

Parishes — Archdiocese of Chicago

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

PARISHES — ARCHDIOCESE OF CHICAGO

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the combined financial statements of the Parishes — Archdiocese of Chicago (the “Parishes”) as of June 30, 2009 and 2008, 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 combined financial statements is the representation of the management of the Archdiocese of Chicago.

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

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying combined financial statements 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

PARISHES — ARCHDIOCESE OF CHICAGO

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

	2009	2008
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 67,400	\$ 77,831
DEPOSITS WITH ARCHDIOCESAN PASTORAL CENTER	165,399	189,081
BUILDING FUND PLEDGES RECEIVABLE — Net	20,794	27,682
GIFT ANNUITIES RECEIVABLE	182	333
LAND, BUILDINGS, AND EQUIPMENT:		
Land	161,148	160,346
Buildings and equipment	1,650,510	1,604,066
Accumulated depreciation	(896,830)	(859,379)
Land, buildings, and equipment — net	914,828	905,033
TOTAL	<u>\$ 1,168,603</u>	<u>\$ 1,199,960</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Loans from Archdiocesan Pastoral Center	\$ 88,581	\$ 92,957
Accounts payable and other liabilities	43,974	36,558
Accrued postretirement liability	74,742	65,356
Asset retirement obligations	62,607	61,616
Total liabilities	269,904	256,487
NET ASSETS:		
Unrestricted	833,304	861,222
Temporarily restricted	65,395	82,251
Total net assets	898,699	943,473
TOTAL	<u>\$ 1,168,603</u>	<u>\$ 1,199,960</u>

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

PARISHES — ARCHDIOCESE OF CHICAGO

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

	Unrestricted	Temporarily Restricted	Total
REVENUES:			
Parish operations:			
Collections and bequests	\$ 216,650	\$ -	\$ 216,650
Other revenues	108,075		108,075
Return (loss) on deposits with Archdiocesan Pastoral Center	<u>(9,229)</u>		<u>(9,229)</u>
Total parish operations	<u>315,496</u>	<u>-</u>	<u>315,496</u>
Educational activities:			
Tuition and fees	229,034		229,034
Other revenues	<u>45,534</u>		<u>45,534</u>
Total educational activities	<u>274,568</u>	<u>-</u>	<u>274,568</u>
Total revenues	<u>590,064</u>	<u>-</u>	<u>590,064</u>
EXPENSES:			
Parish operations:			
Salaries, wages, and benefits	136,057		136,057
Utilities, repairs, and insurance	85,967		85,967
Religious education (CCD)	19,830		19,830
Archdiocesan assessments	23,756		23,756
Office, printing, and postage	8,547		8,547
Depreciation	26,508		26,508
Other expenses	39,946		39,946
Interest expense	<u>7,678</u>		<u>7,678</u>
Total parish operations	<u>348,289</u>	<u>-</u>	<u>348,289</u>
Educational activities:			
Salaries, wages, and benefits	255,996		255,996
Utilities, repairs, and insurance	30,298		30,298
Books and instructional materials	12,312		12,312
Depreciation	11,334		11,334
Other expenses	<u>22,714</u>		<u>22,714</u>
Total educational activities	<u>332,654</u>	<u>-</u>	<u>332,654</u>
Total expenses	<u>680,943</u>	<u>-</u>	<u>680,943</u>

(Continued)

