

Archdiocese of Chicago

Consolidated Financial Statements as of and for the
Years Ended June 30, 2009 and 2008, and
Independent Accountants' Review Report

ARCHDIOCESE OF CHICAGO

TABLE OF CONTENTS

	Page
INDEPENDENT ACCOUNTANTS' REVIEW REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008:	
Statements of Financial Position	2
Statements of Activities	3-6
Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-34

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the consolidated financial statements of the Archdiocese of Chicago as of June 30, 2009 and 2008, and the for the years then ended, as listed in the foregoing table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of the Archdiocese of Chicago.

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

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

Deloitte & Touche LLP

December 22, 2009

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2009 AND 2008 (Amounts in thousands)

	2009	2008		2009	2008
ASSETS			LIABILITIES AND NET ASSETS		
CASH AND CASH EQUIVALENTS:			LIABILITIES:		
Parishes	\$ 67,400	\$ 77,831	Deposits	\$ 1,579	\$ 1,012
Other	<u>36,233</u>	<u>46,782</u>	Accounts payable and accrued expenses	134,202	134,417
Total cash and cash equivalents	<u>103,633</u>	<u>124,613</u>	Borrowings	75,757	51,687
INVESTMENTS	<u>1,093,086</u>	<u>1,360,951</u>	Deferred revenue	146,908	140,414
RECEIVABLES:			Insurance claims	90,023	106,982
Notes, accounts and pledges receivable — net	79,490	101,027	Unearned rental income	17,805	17,970
Cemeteries installment contracts	<u>47,484</u>	<u>49,285</u>	Accrued pension cost	81,756	33,253
Total receivables	<u>126,974</u>	<u>150,312</u>	Postretirement liability	125,523	108,806
PREPAID PENSION BENEFITS	<u>58,288</u>	<u>86,248</u>	Asset retirement obligations	65,326	64,545
PREPAID POSTRETIREMENT BENEFITS	<u>1,212</u>	<u> </u>	Accrued cemetery maintenance costs	313,812	309,691
CEMETERY PROPERTY — Ready and available for use	<u>57,675</u>	<u>55,109</u>	Refundable grant advance	<u>127,581</u>	<u>119,382</u>
LAND, BUILDINGS, AND EQUIPMENT:			Total liabilities	<u>1,180,272</u>	<u>1,088,159</u>
Undeveloped realty	21,013	21,012	NET ASSETS:		
Held for sale	282	355	Unrestricted — undesignated	36,648	88,423
Land	221,671	210,563	Unrestricted — designated	1,463,285	1,799,569
Buildings and equipment	2,201,424	2,103,618	Temporarily restricted	110,019	110,407
Construction in progress	<u>16,388</u>	<u>33,855</u>	Permanently restricted	<u>19,659</u>	<u>19,055</u>
Total land, buildings, and equipment	2,460,778	2,369,403	Total net assets	1,629,611	2,017,454
Less accumulated depreciation	<u>(1,131,420)</u>	<u>(1,081,698)</u>			
Land, buildings, and equipment — net	<u>1,329,358</u>	<u>1,287,705</u>			
OTHER ASSETS	<u>39,657</u>	<u>40,675</u>			
TOTAL	<u>\$ 2,809,883</u>	<u>\$ 3,105,613</u>	TOTAL	<u>\$2,809,883</u>	<u>\$3,105,613</u>

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

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR 2008) (Amounts in thousands)

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES:				
Parishes:				
Collections and activities	\$ 324,725	\$ -	\$ -	\$ 324,725
Tuition and related fees	274,568			274,568
Charitable activities:				
Fund appeals and bequests	55,187	9,766	583	65,536
Program services	235,129			235,129
Cemeteries sales and services	39,347			39,347
Archdiocesan Pastoral Center	82,278	257	21	82,556
PRMAA revenue	2,075			2,075
Annual Catholic Appeal	10,023			10,023
Investment income	21,658	88		21,746
Other	2,222			2,222
Net assets released from restrictions	26,588	(26,521)	(67)	-
Total revenues	<u>1,073,800</u>	<u>(16,410)</u>	<u>537</u>	<u>1,057,927</u>
EXPENSES:				
Parishes:				
School programs	321,320			321,320
General operations	282,869			282,869
Charitable activities	298,992			298,992
Cemeteries	44,752			44,752
Archdiocesan Pastoral Center	118,471			118,471
PRMAA expense	9,502			9,502
Annual Catholic Appeal distributions and fundraising expenses	2,421			2,421
Depreciation	56,216			56,216
Interest expense	2,430			2,430
Total expenses	<u>1,136,973</u>	<u>-</u>	<u>-</u>	<u>1,136,973</u>
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS	<u>(63,173)</u>	<u>(16,410)</u>	<u>537</u>	<u>(79,046)</u>

(Continued)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR 2008) (Amounts in thousands)

	2009			2008 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS	\$ (63,173)	\$ (16,410)	\$ 537	\$ (79,046)	\$ (25,821)
NET INVESTMENT RETURN	(229,817)	(6,208)	128	(235,897)	(49,258)
NET ASSET RECLASSIFICATIONS	(6,675)	6,736	(61)	-	-
NET PROPERTY (LOSSES) GAINS	(2,914)			(2,914)	1,734
GRANTS FOR NOISE ABATEMENT PROJECTS	1,298			1,298	8,317
PARISH BUILDING FUND COMMITMENTS RECEIVED AND COLLECTIONS		15,494		15,494	22,741
DEVELOPMENT FUND REVENUES	30			30	
DEVELOPMENT FUND EXPENSES	(1,158)			(1,158)	(1,801)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(76,088)			(76,088)	55,760
POSTRETIREMENT-RELATED CHANGES OTHER THAN NET PERIODIC POSTRETIREMENT COSTS	<u>(9,562)</u>			<u>(9,562)</u>	<u>6,338</u>
CHANGE IN NET ASSETS	(388,059)	(388)	604	(387,843)	18,010
NET ASSETS — Beginning of year	<u>1,887,992</u>	<u>110,407</u>	<u>19,055</u>	<u>2,017,454</u>	<u>1,999,444</u>
NET ASSETS — End of year	<u>\$1,499,933</u>	<u>\$110,019</u>	<u>\$19,659</u>	<u>\$1,629,611</u>	<u>\$2,017,454</u>

