698)</u> | <u>1,111</u> | <u>(74,479)</u> |

(Continued)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006 (Amounts in thousands)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|------------------------|------------------------|---------------------|
| CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS | \$ (61,892) | \$ (13,698) | \$ 1,111 | \$ (74,479) |
| MINIMUM PENSION LIABILITY RECOVERY | 121,879 | | | 121,879 |
| NET INVESTMENT RETURN | 82,683 | 1,777 | 235 | 84,695 |
| NET PROPERTY GAINS | 32,806 | | | 32,806 |
| GRANTS FOR NOISE ABATEMENT PROJECTS | 1,296 | | | 1,296 |
| PARISH BUILDING FUND COMMITMENTS AND COLLECTIONS | 26,158 | 10,042 | | 36,200 |
| DEVELOPMENT FUND REVENUES | 732 | | | 732 |
| DEVELOPMENT FUND EXPENSES | (4,622) | | | (4,622) |
| EXTINGUISHMENT OF DEBT | (111) | | | (111) |
| TRANSFER OF NET ASSETS | 4,595 | (4,057) | (538) | - |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | <u>(60,824)</u> | <u> </u> | <u> </u> | <u>(60,824)</u> |
| CHANGE IN NET ASSETS | 142,700 | (5,936) | 808 | 137,572 |
| NET ASSETS — Beginning of year | <u>1,494,463</u> | <u>88,908</u> | <u>16,704</u> | <u>1,600,075</u> |
| NET ASSETS — End of year | <u>\$ 1,637,163</u> | <u>\$ 82,972</u> | <u>\$ 17,512</u> | <u>\$ 1,737,647</u> |

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

(Concluded)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006 (Amounts in thousands)

| | 2007 | 2006 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 261,797 | \$ 137,572 |
| Adjustments to reconcile change in net assets to net cash flows provided by operating activities: | | |
| Adjustment to adopt FASB Statement No. 158 | 5,245 | |
| Curtailed gain | (83,730) | |
| Cumulative effect of change in accounting principle | | 60,824 |
| Accrued future care costs | 14,906 | 1,254 |
| Gains on real estate sales | (21,570) | (32,281) |
| Net investment return | (167,032) | (84,695) |
| Depreciation | 48,787 | 47,867 |
| Minimum pension liability recovery | (1,293) | (121,879) |
| Market value of noncash contributions received | (3,528) | (2,742) |
| Changes in assets and liabilities: | | |
| Receivables | 10,672 | (11,904) |
| Intangible pension asset | 3,086 | 34,084 |
| Unsold graves and crypts | (6,565) | 490 |
| Other assets | (2,397) | 3,298 |
| Savings deposits and accounts payable and accrued expenses | (1,792) | 19,893 |
| Deferred revenue | 7,801 | 9,977 |
| Insurance claims | 11,625 | 9,416 |
| Asset retirement obligation | 1,537 | |
| Accrued pension and postretirement costs | (5,909) | (8,958) |
| Refundable grant advances from HUD | 16,786 | 15,176 |
| | <u>88,426</u> | <u>77,392</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales of investments | 787,985 | 671,766 |
| Purchases of investments | (801,320) | (706,326) |
| Proceeds from sales of real estate | 25,907 | 39,745 |
| Purchases of land, buildings, and equipment | (74,089) | (85,430) |
| | <u>(61,517)</u> | <u>(80,245)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Change in short-term borrowings under lines of credit | 780 | (7,991) |
| Issuance of long-term borrowings | 2,000 | 445 |
| Repayment of long-term borrowings | (12,403) | (5,183) |
| | <u>(9,623)</u> | <u>(12,729)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | 17,286 | (15,582) |
| CASH AND CASH EQUIVALENTS — Beginning of year | <u>119,940</u> | <u>135,522</u> |
| CASH AND CASH EQUIVALENTS — End of year | <u>\$ 137,226</u> | <u>\$ 119,940</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — | | |
| Cash paid for interest | <u>\$ 3,358</u> | <u>\$ 2,743</u> |

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

ARCHDIOCESE OF CHICAGO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006 (See independent accountants' review report) (Financial amounts in thousands)

1. NATURE OF OPERATIONS

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

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

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

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

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

Misericordia had operations at two facilities: Misericordia South located on the south side of Chicago and Misericordia North located on the north side of Chicago. In November 2005, Misericordia closed the south campus and transferred the residents to a new skilled nursing facility, McAuley residence, which is adjacent to the north campus. The Archdiocese assumed ownership and control of the Misericordia South facility as of July 1, 2006.

On June 6, 2005, the St. Joseph Carondelet Board of Directors (“Board”) voted to cease the program activities of St. Joseph’s Carondelet (the “Center”) as of June 30, 2005, following loss of government funding. The business operations of the Center ceased on September 30, 2005, and all liabilities were paid off prior to September 30, 2005. On October 13, 2005, the Board approved the transfer of ownership of certain computer-related equipment, all of its facilities, and remaining net assets to the Catholic Charities. Catholic Charities’ Development Office plans to contact donors to obtain revisions for their donations that are currently restricted.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Use of Estimates** — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.
- b. **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. 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.
- c. **Cash Equivalents** — For purposes of the consolidated statements of cash flows, 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.

- d. Investments** — The estimated fair values of alternative investment securities that do not have readily determined 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 securities, and therefore, the estimated values may differ from the values that would have been recorded had a ready market for these securities existed.

Investments in common stock securities with readily determinable fair values and all investments in fixed income securities are measured at fair value in the consolidated statements of financial position.

Investment income or loss (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.