PARISHES — ARCHDIOCESE OF CHICAGO

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

	Unrestricted	Temporarily Restricted	Total
CHANGE IN NET ASSETS BEFORE ARCHDIOCESAN PASTORAL CENTER SUPPORT, OTHER OPERATING ACTIVITIES, AND POST-RETIREMENT RELATED CHANGES	\$ (90,879)	\$ -	\$ (90,879)
GRANTS FROM THE ARCHDIOCESAN PASTORAL CENTER	<u>34,107</u>	<u> </u>	<u>34,107</u>
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ACTIVITIES AND POST-RETIREMENT RELATED CHANGES	(56,772)	-	(56,772)
OTHER OPERATING ACTIVITIES:			
Gains on land, building, and equipment sales — net	1,598		1,598
Grants received for noise abatement projects	1,298		1,298
Building fund commitments received and collections		15,494	15,494
Accretion expense of asset retirement obligations	(991)		(991)
Interentity transfer	39		39
Net assets released from restrictions	<u>32,350</u>	<u>(32,350)</u>	<u>-</u>
Change in net assets before post-retirement related changes	(22,478)	(16,856)	(39,334)
POST-RETIREMENT RELATED CHANGES OTHER THAN PERIODIC POSTRETIREMENT COST	<u>(5,440)</u>	<u> </u>	<u>(5,440)</u>
CHANGE IN NET ASSETS	(27,918)	(16,856)	(44,774)
NET ASSETS — Beginning of year	<u>861,222</u>	<u>82,251</u>	<u>943,473</u>
NET ASSETS — End of year	<u>\$ 833,304</u>	<u>\$ 65,395</u>	<u>\$ 898,699</u>

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

(Concluded)

PARISHES — ARCHDIOCESE OF CHICAGO

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

	Unrestricted	Temporarily Restricted	Total
REVENUES:			
Parish operations:			
Collections and bequests	\$ 224,574	\$ -	\$ 224,574
Other revenues	110,729		110,729
Return on deposits with Archdiocesan Pastoral Center	6,215		6,215
Total parish operations	<u>341,518</u>	<u>-</u>	<u>341,518</u>
Educational activities:			
Tuition and fees	228,199		228,199
Other revenues	46,248		46,248
Total educational activities	<u>274,447</u>	<u>-</u>	<u>274,447</u>
Total revenues	<u>615,965</u>	<u>-</u>	<u>615,965</u>
EXPENSES:			
Parish operations:			
Salaries, wages, and benefits	131,828		131,828
Utilities, repairs, and insurance	72,521		72,521
Religious education (CCD)	19,546		19,546
Archdiocesan assessments	23,066		23,066
Office, printing, and postage	9,146		9,146
Depreciation	24,859		24,859
Other expenses	35,803		35,803
Interest expense	7,295		7,295
Total parish operations	<u>324,064</u>	<u>-</u>	<u>324,064</u>
Educational activities:			
Salaries, wages, and benefits	251,942		251,942
Utilities, repairs, and insurance	29,068		29,068
Books and instructional materials	12,486		12,486
Depreciation	10,623		10,623
Other expenses	23,413		23,413
Total educational activities	<u>327,532</u>	<u>-</u>	<u>327,532</u>
Total expenses	<u>651,596</u>	<u>-</u>	<u>651,596</u>

(Continued)

PARISHES — ARCHDIOCESE OF CHICAGO

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

	Unrestricted	Temporarily Restricted	Total
CHANGE IN NET ASSETS BEFORE ARCHDIOCESAN PASTORAL CENTER SUPPORT, OTHER OPERATING ACTIVITIES, AND POST-RETIREMENT RELATED CHANGES	\$ (35,631)	\$ -	\$ (35,631)
GRANTS FROM THE ARCHDIOCESAN PASTORAL CENTER	<u>14,973</u>	<u> </u>	<u>14,973</u>
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ACTIVITIES AND POST-RETIREMENT RELATED CHANGES	(20,658)	-	(20,658)
OTHER OPERATING ACTIVITIES:			
Gains on land, building, and equipment sales — net	2,529		2,529
Grants received for noise abatement projects	8,317		8,317
Building fund commitments received and collections		22,741	22,741
Accretion expense of asset retirement obligations	(1,031)		(1,031)
Interentity transfer	297		297
Net assets released from restrictions	<u>17,931</u>	<u>(17,931)</u>	<u>-</u>
Change in net assets before post-retirement related changes	7,385	4,810	12,195
POST-RETIREMENT RELATED CHANGES OTHER THAN PERIODIC POST-RETIREMENT COST	<u>5,086</u>	<u> </u>	<u>5,086</u>
CHANGE IN NET ASSETS	12,471	4,810	17,281
NET ASSETS — Beginning of year	<u>848,751</u>	<u>77,441</u>	<u>926,192</u>
NET ASSETS — End of year	<u>\$ 861,222</u>	<u>\$ 82,251</u>	<u>\$ 943,473</u>