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, 2008 (Amounts in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Parishes:				
Collections and activities	\$ 335,303	\$ -	\$ -	\$ 335,303
Tuition and related fees	274,446			274,446
Charitable activities:				
Fund appeals and bequests	72,166	19,491	518	92,175
Program services	220,279			220,279
Cemeteries sales and services	41,233			41,233
Archdiocesan Pastoral Center	79,171	757	382	80,310
PRMAA revenue	1,568			1,568
Annual Catholic Appeal	8,671			8,671
Investment income	29,723	112		29,835
Other	1,219			1,219
Net assets released from restrictions	34,606	(34,394)	(212)	-
Total revenues	<u>1,098,385</u>	<u>(14,034)</u>	<u>688</u>	<u>1,085,039</u>
EXPENSES:				
Parishes:				
School programs	316,909			316,909
General operations	261,396			261,396
Charitable activities	297,900			297,900
Cemeteries	29,648			29,648
Archdiocesan Pastoral Center	136,934			136,934
PRMAA expense	10,447			10,447
Annual Catholic Appeal distributions and fundraising expenses	2,590			2,590
Depreciation	51,615			51,615
Interest expense	3,421			3,421
Total expenses	<u>1,110,860</u>	<u>-</u>	<u>-</u>	<u>1,110,860</u>
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS	<u>(12,475)</u>	<u>(14,034)</u>	<u>688</u>	<u>(25,821)</u>

(Continued)

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008 (Amounts in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS	\$ (12,475)	\$ (14,034)	\$ 688	\$ (25,821)
NET INVESTMENT RETURN	(49,616)	267	91	(49,258)
NET PROPERTY GAINS	1,734			1,734
GRANTS FOR NOISE ABATEMENT PROJECTS	8,317			8,317
PARISH BUILDING FUND COMMITMENTS RECEIVED AND COLLECTIONS		22,741		22,741
DEVELOPMENT FUND EXPENSES	(1,801)			(1,801)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	55,760			55,760
POSTRETIREMENT-RELATED CHANGES OTHER THAN NET PERIODIC POSTRETIREMENT COSTS	<u>6,338</u>			<u>6,338</u>
CHANGE IN NET ASSETS	8,257	8,974	779	18,010
NET ASSETS — Beginning of year	<u>1,879,735</u>	<u>101,433</u>	<u>18,276</u>	<u>1,999,444</u>
NET ASSETS — End of year	<u>\$1,887,992</u>	<u>\$110,407</u>	<u>\$19,055</u>	<u>\$2,017,454</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, 2009 AND 2008 (Amounts in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (387,843)	\$ 18,010
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Noncash credit for changes in defined benefit pension and postretirement plans other than periodic pension and postretirement expense	85,650	(62,098)
Accrued cemetery maintenance costs	4,121	(9,542)
Losses (gains) on property sales	2,914	(1,756)
Net investment return	235,897	49,262
Depreciation and accretion	57,283	51,480
Contribution for acquisition and construction of parish property	(22,362)	(21,312)
Fair value of noncash contributions received	(1,270)	(8,907)
Changes in assets and liabilities:		
Receivables	23,338	(12,607)
Cemetery property ready and available for use	(2,566)	54
Prepaid pension asset	(1,630)	(29,216)
Other assets	1,018	(3,484)
Deposits and accounts payable and accrued expenses	352	11,421
Deferred revenue	6,494	7,936
Insurance claims	(16,959)	6,531
Unearned rental income	(165)	17,970
Asset retirement obligations	(322)	1,181
Accrued pension and postretirement costs	7,948	35,983
Refundable advances from HUD	8,199	4,066
Net cash provided by operating activities	<u>97</u>	<u>54,972</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	475,948	528,821
Purchases of investments	(443,559)	(526,853)
Proceeds from sales of real estate	2,119	3,071
Purchases of land, buildings, and equipment	<u>(102,017)</u>	<u>(99,708)</u>
Net cash used in investing activities	<u>(67,509)</u>	<u>(94,669)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in borrowings under lines of credit	27,830	4,932
Repayment of other borrowings	(3,960)	
Issuance of other borrowings	200	840
Contribution for acquisition and construction of parish property	<u>22,362</u>	<u>21,312</u>
Net cash provided by financing activities	<u>46,432</u>	<u>27,084</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(20,980)	(12,613)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>124,613</u>	<u>137,226</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 103,633</u>	<u>\$ 124,613</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest	<u>\$ 1,011</u>	<u>\$ 3,007</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, 2009 AND 2008 (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 (the "Parishes") include the parishes, schools, and various shrines and oratories operated in Lake and Cook counties of Illinois. These sites minister to the spiritual, social, and educational needs of the faithful. They provide catechesis for people at all age levels — from young children to the elderly, as part of the educational ministry of the 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 and other church agencies in Lake and Cook counties. It operates the Archdiocesan Bank, providing savings and loan services to the Parishes, administers a centralized employee benefit and property and casualty insurance program, provides financial support to those parishes unable to sustain themselves, operates a seminary system for the education of priests, provides a nutritional lunch and breakfast program for students, publishes a biweekly newspaper and various liturgical-related publications, and invests available funds. Operating support is derived primarily from Parishes and Catholic Cemeteries (the "Cemeteries") assessments, employee benefit and property and casualty insurance program assessments, contributions and bequests, interest on loans to Parishes, the Annual Catholic Appeal, and investment earnings.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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. Permanently restricted net assets consist primarily of the Seminary Endowment Fund, which is the recipient of contributions that specify that only the earnings of the fund may be spent in support of seminaries' operations.