- e. 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 significant assumptions regarding the outstanding pledges and ultimate collectibility of these receivables. Actual results could differ from those estimates.
- f. Unsold Graves and Crypts** — Developed graves and crypts are carried at average cost which includes land and construction costs. Such costs are expensed when graves and crypts are sold.
- g. Land, Buildings, and Equipment** — Undeveloped realty represents sites held for future development and is carried at cost. Depreciation is recorded on buildings and equipment.

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

Land, buildings, and equipment represents 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 market values as of July 1, 1980, with subsequent additions recorded at cost. Depreciation is recorded on building 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.

- h. Asset Impairment** — The Archdiocese reviews the carrying amount of long-lived assets whenever events or changes in circumstances indicate that impairment may have occurred. The Archdiocese follows FASB Statement No. 144.

- i. Cemeteries Future Care** —The amount recorded as “accrued future care costs” in the consolidated statements of financial position represents the estimated cost to maintain the Cemeteries’ existing graves and crypts in the future, discounted to present value. For this estimate, current maintenance costs are assumed to escalate 2.75% per year for the next 50 years.

Pursuant to future care agreements and commitments, a portion of the proceeds from sales of graves and crypts is invested by the 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.

- j. 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 Archdiocese’s experience with similar cases. These estimates are reviewed and updated regularly, and any resulting adjustments are reflected in current operations.

Property/casualty risks of the parishes and participating religious organizations of the Archdiocese are covered in part by self-insurance programs administered through the Pastoral Center. Property/casualty losses in excess of self-insured retention levels are insured under commercial excess policies. Medical and health insurance for employees 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 2007 and 2006, the Pastoral Center settled several legal claims related to allegations of past sexual misconduct by priests totaling \$8,604 and \$17,742, respectively. Subsequent to June 30, 2007, the Pastoral Center settled an additional \$3,737 in claims. The costs of settlement are included in the insurance claims reserve at June 30, 2007.

- k. Refundable Advances from HUD** — Roseland Manor’s, Hayes Manor’s, Matthew Manor’s, Tolton Manor’s, Frances Manor’s, Lawrence Manor’s, Bernardin Manor’s, St. Ailbe Faith Apartments’, St. Sabina Elders’, St. Ailbe Hope Apartments’, Ozanam Village’s, St. Ailbe Love Apartments’, St. Peter Claver Courts’, St. Brendan Apartments’, Bishop Goedert Residences’, St. Vincent de Paul Residences’, and Donald Kent Residences’ (collectively, the “Residences”) development and construction are being or have been substantially funded under noninterest-bearing mortgage agreements with the U.S. Department of Housing and Urban Development (HUD). The Residences are not required to make principal or interest payments on the mortgage notes, provided they maintain housing in accordance with the Capital Advance Program Use and Regulatory Agreements. If all requirements continue to be met, the grant advances will be considered earned in not less than 40 years or an earlier date if approved by HUD. The refundable grant advances are collateralized by the Residences’ property and equipment associated with the advance.

- l. Contributed Services** — Support arising from contributed services of religious personnel in Archdiocesan schools totaling \$327 and \$413 during 2007 and 2006, respectively, has been recognized in the consolidated financial statements as both income and expense. The amounts recognized represent the difference between stipends paid and comparable compensation that would be paid to lay personnel.

- m. 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.

- n. **Charitable Activities Grant Revenue Recognition** — Grant revenue is recognized when the related grant expenditure has been incurred.
- o. **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 date the contribution is received. Gift annuity revenue is recognized when the contract is signed and the assets are received.

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

- p. **Derivative Instruments** — The Pastoral Center entered into interest rate swap agreements to hedge a portion of its variable rate borrowings against adverse changes in interest rates. These swaps have been classified as cash flow derivatives and are recorded at fair value in the consolidated statements of financial position with the corresponding adjustment to interest expense in the consolidated statements of activities.
- q. **Recently Adopted Accounting Pronouncements** — In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB No. 143*. FIN No. 47 clarifies the term conditional asset retirement obligation as it is used in FASB No. 143, and requires a liability to be recorded if the fair value of the obligation to retire an asset can be reasonably estimated. Asset retirement obligations covered by FIN No. 47 include those for which an entity has a legal obligation to perform an asset retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

The Archdiocese adopted FIN No. 47 effective July, 1 2005. In accordance with FIN No. 47, the Archdiocese records all known asset retirement obligations for which the fair value of the liability can be reasonably estimated, including certain obligations relating to regulatory remediation. As a result of adopting FIN No. 47, the Archdiocese recorded a cumulative effect of change in accounting principle of \$60,824 in 2006. The Archdiocese also recorded a liability for asset retirement obligations of \$63,364 and \$61,827 in 2007 and 2006, respectively, and increased the carrying value of the related assets by \$1,003 in 2006.

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. As disclosed in Note 10, the Archdiocese has adopted the provisions of FASB Statement No. 158 that require the Archdiocese to recognize on its statement of financial position the funded status of the plan. With limited exceptions, the funded status is measured as the difference between the fair value of plan assets and the related benefit obligation. For pension plans, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. Further, FASB Statement No. 158 requires an employer to measure the defined benefit plan assets and obligations as of the date of its fiscal year-end statement of financial

position and to disclose certain effects on net periodic benefit cost for the upcoming fiscal year resulting from delayed recognition of actuarial gains (losses) and prior service costs (credits). The required date of adoption of FASB Statement No. 158 for the Archdiocese is June 30, 2007, for the recognition provision of the standard, and June 30, 2008, for the measurement date provision. Management is currently evaluating the impact the measurement date provision will have on its financial statements.