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

Investments — Investments are carried at fair value.

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

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

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

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

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

Held for sale represents property that qualifies as held for sale, as defined by 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 being 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 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 for impairment long-lived assets by comparing the future cash flows expected from the asset to the carrying value of the asset when certain conditions exist. The Archdiocese recorded an impairment loss on long-lived assets of \$2,864 in 2009.

Accrued Cemetery Maintenance — The amount recorded as “accrued cemetery maintenance 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, the discount rate used for the years ended June 30, 2009 and 2008, is 6.25%, and current maintenance costs are assumed to escalate 2.70% and 2.75% for the years ended June 30, 2009 and 2008, respectively.

Pursuant to cemetery maintenance 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.

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 2009 and 2008, the Pastoral Center settled several legal claims related to allegations of past sexual misconduct by priests totaling \$20,253 and \$11,020, respectively.

Asset Retirement Obligations — Management records all known asset retirement obligations for which the fair value can be reasonably estimated in accordance with FASB Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143*. FIN No. 47 clarifies the conditional asset retirement obligation as it is used in FASB Statement 143, *Accounting for Asset Retirement Obligations*, and requires a liability to be recorded if the fair value of the obligation to retire an asset can be reasonably estimated. The Archdiocese has recorded a liability for asset retirement obligation of \$65,326 and \$64,545 in 2009 and 2008, respectively.

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

Refundable Grant Advance — 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', Donald Kent Residences', and Pope John Paul II Residence' (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.

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

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

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

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

Derivative Instruments — The Pastoral Center entered into interest rate swap agreements to hedge a portion of its variable rate borrowings against adverse changes in interest rates. These swaps 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.

Recently Issued Accounting Pronouncements — In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, specifies acceptable valuation techniques, prioritizes the inputs used in the valuation techniques into a fair value hierarchy and expands the disclosure requirements for assets and liabilities measured at fair value on a recurring and a nonrecurring basis. The FASB Statement No. 157 hierarchy is based on observable inputs reflecting market data obtained from independent sources or unobservable inputs reflecting the Archdiocese's market assumptions. This hierarchy requires the Archdiocese to use observable market data, when available.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS No. 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of FASB Statement No. 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until the fiscal year beginning after November 15, 2008. As a result, the Archdiocese partially applied the provisions of FASB Statement No. 157 upon adoption at July 1, 2008. The Archdiocese will apply the provisions of FASB Statement No. 157 to assets or liabilities measured at fair value on a nonrecurring basis beginning July 1, 2009. Adoption of these remaining provisions is not anticipated to impact the Archdiocese's consolidated financial statements.

The Archdiocese's adoption of FASB Statement No. 157 on July 1, 2008 had no impact on financial condition or results of operations as of or for the year ended June 30, 2009. The Archdiocese has complied with the disclosure requirements of FASB Statement No. 157 in Note 8.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of FASB Statement No. 157 in an inactive market. The FSP addresses application issues such as how management's internal assumptions should be considered when measuring fair value when relevant observable data does not exist, how observable market information in a market that is not active should be considered when measuring fair value and how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value.

FSP FAS 157-3 was effective upon issuance. The Archdiocese's adoption of FSP FAS 157-3 had no impact on the consolidated financial statements as of and for the year ended June 30, 2009.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which requires entities to assess whether certain factors exist that indicate that the volume and level of market activity for an asset or liability have decreased or that transactions are not orderly. If, after evaluating those factors, the evidence indicates there has been a significant decrease in the volume and level of activity in relation to normal market activity, observed transactional values or quoted prices may not be determinative of fair value and adjustment to the observed transactional values or quoted prices may be necessary to estimate fair value. FSP FAS 157-4 had no impact on the consolidated financial statements as of and for the year ended June 30, 2009.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, *Measuring Liabilities at Fair Value*. ASU 2009-05 is an amendment of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASU 2009-05 applies to all entities that measure liabilities at fair value within the scope of ASC 820. ASU 2009-05 provides guidance on measuring fair value of liabilities under circumstances in which a quoted price in an active market for the identical liability is not available. ASU 2009-05 is effective for the Archdiocese's fiscal year ending June 30, 2010. At this time, the Archdiocese's management is evaluating the implications of ASU 2009-05 and its impact on the consolidated financial statements.

In September 2009, the FASB issued ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2009-12 provides guidance on estimating fair value of alternative investments when using the net asset value per share provided by the investment entity. ASU 2009-12 is effective for the Archdiocese's fiscal year ending June 30, 2010. At this time, the Archdiocese's management is evaluating the implications of ASU 2009-12 and its impact on the 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. FASB Statement No. 159 is effective for the Archdiocese's fiscal year beginning July 1, 2008. The Archdiocese did not elect the fair value option upon adoption or for any assets acquired or liabilities incurred during the year ended June 30, 2009.

In June 2006, the FASB issued FASB Interpretation (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. The Archdiocese has elected to defer the application of FIN No. 48 until fiscal 2010, as permitted by FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*.

The Archdiocese evaluates its uncertain tax positions using the provisions of FASB Statement No. 5, *Accounting for Contingencies*. A loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. This is subject to management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. At this time, the Archdiocese's management is evaluating the implications of FIN No. 48 and its impact on the consolidated financial statements.

In August 2008, the FASB issued FSP FAS No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP FAS No. 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA has been enacted in Illinois. The Archdiocese has donor-restricted endowment funds. The Archdiocese has determined the adoption of this component of FSP FAS No. 117-1 resulted in a reclassification of \$6,675 from unrestricted net assets to temporarily restricted net assets.

FSP FAS No. 117-1 also requires all not-for-profit organizations with donor-restricted or board-restricted endowment funds to make disclosures about such funds regardless of whether an organization is subject to an enacted version of UPMIFA. The objective of the disclosures is to provide information so that financial statement users can understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies pertaining to an organization's endowment funds. FSP FAS No. 117-1 is effective for fiscal years ending after December 15, 2008. The Archdiocese implemented FSP FAS No. 117-1 required disclosures during fiscal year 2009 (see Note 12).