- r. Recently Issued Accounting Pronouncements** — In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. In order to address the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions, this statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB Statement No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB Statement No. 157 is effective for years beginning after November 15, 2007, although early adoption is permitted. The Archdiocese is assessing the impact the application of FASB Statement No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115*. FASB Statement No. 159 permits entities that elect the fair value provisions of FASB Statement No. 157 to choose to measure many financial instruments and certain other items at fair value. It also provides the opportunity to mitigate volatility, in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. Accordingly, unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. FASB Statement No. 159 is effective for years beginning after November 15, 2007. The Archdiocese is assessing the impact FASB Statement No. 159 will have on its consolidated financial statements.

In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. 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. FIN No. 48 is effective for the Archdiocese fiscal year ending June 30, 2009. The Archdiocese is assessing the impact, if any, the application of FIN No. 48 will have on its consolidated financial statements.

3. INVESTMENTS

As of June 30, 2007 and 2006, the Archdiocese's investment portfolio consisted of the following:

| | 2007 | | 2006 | |
|-----------------------------------|--------------|---------------------|--------------|---------------------|
| Invested cash | 5 % | \$ 63,873 | 5 % | \$ 56,797 |
| Common stocks | 25 | 351,774 | 23 | 286,589 |
| Fixed income securities | 12 | 169,212 | 13 | 165,637 |
| Alternative investments: | | | | |
| Marketable alternative equity | 35 | 490,489 | 35 | 423,668 |
| Fixed income | 12 | 169,937 | 14 | 167,399 |
| Marketable energy and commodities | 7 | 97,271 | 7 | 85,972 |
| Private equity | <u>4</u> | <u>61,958</u> | <u>3</u> | <u>35,881</u> |
| Total alternative investments | <u>58</u> | <u>819,655</u> | <u>59</u> | <u>712,920</u> |
| Total | <u>100 %</u> | <u>\$ 1,404,514</u> | <u>100 %</u> | <u>\$ 1,221,943</u> |

The 2006 investment allocation balances have been reclassified to conform to 2007 presentation.

Invested cash includes short-term investments and money market accounts. Fifty-eight percent of marketable alternative equity and 100% of fixed alternative investments consists of institutional funds or other alternative funds that have underlying securities whose fair value is readily determinable (that is, underlying securities are listed on national exchanges or over-the-counter markets, or for which quoted market prices are available from sources such as financial publications or exchanges).

Investment securities, 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 investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position and in the consolidated statements of activities.

As required by Illinois law, collections on the portion of pre-need contracts applicable to future interment services are invested in the Pooled Investment Fund and retained, along with 75% of interest and dividends earned and 100% of net capital gains realized on such investments, until the interment service is performed. Invested cash includes short-term investments and money market accounts.

As of June 30, 2007 and 2006, investments are held by the following entities:

| | 2007 | 2006 |
|---|-------------------------|-------------------------|
| Cemeteries | \$ 628,506 | \$ 532,394 |
| Pastoral Center | 102,038 | 75,473 |
| Pastoral Center — on behalf of parishes | 80,640 | 71,386 |
| Pastoral Center — on behalf of seminaries | 95,772 | 84,845 |
| Misericordia | 306,253 | 264,497 |
| Maryville Academy | 74,216 | 90,136 |
| Catholic Charities | 56,548 | 49,082 |
| Mercy Home for Boys and Girls | 54,692 | 49,064 |
| PRMAA | <u>5,849</u> | <u>5,066</u> |
| Total | <u>\$ 1,404,514</u> | <u>\$ 1,221,943</u> |

Net investment income and returns for the years ended June 30, 2007 and 2006, are as follows:

| | 2007 | 2006 |
|---------------------------------------|-----------------------|-----------------------|
| Interest and dividends | \$ 35,630 | \$ 27,392 |
| Realized gains — net | 75,038 | 39,448 |
| Unrealized gains — net | <u>91,994</u> | <u>45,247</u> |
| Net investment income and returns | <u>\$ 202,662</u> | <u>\$ 112,087</u> |

Net investment income and return in the consolidated statements of activities at June 30, 2007 and 2006, are as follows:

| | 2007 | 2006 |
|--------------------------------------|-----------------------|-----------------------|
| Investment income | \$ 35,630 | \$ 27,392 |
| Investment return | <u>167,032</u> | <u>84,695</u> |
| Net investment income and return | <u>\$ 202,662</u> | <u>\$ 112,087</u> |

4. MILLENNIUM CAMPAIGN

During 2000, the Archdiocese launched the Millennium Campaign (the “Campaign), with a goal to raise a minimum of \$250,000 over the following four years. The Campaign consists of two subcampaigns. The first subcampaign is 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, 2007 and 2006 (discounted and net of an allowance for uncollectible pledges), are recorded by the Pastoral Center as a Development Fund receivable.

The second subcampaign is Sharing Christ’s Gifts, the purpose of which is to raise funds for the capital, endowment, and ministerial needs of parishes. As part of the subcampaign, parishes will provide 20% of their ordinary income (defined as total revenues from parish operations) for the fiscal year prior to their

participation in Sharing Christ's Gifts. These sharing funds will be 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 Campaign recognizes revenue consistent with other pledges. Unconditional promises to give cash and other assets 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. Campaign revenue is recorded in Development Fund Revenue in the consolidated statements of activities.