In December 2008, the FASB issued FSP FAS No. 132R-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. FSP FAS No. 132R-1 is an amendment of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits — an amendment of FASB Statements No. 87, 88, and 106*. FSP FAS No. 132R-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or postretirement plan. The effective date of FSP FAS No. 132R-1 is the Archdiocese fiscal year ending June 30, 2010. FSP FAS No. 132R-1 will not have an impact on Archdiocese's financial position or results of operations as it focuses on additional disclosures.

In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events*. FASB Statement No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This statement is effective for fiscal years ending after June 15, 2009. The Archdiocese adopted this statement in June 2009 and determined this statement did not have a material impact on its consolidated financial statements. For the year ended June 30, 2009, the Archdiocese has evaluated all subsequent events through December 7, 2009, which is the date the consolidated financial statements were available to be issued.

3. INVESTMENTS

As of June 30, 2009 and 2008, the Archdiocese's investment portfolio consisted of the following:

	2009		2008	
Invested cash and short-term investments	4 %	\$ 47,593	4 %	\$ 53,559
Common stock and equity mutual funds	20	217,734	22	295,843
Fixed income securities and fixed income mutual funds	21	233,174	9	128,014
Alternative investments:				
Marketable alternative equity	31	332,829	31	414,627
Fixed income	8	82,563	15	207,811
Marketable energy and commodities	5	59,035	9	118,463
Private equity	11	120,158	10	142,634
Total alternative investments	55	594,585	65	883,535
Total	100 %	\$ 1,093,086	100 %	\$ 1,360,951

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 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.

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

As of June 30, 2009 and 2008, investments are held by the following entities:

	2009	2008
Cemeteries	\$ 504,160	\$ 633,200
Pastoral Center	76,878	106,129
Pastoral Center — on behalf of Parishes	68,251	81,772
Pastoral Center — on behalf of seminaries	58,807	78,677
Misericordia Home	230,321	275,882
Maryville	45,871	61,460
Catholic Charities	43,565	51,462
Mercy Home for Boys and Girls	60,043	66,625
PRMAA	5,190	5,744
Total	<u>\$ 1,093,086</u>	<u>\$ 1,360,951</u>

Net investment income and returns for the years ended June 30, 2009 and 2008, are as follows:

	2009	2008
Interest and dividends	\$ 21,746	\$ 29,835
Realized (losses) gains — net	(26,404)	56,696
Unrealized losses — net	<u>(209,493)</u>	<u>(105,954)</u>
Net investment income and returns	<u>\$ (214,151)</u>	<u>\$ (19,423)</u>

Net investment income and return in the consolidated statements of activities for the years ended June 30, 2009 and 2008, are as follows:

	2009	2008
Investment income	\$ 21,746	\$ 29,835
Investment return	<u>(235,897)</u>	<u>(49,258)</u>
Net investment income and return	<u>\$ (214,151)</u>	<u>\$ (19,423)</u>

4. 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 — As of June 30, 2009, the Archdiocese and its Parishes operated 217 elementary schools and six high schools. A summary of school programs expenses for the years ended June 30, 2009 and 2008, prior to consolidation, eliminations, and reclassifications is as follows:

	2009	2008
Salaries, wages, and benefits	\$ 255,996	\$ 251,942
Utilities, repairs, and insurance	30,298	29,068
Books and instructional materials	12,312	12,486
Depreciation and other expenses	<u>34,048</u>	<u>34,036</u>
Total expenses — school programs	<u>\$ 332,654</u>	<u>\$ 327,532</u>

Expenses exceeded school revenues (tuition and related fees) by \$58,086 and \$53,085 in 2009 and 2008, respectively. These excess costs were financed from general parish revenues and reserves, special fundraising activities, and grants from the Archdiocese. The data above does not include five private elementary schools and 33 private high schools within the Lake and Cook counties, operated by various religious orders.

Expenses — General Operations — For the years ended June 30, 2009 and 2008, the following is a summary of the general operations, other than for the school programs, prior to consolidation, eliminations, and reclassifications:

	2009	2008
Salaries, wages, and benefits	\$ 136,057	\$ 131,828
Utilities, repairs, and insurance	85,967	72,521
Religious education (CCD) — including salaries and expenses	19,830	19,546
Other expenses — including administrative, depreciation, church, and rectory operating costs	<u>106,435</u>	<u>100,169</u>
Total expenses — general operations	<u>\$ 348,289</u>	<u>\$ 324,064</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 \$23,756 and \$23,066 in 2009 and 2008, respectively. This assessment is eliminated in the consolidated financial statements.

Building Fund Pledges Receivable — As of June 30, 2009 and 2008, the Parishes have uncollected unconditional pledges totaling \$20,794 and \$27,682, respectively. For measurement purposes, at June 30, 2009 and 2008, a 1.125% and 2.875%, respectively, discount rate was used to determine the present value of the pledges receivable.

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

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

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

5. LAND, BUILDINGS, AND EQUIPMENT

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

Undeveloped realty at June 30, 2009 and 2008, consists of the following sites for future development:

	2009	2008
Future parish sites	\$ 12,390	\$ 12,389
Cemeteries	<u>8,623</u>	<u>8,623</u>
Total	<u>\$21,013</u>	<u>\$21,012</u>

In addition to undeveloped realty, the Archdiocese had the following land, buildings and equipment at June 30, 2009:

	Land	Buildings and Equipment	Held for Sale	Construction in Progress	Accumulated Depreciation	Total
Parishes	\$161,148	\$1,650,510	\$ -	\$ -	\$ (896,830)	\$ 914,828
Charitable						
Activities	36,775	342,040	282	15,699	(126,085)	268,711
Pastoral Center	16,996	159,434			(83,623)	92,807
Cemeteries	<u>6,752</u>	<u>49,441</u>	<u> </u>	<u>689</u>	<u>(24,882)</u>	<u>32,000</u>
Total	<u>\$221,671</u>	<u>\$2,201,425</u>	<u>\$282</u>	<u>\$16,388</u>	<u>\$(1,131,420)</u>	<u>\$1,308,346</u>