5. PARISHES

Revenues — Contributions at the parish level are the most significant source of funds for the Archdiocese. In addition to defraying local church, school, and general parish operating cost at some parishes, 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 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 — School Programs — The Archdiocese and its Parishes operated 218 and 217 elementary schools in 2007 and 2006, respectively, and 6 high schools in 2007 and 2006. The following is a summary of school programs expenses for the years ended June 30, 2007 and 2006, prior to consolidation, eliminations, and reclassifications:

| | 2007 | 2006 |
|-----------------------------------|-------------------|-------------------|
| Salaries, wages, and benefits | \$ 242,477 | \$ 238,108 |
| Utilities, repairs, and insurance | 27,968 | 27,135 |
| Books and instructional materials | 12,704 | 12,343 |
| Depreciation and other expenses | <u>29,465</u> | <u>28,349</u> |
| Total expenses — school programs | <u>\$ 312,614</u> | <u>\$ 305,935</u> |

Expenses exceeded school revenues (tuition and related fees) by \$41,301 and \$43,642 in 2007 and 2006, 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 5 private elementary schools and 33 private high schools within the Archdiocese, operated by various religious orders.

Expenses — General Operations — For the years ended June 30, 2007 and 2006, the following is a summary of the general operations, other than for the school programs, prior to consolidation, eliminations, and reclassifications:

| | 2007 | 2006 |
|--|-------------------|-------------------|
| Salaries, wages, and benefits | \$ 122,951 | \$ 121,498 |
| Utilities, repairs, and insurance | 74,789 | 71,082 |
| Religious education (CCD) — including salaries and expenses | 18,801 | 19,884 |
| Other expenses — including administrative, depreciation, church and rectory operating costs | <u>99,815</u> | <u>98,786</u> |
| Total expenses — general operations | <u>\$ 316,356</u> | <u>\$ 311,250</u> |

Each Parish pays an annual assessment for continuing Archdiocesan programs. Ordinary income is the main factor considered in arriving at the individual assessments. The assessment is used to support the activities of the Pastoral Center and amounted to \$22,476 and \$21,976 in 2007 and 2006, respectively. This assessment is eliminated in the consolidated financial statements.

Building Fund Pledges Receivable — As of June 30, 2007 and 2006, the Parishes have remaining uncollected unconditional pledges, principally from the Millennium campaign of 2000 to 2005, totaling \$26,253 and \$36,773, respectively. For measurement purposes, a 5.125% discount rate is used to determine the present value of the pledges receivable.

Aging and valuation of the building fund pledges receivable at June 30, 2007, are as follows:

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|-----------------------------------|------------------|
| Due in less than one year | \$ 14,932 | \$ | \$ 14,932 |
| Due in two to five years | <u> </u> | <u>14,377</u> | <u>14,377</u> |
| Gross building fund pledges receivable | 14,932 | 14,377 | 29,309 |
| Less allowance for uncollectible pledges | (746) | (719) | (1,465) |
| Less discount to present value | <u> </u> | <u>(1,591)</u> | <u>(1,591)</u> |
| Building fund pledges receivable — net | <u>\$ 14,186</u> | <u>\$ 12,067</u> | <u>\$ 26,253</u> |

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

6. LAND, BUILDINGS, AND EQUIPMENT

The Archdiocese purchases those sites which 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 at June 30, 2007 and 2006, consists of the following sites for future development:

| | 2007 | 2006 |
|---------------------|------------------|------------------|
| Future parish sites | \$ 11,816 | \$ 12,205 |
| Cemeteries | <u>8,623</u> | <u>8,515</u> |
| Total | <u>\$ 20,439</u> | <u>\$ 20,720</u> |

All property held for future parish or cemetery purposes remains on the tax rolls until utilized.

Developed real estate at June 30, 2007 consists of the following:

| | Land | Buildings and Equipment | Held for Sale | Accumulated Depreciation | Total |
|-----------------------|-------------------|--|--------------------------|-------------------------------------|---------------------|
| Parishes | \$ 157,283 | \$ 1,547,041 | \$ | \$ (824,164) | \$ 880,160 |
| Charitable Activities | 31,876 | 337,197 | | (111,761) | 257,312 |
| Pastoral Center | 16,996 | 118,139 | | (78,308) | 56,827 |
| Cemeteries | <u>20</u> | <u>46,773</u> | | <u>(22,570)</u> | <u>24,223</u> |
| Total | <u>\$ 206,175</u> | <u>\$ 2,049,150</u> | <u>\$</u> | <u>\$ (1,036,803)</u> | <u>\$ 1,218,522</u> |

Developed real estate at June 30, 2006 consisted of the following:

| | Land | Buildings and Equipment | Held for Sale | Accumulated Depreciation | Total |
|-----------------------|-------------------|--|--------------------------|-------------------------------------|---------------------|
| Parishes | \$ 155,353 | \$ 1,516,681 | \$ - | \$ (791,345) | \$ 880,689 |
| Charitable Activities | 25,901 | 313,958 | | (104,663) | 235,196 |
| Pastoral Center | 18,881 | 115,737 | | (78,063) | 56,555 |
| Cemeteries | <u>20</u> | <u>45,630</u> | | <u>(21,547)</u> | <u>24,103</u> |
| Total | <u>\$ 200,155</u> | <u>\$ 1,992,006</u> | <u>\$ -</u> | <u>\$ (995,618)</u> | <u>\$ 1,196,543</u> |