In addition to undeveloped realty, the Archdiocese had the following land, buildings and equipment at June 30, 2008:

	Land	Buildings and Equipment	Held for Sale	Construction in Progress	Accumulated Depreciation	Total
Parishes	\$ 160,346	\$1,604,066	\$ -	\$ -	\$ (859,379)	\$ 905,033
Charitable						
Activities	33,201	329,392		18,092	(117,022)	263,663
Pastoral Center	16,996	122,757	355	10,793	(81,775)	69,126
Cemeteries	<u>20</u>	<u>47,403</u>	<u> </u>	<u>4,970</u>	<u>(23,522)</u>	<u>28,871</u>
Total	<u>\$210,563</u>	<u>\$2,103,618</u>	<u>\$355</u>	<u>\$33,855</u>	<u>\$(1,081,698)</u>	<u>\$1,266,693</u>

6. BORROWINGS

A summary of borrowings at June 30, 2009 and 2008, is as follows:

	2009	2008
Pastoral Center \$10,000 term loan, originally due May 31, 2008, extended to April 30, 2010, interest rate is fixed (3.71% at June 30, 2009 and 2008)	\$ 10,000	\$ 10,000
Pastoral Center \$10,000 line of credit, payable on demand, interest rate is LIBOR plus 75 bps (1.07% and 5.99% at June 30, 2009 and 2008, respectively)	10,000	2,000
Pastoral Center note payable, due December 27, 2010, interest rate is fixed (5.19% at June 30, 2009 and 2008)	5,800	5,800
Pastoral Center note payable, due December 20, 2008, interest rate is fixed (5.92% at June 30, 2008)		3,700
Pastoral Center note payable, due January 7, 2010, interest rate is fixed (4.57% at June 30, 2009 and 2008)	1,375	1,475
Pastoral Center \$31,000 line of credit, payable on demand, interest rate is LIBOR plus 75 bps (1.07% and 4.15% at June 30, 2009 and 2008, respectively)	17,805	3,175
Pastoral Center \$13,700 line of credit, payable on demand, interest rate is LIBOR plus 125 bps (1.56% and 3.53% at June 30, 2009 and 2008, respectively)	12,200	4,000
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 2015, interest free	388	388
Catholic Charities note payable to Azteca Foods, Inc., due 2010, interest rate 5%	200	
Catholic Charities note payable to Illinois Facilities Fund, due 2015, interest rate 5%	189	222
Catholic Charities note payable to Illinois Facilities Fund, due 2023, interest rate 6.75%	964	1,000
Catholic Charities mortgages payable to HUD, due in equal monthly installments through 2033, interest rate 8.375% at June 30, 2009 and 2008	5,725	5,801
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	1,041	1,056
Catholic Charities \$10,000 line of credit, payable on demand, interest rate below prime (2.25% and 4.00% at June 30, 2009 and 2008, respectively)		<u>3,000</u>
Total	<u>\$ 75,757</u>	<u>\$ 51,687</u>

The carrying value of debt approximates fair value.

The Series 1993 A and Series 1993 B adjustable demand revenue bonds are supported by a letter of credit which provides interim financing to Charities in the event that remarketing efforts fail for tendered bonds. In 2009, Charities entered into a two-year agreement to replace its letter of credit provider. The effective date of this agreement is July 1, 2009. The letter of credit expires July 1, 2011. No remarketings of the Series 1993 A or Series 1993 B bonds have failed. These bonds are classified as borrowings in the consolidated statements of financial position at June 30, 2009 and 2008.

Principal payments at June 30, 2009, are due as follows:

**Years Ending
June 30**

2010	\$ 51,642
2011	6,071
2012	178
2013	192
2014	206
Thereafter	<u>17,468</u>
Total	<u>\$ 75,757</u>

Debt Covenants — The Pastoral Center and Charities are required to meet certain debt covenants related to minimum liquidity levels and investment-to-debt ratios. The Pastoral Center and Charities were in compliance with financial debt covenants at June 30, 2009 and 2008.

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 \$510 and \$505 as of June 30, 2009 and 2008, respectively, and are included in other assets in the consolidated statements of financial position.

7. REFUNDABLE GRANT ADVANCES

During the years ended June 30, 2009 and 2008, the Charities received certain HUD Supportive Housing for the Elderly — (Section 202) grant advances of approximately \$7,984 and \$2,999, respectively, under the terms of the federally funded program. In addition, Charities received certain affordable housing residence loans of approximately \$215 and \$1,067 during the years ended June 30, 2009 and 2008, respectively. Total advances at June 30, 2009 and 2008, were as follows:

Project	Advance		End of 40-Year Commitment
	2009	2008	
Matthew Manor	\$ 4,016	\$ 4,016	December 2035
Tolton Manor	5,515	5,515	July 2036
Frances Manor	4,823	4,823	April 2037
Lawrence Manor	8,215	8,215	October 2039
Bernardin Manor	13,990	13,990	June 2040
St. Ailbe Faith Apartments	6,836	6,836	July 2040
St. Sabina Elders	6,728	6,728	September 2040
St. Ailbe Hope Apartments	814	814	March 2041
Ozanam Village	5,152	5,152	May 2041
St. Ailbe Love Apartments	6,300	6,300	February 2042
St. Peter Claver Courts	7,749	7,749	March 2043
St. Brendan Apartments	7,958	7,958	April 2044
Bishop Goedert Residence	9,592	9,592	December 2044
St. Vincent de Paul Residence	10,891	10,891	November 2045
Donald Kent Residence	8,975	8,975	January 2046
Pope John Paul II Residences	2,253	2,253	September 2046
St. Francis of Assisi Residence	9,268	1,285	November 2047
Total HUD grant advances	119,075	111,092	
Affordable housing residence loans	8,506	8,290	Various through 2047
Total refundable grant advances	<u>\$ 127,581</u>	<u>\$ 119,382</u>	