7. BANK BORROWINGS

A summary of bank borrowings at June 30, 2007 and 2006, is as follows:

| | 2007 | 2006 |
|--|-----------------|-----------------|
| Pastoral Center \$10,000 term loan, due May 31, 2008 interest rate is fixed (4.72% at June 30, 2007 and 2006) | \$10,000 | \$10,000 |
| Pastoral Center \$10,000 line of credit, payable on demand, interest rate below prime (4.72% and 5.8% at June 30, 2007 and 2006, respectively) | 7,000 | 5,000 |
| Pastoral Center note payable to bank, due December 27, 2010, interest rate is fixed (4.84% at June 30, 2007 and 2006) | 5,800 | 5,800 |
| Pastoral Center note payable, due December 20, 2008, interest rate is fixed (5.92% at June 30, 2007 and 2006) | 3,900 | 4,100 |
| Pastoral Center note payable, due January 7, 2010, interest rate is fixed (4.57% at June 30, 2007 and 2006) | 1,575 | 1,675 |
| Pastoral Center \$16,000 line of credit, payable on demand, interest rate below prime (6.15% at June 30, 2006) | | 5,470 |
| Pastoral Center \$5,000 line of credit, payable on demand interest rate is below prime (6.02% at June 30, 2006) | | 5,000 |
| Pastoral Center \$8,800 line of credit, due July 3, 2006, interest rate is based on LIBOR plus 50 basis points (3.15% at June 30, 2006) | | 200 |
| Catholic Charities Adjustable Demand Revenue Bonds: | | |
| Series 1993 A, due January 1, 2028, interest rate adjusted weekly | 9,160 | 9,160 |
| Series 1993 B, due January 1, 2028, interest rate adjusted weekly | 910 | 910 |
| Catholic Charities note payable to City of Chicago, due 2006, interest free | | 557 |
| Catholic Charities note payable to City of Chicago, due 2015, interest free | 388 | 388 |
| Catholic Charities note payable to Illinois Facilities Fund, due 2015, interest rate 5.00% | 252 | 281 |
| Catholic Charities mortgages payable to U.S. Department of Housing and Urban Development, due in equal monthly installments through 2033, interest rate 8.375% at June 30, 2007 and 2006 | 5,871 | 5,936 |
| 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 | <u>1,059</u> | <u>1,061</u> |
| | 45,915 | 55,538 |
| Less current portion | <u>17,403</u> | <u>16,623</u> |
| Total | <u>\$28,512</u> | <u>\$38,915</u> |

Principal payments at June 30, 2007 and 2006, are due as follows:

| Years Ending June 30 | |
|---------------------------------|-----------------|
| 2008 | \$ 17,403 |
| 2009 | 3,911 |
| 2010 | 1,494 |
| 2011 | 5,925 |
| 2012 | 134 |
| Thereafter | <u>17,048</u> |
| Total | <u>\$45,915</u> |

Debt Covenants — The Archdiocese is required to meet certain debt covenants related to minimum liquidity levels and investment-to-debt ratios. The Archdiocese was in compliance with financial debt covenants at June 30, 2007 and 2006.

Deferred Debt Issuance Costs — Expenses related to the procurement and underwriting of the direct obligation notes and revenue bonds have been deferred and are being amortized using the bonds outstanding method. These costs are shown net of accumulated amortization of \$2,501 and \$2,495 as of June 30, 2007 and 2006, respectively, and are included in other assets in the consolidated statements of financial position.

Extinguishment of Debt — During 2006, Catholic Charities extinguished \$1,755 of debt. The repayment of debt was funded from the capital reserve fund. Catholic Charities recognized a loss on the early extinguishment of debt in the amount of \$111 in 2006, which included the write-off of issuance costs of \$77.

8. REFUNDABLE ADVANCES FROM HUD

During the years ended June 30, 2007 and 2006, the Catholic Charities received certain HUD Supportive Housing for the Elderly — (Section 202) grant advances of approximately \$17,211 and \$12,943, respectively, under the terms of the federally funded program. In addition, Catholic Charities received certain Affordable Housing Residence Loans of approximately \$2,233 during the year ended June 30, 2006. Total advances at June 30, 2007 and 2006, were as follows:

| Project | Advance | | End of 40-Year Commitment |
|------------------------------------|-------------------|------------------|------------------------------|
| | 2007 | 2006 | |
| Matthew Manor | \$ 4,016 | \$ 4,016 | December 2035 |
| Tolton Manor | 5,515 | 5,515 | July 2036 |
| Frances Manor | 4,823 | 4,823 | April 2037 |
| Lawrence Manor | 8,215 | 8,215 | October 2039 |
| Bernardin Manor | 13,990 | 13,990 | June 2040 |
| St. Ailbe Faith Apartments | 6,836 | 6,836 | July 2040 |
| St. Sabina Elders | 6,728 | 6,728 | September 2040 |
| St. Ailbe Hope Apartments | 814 | 814 | March 2041 |
| Ozanam Village | 5,152 | 5,152 | May 2041 |
| St. Ailbe Love Apartments | 6,300 | 6,300 | February 2042 |
| St. Peter Claver Courts | 7,749 | 7,749 | March 2043 |
| St. Brendan Apartments | 7,958 | 7,958 | April 2044 |
| Bishop Goedert Residence | 9,592 | 9,592 | December 2044 |
| St. Vincent de Paul Residence | 10,891 | 2,232 | November 2045 |
| Donald Kent Residence | 8,975 | 962 | January 2046 |
| Pope John Paul II Residences | 539 | 962 | January 2046 |
| Total HUD Grant Advances | 108,093 | 91,844 | |
| Affordable Housing Residence Loans | 7,223 | 7,648 | Various through 2046 |
| Total Refundable Grant Advances | <u>\$ 115,316</u> | <u>\$ 99,492</u> | |

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, other accounts receivable, accounts payable and accrued expenses, and short-term borrowings approximate their fair value as they are short-term in nature.

The carrying values of deposits and loans to religious organizations and insurance claims approximate their fair value.

The carrying values of long-term borrowings and insurance claims approximate their fair value.

Management was not able to practicably estimate the fair value of installment contracts receivable. Installment contracts receivable arise from the pre-need sale of graves and crypts. Customers pay for pre-need purchases over five years on an interest-free basis. While the installment contracts receivable require scheduled payments, the actual timing of receipts may vary. Balances must be paid in full prior to burial.

10. EMPLOYEE BENEFITS

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

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

During 2007, the pension plan was amended, effective July 1, 2007, to freeze benefit accruals and participation as of that date. This event constituted a curtailment as defined by FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

A curtailment gain of \$83,730 was recognized in 2007 for the amount representing unrecognized service costs for the future years of service eliminated by the plan change.

The Pastoral Center also has a defined contribution plan which includes a matching program. The matching program is available to all lay benefits eligible employees of the Pastoral Center, parishes, and certain other archdiocesan entities. The match is 50% of gross salary up to a maximum of 2% of gross salary. Vesting in the match occurs at 25% per year. Employees with five or more years of service are fully vested in their match. The Archdiocese contributed \$2,305 and \$2,273 to the plan in 2007 and 2006, respectively.

Cemeteries — The 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. The Cemeteries funds the plans based on actuarial funding recommendations using the aggregate cost method.

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

In April, 2007, the Catholic Charities notified the state of Illinois Department of Children and Family Services of its intent to exit the Foster Care and Investigations program as of June 30, 2007. Catholic Charities terminated 156 employees within the Foster Care and Investigations program and amended the plan agreement. This event was considered to be a curtailment. Catholic Charities recognized a reduction in the projected benefit obligation of \$756.

The Catholic Charities offers certain medical and dental benefits for retired employees. The Catholic 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 \$500 per month for retirees with single coverage and \$700 per month for retirees with family coverage. The amended policy also states that all new employees hired after July 1, 2002, will not be offered postretirement medical and dental benefits. 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 new 403(b) plan and permanently forgo any eligibility for future postretirement medical and dental benefits.

The Catholic 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. The Catholic Charities contributes 1% of all participants' compensation plus matching contributions of 1.5% of the individual participant's compensation. Total employer contributions for the years ended June 30, 2007 and 2006, were approximately \$389 and \$350, respectively.

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. During fiscal year 2006, the plan was amended whereby any Maryville employee with less than 10 years of service as well as any future Maryville employees will not be eligible to participate in the postretirement benefit plan. Current Maryville employees with 10 or more years of service had an option to either remain eligible for the postretirement benefit plan or become a participant in Maryville's new 403(b) defined contribution plan. The effect of this plan amendment was to reduce the projected benefit obligation by approximately \$4,200.

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 five hundred

dollars; however, PRMAA's contributions are discretionary. PRMAA's contributions to the plan for 2007 and 2006 were \$341 and \$369, 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 which varies depending on whether the retired priest resides in an ecclesiastical institution. The Plan is funded based on actuarial funding determinations. Plan assets consist of deposits in an insurance company separate account and in a bank trust account. Plan expenses are borne by the pension plan.

Adoption of FASB Statement No. 158 — On June 30, 2007, the Archdiocese adopted FASB Statement No. 158, which requires the recognition of any unfunded or overfunded liability on the consolidated statements of financial position. For defined benefit plans, FASB Statement No. 158 requires the recognition of the unfunded projected benefit obligation. For postretirement benefits, FASB Statement No. 158, requires the recognition of the unfunded accumulated benefit obligation. Prior to the adoption of FASB Statement No. 158, the unfunded liability on the consolidated statements of financial position was based on the accumulated benefit obligation for defined benefit plans and accrued cost for postretirement benefits. The Archdiocese has recorded the total funded status of the plans on the consolidated statements of financial position.

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

Summary information for all plans at June 30, 2007 and 2006, is as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|-------------------------|--------------------|--------------------------------|--------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Accumulated benefit obligation | <u>\$ 659,091</u> | <u>\$ 587,743</u> | <u>\$ 114,015</u> | <u>\$ 74,501</u> |
| Projected benefit obligation | \$ 658,710 | \$ 628,670 | \$ 114,015 | \$ 102,917 |
| Plan assets at fair value | <u>656,761</u> | <u>559,272</u> | <u>4,822</u> | <u>4,906</u> |
| Funded status | <u>\$ (1,949)</u> | <u>\$ (69,398)</u> | <u>\$ (109,193)</u> | <u>\$ (98,011)</u> |
| Accrued benefit cost | <u>\$ 1,949</u> | <u>\$ 122,438</u> | <u>\$ 109,193</u> | <u>\$ 76,091</u> |
| Minimum pension liability recovery to be recognized in the consolidated statement of activities | <u>\$ 1,293</u> | <u>\$ 121,879</u> | <u>\$ -</u> | <u>\$ -</u> |
| Benefit (income) cost | <u>\$ (69,961)</u> | <u>\$ 41,753</u> | <u>\$ 8,927</u> | <u>\$ 10,153</u> |
| Employer contributions | <u>\$ 19,470</u> | <u>\$ 23,486</u> | <u>\$ 4,531</u> | <u>\$ 3,724</u> |
| Participant contributions | <u>\$ 228</u> | <u>\$ 225</u> | <u>\$ 265</u> | <u>\$ 197</u> |
| Benefits paid | <u>\$ (18,147)</u> | <u>\$ (21,841)</u> | <u>\$ (4,984)</u> | <u>\$ (4,050)</u> |

Actuarial assumptions for the Plans as of June 30, 2007 and 2006, are as follows:

| | <u>2007</u> | | <u>2006</u> | |
|--|-------------------------|--------------------------------|-------------------------|--------------------------------|
| | Pension Benefits | Postretirement Benefits | Pension Benefits | Postretirement Benefits |
| Weighted-average assumptions used to determine benefit obligations and cost as of June 30: | | | | |
| Discount rate (obligation) — charities | 6.28 % | 6.36 % | 6.36 % | 6.25 % |
| Discount rate (obligation) — all other entities | 6.25 | 6.36 | 6.50 | 6.50 |
| Discount rate (cost) — charities | 6.36 | 6.25 | 5.25 | 5.25 |
| Discount rate (cost) — all other entities | 6.50 | 6.50 | 5.25 | 5.25 |
| Expected return on plan assets | 8.00 | | 8.00 | |
| Rate of compensation increase — charities | 3.50 | | 3.50 | |
| Rate of compensation increase — all other entities | 4.00 | | 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 the Plans.