8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Assets Measured at Fair Value — Assets measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3	Total
Invested cash and short term investments	<u>\$ 44,952</u>	<u>\$ 2,641</u>	<u>\$ -</u>	<u>\$ 47,593</u>
Common stock and equity mutual funds	<u>217,734</u>	<u> </u>	<u> </u>	<u>217,734</u>
Fixed income securities and fixed income mutual funds	<u>124,237</u>	<u>104,852</u>	<u>4,085</u>	<u>233,174</u>
Alternative investments:				
Marketable alternative equity		149,185	183,644	332,829
Fixed income		10,367	72,196	82,563
Marketable energy and commodities			59,035	59,035
Private equity	<u> </u>	<u> </u>	<u>120,158</u>	<u>120,158</u>
Total alternative investments	<u>-</u>	<u>159,552</u>	<u>435,033</u>	<u>594,585</u>
Beneficial interest in real estate trust	<u> </u>	<u> </u>	<u>211</u>	<u>211</u>
Total	<u>\$ 386,923</u>	<u>\$ 267,045</u>	<u>\$ 439,329</u>	<u>\$ 1,093,297</u>

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

Balance — July 1, 2008	\$ 668,767
Purchases	55,078
Sales	(170,838)
Realized and unrealized losses — net	<u>(113,678)</u>
Balance — June 30, 2009	<u>\$ 439,329</u>

The amount of total losses for the year included in changes in net assets attributable to the change in unrealized losses relating to assets still held at June 30, 2009	<u>\$ (53,747)</u>
--	--------------------

The following section describes the valuation methodologies used to measure different financial 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.

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 categorized in Level 1 of the fair value hierarchy.

Equity mutual funds and fixed income mutual funds are valued based on the net asset value 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, corporate bonds, asset-backed securities, and mortgage-backed securities. U.S. government securities are valued using quoted market prices and accordingly are categorized in Level 1 of the fair value hierarchy. The fair value of U.S. government agency securities, corporate bond securities, asset-backed securities, and mortgage-backed securities are estimated using recently executed transactions, market price quotations (where observable) or bond spreads. If the spread data does not reference the issuer, then data that reference a comparable issuer are used. U.S. government agency securities, corporate bond securities, asset-backed securities, and mortgage-backed securities are generally categorized in Level 2 of the fair value hierarchy.

Marketable alternative equity alternative investments are comprised of investments in fund of funds and hedge funds. Marketable alternative equity alternative investments, whose underlying assets are comprised of securities that are valued based on quoted prices from the exchange, are generally categorized in Level 2 of the fair value hierarchy. Marketable alternative equity alternative investments whose underlying assets are not observable or whose value for underlying assets is determined using unobservable inputs are categorized as Level 3 of the fair value hierarchy. These investments are valued using estimates developed by external investment managers and are accepted or adjusted through a valuation review performed by management.

Fixed income alternative investments are comprised of bond funds. Fixed income alternative investments whose underlying assets are comprised of securities that are valued based on quoted prices from the exchange are generally categorized in Level 2 of the fair value hierarchy. Fixed income alternative investments whose underlying assets are not observable or whose value for underlying assets is determined using unobservable inputs are categorized as Level 3 of the fair value hierarchy. These investments are valued using estimates developed by external investment managers and are accepted or adjusted through a valuation review performed by management.

Marketable energy and commodities are comprised of limited partnerships and hedge funds which invest in the energy and commodity sectors. 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 categorized in Level 3 of the fair value hierarchy.

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

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

9. EMPLOYEE BENEFITS

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

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

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

The Pastoral Center also has a defined contribution plan under Internal Revenue Code Section 403(b) 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 contributions up to a maximum of 4% 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 \$7,215 and \$2,923 to the plan in 2009 and 2008, respectively.

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

Share Plan contributions for employees who became eligible or were hired on or after July 1, 2007 is based on a flat percentage of gross earnings, regardless of age. The flat contribution can range from 1.25% to 5% as determined annually by the Archdiocese. The Share Plan has the same five-year cliff vesting as the defined benefit pension plan. The Archdiocese contributed and incurred expense of \$10,872 and \$13,895 for the Share Plan in 2009 and 2008, 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. The Cemeteries also provides health care benefits to retired employees. The postretirement health care plan is unfunded.

Charitable Activities — The 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.

The 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 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, 2009 and 2008, were approximately \$456 and \$321, respectively.

The Charities offers certain medical and dental benefits for retired employees. The 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, would not be offered postretirement medical and dental benefits, and employees must maintain coverage in the active employee medical plan to be eligible for medical coverage during retirement. Employees hired before July 1, 2002, had a choice of continuing their eligibility for postretirement medical and dental benefits or electing to participate in the 403(b) plan and permanently forgo any eligibility for future postretirement medical and dental benefits.

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

PRMAA — In 1999, PRMAA established a defined contribution plan covering substantially all active priests. The plan operates as a deferred salary arrangement under Internal Revenue Service Code Section 403(b). 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 2009 and 2008 were \$340 and \$354, 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.

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

Summary information for all plans at June 30, 2009 and 2008, is as follows:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Accumulated benefit obligation — overfunded plans	\$ 529,907	\$ 476,796	\$ 3,644	\$ -
Accumulated benefit obligation — underfunded plans	<u>155,877</u>	<u>140,625</u>	<u>125,523</u>	<u>113,689</u>
Accumulated benefit obligation — total	<u>\$ 685,784</u>	<u>\$ 617,421</u>	<u>\$ 129,167</u>	<u>\$ 113,689</u>
Projected benefit obligation — overfunded plans	\$ 529,907	\$ 476,796	\$ 3,644	\$ -
Projected benefit obligation — underfunded plans	<u>173,872</u>	<u>146,722</u>	<u>125,523</u>	<u>113,689</u>
Projected benefit obligation — total	<u>\$ 703,779</u>	<u>\$ 623,518</u>	<u>\$ 129,167</u>	<u>\$ 113,689</u>
Plan assets at fair value — overfunded plans	\$ 588,195	\$ 563,044	\$ 4,856	\$ -
Plan assets at fair value — underfunded plans	<u>92,116</u>	<u>113,470</u>		<u>4,884</u>
Plan assets at fair value — total	<u>\$ 680,311</u>	<u>\$ 676,514</u>	<u>\$ 4,856</u>	<u>\$ 4,884</u>
Funded status	<u>\$ (23,468)</u>	<u>\$ 52,996</u>	<u>\$ (124,311)</u>	<u>\$ (108,805)</u>
Prepaid pension asset (accrued benefit cost)	<u>\$ (23,468)</u>	<u>\$ 52,996</u>	<u>\$ (124,311)</u>	<u>\$ (108,805)</u>
Amounts recognized in statements of financial position:				
Assets	\$ 58,288	\$ 86,248	\$ 1,212	\$ -
Liabilities	<u>(81,756)</u>	<u>(33,253)</u>	<u>(125,523)</u>	<u>(108,806)</u>
Net amount recognized at end of year	<u>\$ (23,468)</u>	<u>\$ 52,995</u>	<u>\$ (124,311)</u>	<u>\$ (108,806)</u>
Benefit cost	<u>\$ 4,585</u>	<u>\$ 8,079</u>	<u>\$ 10,417</u>	<u>\$ 10,537</u>
Employer contributions	<u>\$ 4,396</u>	<u>\$ 7,506</u>	<u>\$ 4,475</u>	<u>\$ 4,585</u>
Participant contributions	<u>\$ 230</u>	<u>\$ 225</u>	<u>\$ 299</u>	<u>\$ 277</u>
Benefits paid	<u>\$ (28,910)</u>	<u>\$ (26,541)</u>	<u>\$ (5,108)</u>	<u>\$ (5,250)</u>

The pension and postretirement plans accumulated losses and prior service credits not yet recognized as a component of periodic pension and postretirement expense but accumulated in unrestricted net assets are:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Unrecognized actuarial (gain) loss	\$ (5,620)	\$ (77,794)	\$ 37,725	\$ 31,338
Unrecognized transition asset	(21)	(39)		
Unrecognized prior service cost (credit)	<u>4,000</u>	<u>106</u>	<u>(5,794)</u>	<u>(8,969)</u>
Total accumulated in unrestricted net assets	<u>\$ (1,641)</u>	<u>\$ (77,727)</u>	<u>\$ 31,931</u>	<u>\$ 22,369</u>

An estimated \$334 in prior service cost, \$18 in transition asset, and \$2,633 in net actuarial gain will be included as components of periodic pension expense in 2010. An estimated \$619 in prior service credit and \$1,638 in net actuarial loss will be included as components of periodic postretirement expense in 2010.

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 2009, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Prior service credit arising during the period	\$ 4,250	\$ (4,024)	\$ 2,220	\$ -
Actuarial loss (gain) arising during the period	72,483	(51,019)	7,671	(5,405)
Reclassification adjustment for recognition of prior service (cost) credit	(629)	(722)	956	1,004
Reclassification adjustment for recognition of transition asset	18	5		
Reclassification adjustment for recognition of actuarial loss	<u>(34)</u>	<u> </u>	<u>(1,285)</u>	<u>(1,937)</u>
Total recognized as a separate charge to net assets	<u>\$ 76,088</u>	<u>\$ (55,760)</u>	<u>\$ 9,562</u>	<u>\$ (6,338)</u>

Actuarial assumptions for the plans as of June 30, 2009 and 2008, are as follows:

	<u>2009</u>		<u>2008</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)	6.19–6.50%	6.20–6.27%	6.75–7.00%	6.75–7.00%
Discount rate (cost)	6.75–7.00%	6.27–7.00%	6.25–6.28%	6.36–7.00%
Expected return on plan assets	5.50–8.00%	0–2.00%	5.50–8.00%	2.00%
Rate of compensation increase	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 the plans.

Plan assets for the plans at June 30, 2009 and 2008, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Invested cash	1 %	1 %	46 %	53 %
Common stocks	5	6		
Alternative investments	7	11	11	7
U.S. government securities	34	40	43	40
Corporate debt securities	<u>53</u>	<u>42</u>	<u> </u>	<u> </u>
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 achieve this objective, the Archdiocese generally invests in a diversified portfolio of investments, including fixed income securities.

The Archdiocese plans to contribute \$5,685 to the pension plans and \$5,483 to the postretirement plans in 2010.

The following benefit payments, which reflect expected future services, as appropriate, at June 30, 2009, are expected to be paid:

Years Ending June 30	Pension Benefits	Postretirement Benefits
2010	\$ 32,790	\$ 5,805
2011	37,330	6,172
2012	39,773	6,484
2013	42,126	6,818
2014	44,712	7,259
2015 and beyond	258,312	44,667

For measurement purposes, a 7%–8.5% gross health care trend rate was used for 2009 disclosures. Trend rates were assumed to decrease gradually to 5% in fiscal year 2011–2017 and remain at that level beyond.

10. NONCASH ASSISTANCE

During the years ended June 30, 2009 and 2008, the Charities received certain food commodities with a value of approximately \$3,395 and \$3,492, respectively, under the terms of a federally funded program whereby the 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 Charities recorded in-kind donations of gifts in the amount of \$1,063 and \$1,247 during the years ended June 30, 2009 and 2008, respectively, which it distributed to the families it serves.