Plan assets for the Plans at June 30, 2007 and 2006, are as follows:

| | <u>Pension Benefits</u> | | <u>Postretirement Benefits</u> | |
|----------------------------|-------------------------|--------------|--------------------------------|--------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Invested cash | 5 % | 3 % | - % | - % |
| Common stocks | 7 | 13 | 2 | 2 |
| Alternative investments | 41 | 80 | | |
| U.S. government securities | 33 | 3 | 98 | 98 |
| Corporate debt securities | 14 | 1 | | |
| Total | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> |

The Archdiocese's investment strategy is to meet its obligations to retired employees. To continue to achieve this objective, the Archdiocese changed its investment composition for pension assets in 2007. In 2006, the Archdiocese maintained an investment composition for pension assets of approximately 75% equities and 25% fixed income (some of which was included in alternative investments). In 2007, the Archdiocese is in the process of repositioning its investment composition for pension assets to approximately 0% to 10% equities and 90% to 100% fixed income. The investment composition for postretirement assets is approximately 0% to 10% equities and 90% to 100% fixed income for 2007 and 2006.

The Archdiocese plans to contribute \$6,006 to the pension plans and \$5,019 to the postretirement plans in 2008.

The following benefit payments, which reflect expected future services, as appropriate, at June 30, 2007, are expected to be paid:

| Years Ending June 30 | Pension Benefits | Postretirement Benefits |
|---------------------------------|-----------------------------|------------------------------------|
| 2008 | \$ 28,207 | \$ 5,206 |
| 2009 | 30,781 | 5,473 |
| 2010 | 33,237 | 5,799 |
| 2011 | 35,730 | 6,173 |
| 2012 | 28,257 | 6,456 |
| 2013 and beyond | 238,740 | 37,181 |

Under FASB No. 87, *Employers' Accounting for Pensions*, a minimum pension liability has been recorded as of June 30, 2006, as the fair value of Plan assets is less than the accumulated benefit obligation. At June 30, 2006, the consolidated statement of financial position includes an intangible asset of \$3,086 and a liability of \$122,438, and the consolidated statement of activities includes an additional minimum liability recovery of \$121,879.

For measurement purposes, a 10% gross health care trend rate was used for 2007 disclosures. Trend rates were assumed to decrease gradually to 5% in fiscal year 2011 and remain at that level beyond.

11. NONCASH ASSISTANCE

During the years ended June 30, 2007 and 2006, the Catholic Charities received certain food commodities with a value of approximately \$3,101 and \$2,880, respectively, under the terms of a federally funded program whereby the Catholic Charities acts as a distributor. The receipt and subsequent distribution of these commodities are not shown as revenues or expenditures in the consolidated financial statements.

The Catholic Charities recorded a \$4,000 noncash donation for the St. Vincent de Paul residence during the year ended June 30, 2006. The Catholic Charities recorded in-kind donations of gifts in the amount of \$1,198 and \$1,060 during the years ended June 30, 2007 and 2006, respectively, which it distributed to the families it serves.

12. NET ASSETS (DEFICIENCY)

Net assets (deficiency) at June 30, 2007, comprise the following:

| | Unrestricted Undesignated | Unrestricted Designated | Temporarily Restricted | Permanently Restricted | Total |
|-----------------------|--------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|---------------------|
| Parishes | \$ - | \$ 848,751 | \$ 77,441 | \$ - | \$ 926,192 |
| Charitable activities | | 585,429 | 25,828 | 3,830 | 615,087 |
| Cemeteries | | 280,358 | | | 280,358 |
| Pastoral Center | 52,055 | 74,988 | 37,671 | 14,446 | 179,160 |
| PRMAA | | (1,353) | | | (1,353) |
| Eliminations | | 39,507 | (39,507) | | - |
| Total | <u>\$ 52,055</u> | <u>\$ 1,827,680</u> | <u>\$ 101,433</u> | <u>\$ 18,276</u> | <u>\$ 1,999,444</u> |

Net assets (deficiency) at June 30, 2006, comprise the following:

| | Unrestricted Undesignated | Unrestricted Designated | Temporarily Restricted | Permanently Restricted | Total |
|-----------------------|--------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|---------------------|
| Parishes | \$ - | \$ 876,366 | \$ 64,784 | \$ - | \$ 941,150 |
| Charitable activities | | 530,465 | 22,193 | 4,037 | 556,695 |
| Cemeteries | | 211,334 | | | 211,334 |
| Pastoral Center | (87,078) | 66,302 | 35,345 | 13,475 | 28,044 |
| PRMAA | | 424 | | | 424 |
| Eliminations | <u> </u> | <u>39,350</u> | <u>(39,350)</u> | <u> </u> | <u>-</u> |
| Total | <u>\$ (87,078)</u> | <u>\$ 1,724,241</u> | <u>\$ 82,972</u> | <u>\$ 17,512</u> | <u>\$ 1,737,647</u> |

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

13. COMMITMENTS AND CONTINGENCIES

Cemeteries owns two landfills, which are the subject of certain environmental remediation plans required by the Illinois Environmental Protection Agency. Both landfills are now closed and have been closed for more than 15 years. The ultimate cost of the remediation will be shared by two parties, including Cemeteries, who is the owner, and an unrelated party, who was the operator. While the owner and the operator have each engaged engineers to study the issues related to these sites and develop plans and estimates related to remediation, and remediation has begun, the future costs are only estimable within a wide range covering a period of more than 20 years. The engineering estimates for the total costs of remediation for both the owner and the operator are likely to fall in a range of \$17,600 to \$45,000. The accounts payable and accrued expenses balance related to the owner's landfill liability was \$18,276 and \$18,388 as of June 30, 2007 and 2006, respectively. The estimates will change in the future and are sensitive to factors, such as testing results, the success of current remediation efforts, technological developments in the field of environmental remediation, regulatory changes, and the continued participation of the operator in funding remediation.

At June 30, 2007 and 2006, contractual commitments on construction and sales pending or in process amounted to approximately \$48,528 and \$49,143, respectively.

The Archdiocese has entered into contracts with third parties to purchase substantially all of its natural gas needs until April 2011 and electricity needs until December 2009.

The Archdiocesan Finance Council and its Investment Committee oversee a Pooled Investment Fund for various entities in the Archdiocese including the Pastoral Center, Parishes and schools, the Seminaries, Catholic Cemeteries, PRMAA, and Charitable Activities' agencies. The Pooled Investment Fund invests with a number of investment managers in various equity and fixed income products. A portion of the investments are in nonmarketable investments through Limited Partnerships. At any point in time, the Archdiocese has open commitments to fund additional capital calls to the Limited Partnerships. The aggregate amount of open commitments at any point in time range between 1% and 4% of the Pooled Investment Fund.

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 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 Catholic Bishop of Chicago 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.

In September 2003, the U.S. Department of Justice issued a subpoena to Maryville Academy. This subpoena was issued subsequent to the State of Illinois' investigation into a February 2002 resident suicide. The subpoena was not issued by a grand jury and contained no charges of the commission of criminal activities. The government's investigation continues; however, at this time no determination as to the outcome of this investigation can be made.

Maryville participates in a number of Federal and State of Illinois grant programs. Participation in these programs is subject to future financial and compliance procedures by the granting agencies or their representatives. In management's opinion, any future amounts owed to these granting agencies, except as otherwise accrued for as of June 30, 2007, cannot be determined at this time. In the opinion of Maryville management, the ultimate resolution of any future liability will not have a material adverse effect on the financial position of Maryville.

The Columbus Shelter program which was funded by the Department of Children and Family Services, closed on September 30, 2006, in fiscal year 2007. Maryville's management offered all full-time employees with the exception of the executive director a voluntary separation package based on years of service. The cost of the voluntary employee separation incentive plan for the year ended June 30, 2007 totaled \$1,111.

14. LEASES

The Pastoral Center entered into an agreement with a telecommunications provider in 2002 to lease its excess Instructional Television Fixed Service (ITFS) capacity. The lease was renewed in 2007 and expires in June 2012, with an option to extend for another five years.

At June 30, 2007, future minimum rental income related to the ITFS noncancelable operating lease is as follows:

| Years Ending June 30 | |
|---------------------------------|--------------------|
| 2008 | \$ 417 |
| 2009 | 429 |
| 2010 | 442 |
| 2011 | 456 |
| 2012 | <u>429</u> |
| Total | <u>\$2,173</u> |

The Pastoral Center entered into a lease agreement with Loyola University of Chicago in 2002 to lease Campion Hall for the use of St. Joseph Seminary. Total rental expense for the years ended June 30, 2007 and 2006, was \$657 and \$655, respectively.

Future payments under this agreement are as follows:

**Years Ending
June 30**

| | |
|-------|----------------|
| 2008 | \$ 677 |
| 2009 | 677 |
| 2010 | 677 |
| 2011 | 677 |
| 2012 | <u>677</u> |
| Total | <u>\$3,385</u> |

The Pastoral Center has an option to extend the lease for 10 years beyond 2012.

Catholic Charities leases office space under a conditional operating lease which contains a rent escalation provision. Rent expense under the lease is recognized based on straight-line amortization of total rent over the term of the lease. In addition, Maryville Academy leases buildings under operating leases, some of which contain a rent escalation clause based upon the Consumer Price Index.

At June 30, 2007, future minimum rental expense related to this operating leases is as follows:

**Years Ending
June 30**

| | |
|------------|-----------------|
| 2008 | \$ 5,143 |
| 2009 | 3,639 |
| 2010 | 2,119 |
| 2011 | 1,804 |
| 2012 | 1,503 |
| Thereafter | <u>11,678</u> |
| Total | <u>\$25,886</u> |

15. FUNCTIONAL EXPENSES

For the years ended June 30, 2007 and 2006, the following is a summary of expenses by functional classification and reconciliation to total expenses:

| | 2007 | 2006 |
|--------------------------------------|----------------------------|----------------------------|
| Program activities: | | |
| Pastoral Center program activities | \$ 87,595 | \$ 122,698 |
| Cemetery services | 49,757 | 37,884 |
| Educational activities | 312,614 | 305,935 |
| Parish operations | 279,685 | 276,136 |
| Charitable Activities programs | 264,932 | 283,558 |
| PRMAA expense | <u>10,338</u> | <u>9,246</u> |
| Total program activities | 1,004,921 | 1,035,457 |
| Fundraising and development expenses | 15,557 | 15,414 |
| Management and general expenses | <u>55,635</u> | <u>54,049</u> |
| Total functional expenses | 1,076,113 | 1,104,920 |
| Annual appeal disbursements | 4,209 | 3,226 |
| Interest expense | <u>3,532</u> | <u>1,701</u> |
| Expenses — net | <u><u>\$ 1,083,854</u></u> | <u><u>\$ 1,109,847</u></u> |

16. TAX-EXEMPT STATUS

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

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