11. NET ASSETS

Net assets at June 30, 2009, comprise the following:

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

Net assets at June 30, 2008, comprise the following:

	Unrestricted Undesignated	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Parishes	\$ -	\$ 861,222	\$ 82,251	\$ -	\$ 943,473
Charitable activities		538,515	38,106	4,366	580,987
Cemeteries		291,724			291,724
Pastoral Center	88,423	67,820	29,557	14,689	200,489
PRMAA		781			781
Reclassifications		39,507	(39,507)		-
Total	<u>\$ 88,423</u>	<u>\$ 1,799,569</u>	<u>\$ 110,407</u>	<u>\$ 19,055</u>	<u>\$ 2,017,454</u>

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

12. ENDOWMENTS

The Archdiocese endowments includes funds that are established for a variety of purposes and include both donor-restricted endowment funds and designated funds designated to function as endowments. As required by accounting principles generally accepted in the United States of America (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 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, 2009, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ (1,353)	\$ 11,378	\$ 19,659	\$ 29,684
Designated funds	<u>273,998</u>	<u> </u>	<u> </u>	<u>273,998</u>
Total funds	<u>\$ 272,645</u>	<u>\$ 11,378</u>	<u>\$ 19,659</u>	<u>\$ 303,682</u>

Endowment net asset composition by type of fund as of June 30, 2008, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ (99)	\$ 8,939	\$ 19,055	\$ 27,895
Designated funds	<u>336,177</u>	<u> </u>	<u> </u>	<u>336,177</u>
Total funds	<u>\$ 336,078</u>	<u>\$ 8,939</u>	<u>\$ 19,055</u>	<u>\$ 364,072</u>

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

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

Changes in endowment net assets for the year ended June 30, 2008, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	<u>\$ 361,587</u>	<u>\$ 7,169</u>	<u>\$ 16,980</u>	<u>\$ 385,736</u>
Investment return:				
Dividend and interest income — net	10,228	340		10,568
Realized and unrealized (losses) gains	<u>(40,621)</u>	<u>(41)</u>	<u>74</u>	<u>(40,588)</u>
Total investment return	(30,393)	299	74	(30,020)
Contributions	134	1,886	2,057	4,077
Transfer of net assets	23,576			23,576
Appropriation of endowment assets for expenditures	<u>(18,826)</u>	<u>(415)</u>	<u>(56)</u>	<u>(19,297)</u>
Endowment net assets — end of year	<u>\$ 336,078</u>	<u>\$ 8,939</u>	<u>\$ 19,055</u>	<u>\$ 364,072</u>

Funds With Deficiencies — From time to time, the fair value of assets associated with individual donor permanently restricted funds may fall below the level that the donor or UPMIFA requires the Archdiocese to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and were \$1,353 and \$99 as of June 30, 2009 and 2008, 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 2009 and 2008.

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

13. COMMITMENTS AND CONTINGENCIES

Cemeteries owns two landfills, which are the subject of certain environmental remediation plans required by the Illinois Environmental Protection Agency. Both landfills are now closed and have been closed for more than 15 years. The ultimate cost of the remediation will be shared by two parties, including Cemeteries, who is the owner, and an unrelated party, who was the operator. While the owner and the operator have each engaged engineers to study the issues related to these sites and develop plans and estimates related to remediation, and remediation has begun, the future costs are only estimable within a wide range covering a period of more than 20 years. The engineering estimates for the total costs of remediation for both the owner and the operator are likely to fall in a range of \$11,000 to \$35,000. The accrued landfill liability balance related to the owner's landfill liability was \$14,800 and \$16,100 as of June 30, 2009 and 2008, 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, 2009 and 2008, contractual commitments on construction in process or pending for Parishes and Cemeteries amounted to approximately \$35,932 and \$22,670, respectively.

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

The Archdiocesan Finance Council and its Investment Committee oversee a Pooled Investment Fund for various entities in the Archdiocese including the Pastoral Center, Parishes, the seminaries, Cemeteries, PRMAA, and Charitable Activities' agencies. The Pooled Investment Fund invests with a number of investment managers in various equity and fixed income products. A portion of the investments are in nonmarketable investments through limited partnerships. At any point in time, the Archdiocese has open commitments to fund additional capital calls to the limited partnerships. The aggregate amount of open commitments for the Pooled Investment Fund as of June 30, 2009 and 2008, is \$91,345 and \$119,497, respectively.

Other various legal actions and governmental proceedings involve the CBC 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 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.

In September 2003, the U.S. Department of Justice issued a subpoena to Maryville. 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.

14. LEASES

The Pastoral Center entered into a lease agreement with Loyola University of Chicago in 2002 to lease Campion Hall for the use of St. Joseph Seminary. Total rental expense for the years ended June 30, 2009 and 2008, was \$697 and \$677, respectively.

As of June 30, 2009, future payments under this agreement are as follows:

Years Ending June 30	
2010	\$ 718
2011	718
2012	<u>718</u>
Total	<u>\$2,154</u>

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

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.

At June 30, 2009, future minimum rental expense related to this operating lease is as follows:

Years Ending June 30	
2010	\$ 6,134
2011	4,700
2012	3,251
2013	1,779
2014	1,670
Thereafter	<u>9,341</u>
Total	<u>\$26,875</u>

15. FUNCTIONAL EXPENSES

The summary of expenses by functional classification and reconciliation to total expenses for the years ended June 30, 2009 and 2008, is as follows:

	2009	2008
Program activities:		
Pastoral Center program activities	\$ 84,150	\$ 105,383
Cemetery services	41,142	26,455
Educational activities	332,654	327,532
Parish operations	309,377	286,255
Charitable Activities programs	278,872	275,897
PRMAA expense	<u>9,502</u>	<u>10,447</u>
Total program activities	1,055,697	1,031,969
Fundraising and development expenses	14,121	15,268
Management and general expenses	<u>56,889</u>	<u>53,777</u>
Total functional expenses	1,126,707	1,101,014
Annual appeal disbursements	7,836	6,425
Interest expense	<u>2,430</u>	<u>3,421</u>
Expenses — net	<u>\$1,136,973</u>	<u>\$1,110,860</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.

* * * * *