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

(Concluded)

PARISHES — ARCHDIOCESE OF CHICAGO

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (Amounts in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (44,774)	\$ 17,281
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and accretion	38,833	36,513
Postretirement changes other than periodic postretirement cost	5,440	(5,086)
Gains on land, buildings, and equipment sales — net	(1,598)	(2,529)
Noncash grants received	(18,778)	(3,448)
Noncash interentity property transfer	(133)	(297)
Contributions for acquisition and construction of parish property	(22,362)	(21,312)
Change in assets and liabilities:		
Accounts payable and other liabilities	7,416	2,791
Accrued postretirement liability	3,946	4,162
	<u>(32,010)</u>	<u>28,075</u>
Net cash (used in) provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of land, buildings, and equipment	1,947	2,933
Purchases of land, buildings, and equipment	(47,853)	(60,462)
Net change in deposits with Archdiocesan Pastoral Center	23,682	(1,911)
	<u>(22,224)</u>	<u>(59,440)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Building fund pledges receivable — net	6,888	(1,429)
Gift annuities receivable	151	22
Loan borrowings from Archdiocesan Pastoral Center	27,029	17,496
Loan repayments to Archdiocesan Pastoral Center	(12,627)	(11,454)
Contributions for acquisition and construction of parish property	22,362	21,312
	<u>43,803</u>	<u>25,947</u>
Net cash provided by financing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,431)	(5,418)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>77,831</u>	<u>83,249</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 67,400</u>	<u>\$ 77,831</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid during the year for interest		
	<u>\$ 5,102</u>	<u>\$ 5,673</u>

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

PARISHES — ARCHDIOCESE OF CHICAGO

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (See independent accountants' review report) (Amounts in thousands)

1. NATURE OF OPERATIONS

The Parishes — 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, fund-raising, and investment of reserve funds. Operating support is derived primarily from parishioners’ contributions, tuition and fees, and fund-raising activities.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

Asset Retirement Obligations — Management records all known asset retirement obligations for which the fair value can be reasonably estimated in accordance with Financial Accounting Standards Board (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 No. 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 Parishes have recorded a liability for asset retirement obligation of \$62,607 and \$61,616 in 2009 and 2008, respectively.

Asset Impairment — Management reviews the carrying amount of long-lived assets whenever events or changes in circumstances indicate that impairment may have occurred in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The provisions under this statement include a requirement that long-lived assets be reviewed for impairment by comparing the future cash flows expected from the asset to the carrying value of asset when certain conditions exist or events occur. In management's opinion, no impairment exists as of June 30, 2009 or 2008.

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

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

Temporarily Restricted — Net assets whose use is limited by donor-imposed restrictions that either expire with the passage of time or can be removed by fulfillment of the stipulated purpose for which the donation was restricted. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions. Temporarily restricted net assets as of June 30, 2009 and 2008, represent building fund pledges used to assist in the financing of capital projects for parishes.

Permanently Restricted — Net assets donated with stipulations that they be invested to provide a permanent source of income; such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose. There are no permanently restricted net assets as of June 30, 2009 or 2008.

Revenue Recognition — Unconditional promises to give cash and other assets to the Parishes are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the contribution is received. Cash received through parish collections or fundraisers is recognized when received. Tuition and fees for educational activities are recognized during the related academic year.

Contributed Services — Support arising from services contributed by religious personnel in parish schools totaling \$8 and \$102 during 2009 and 2008, respectively, has been recognized in the combined 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.

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

Recently Issued Accounting Pronouncements — In September 2006, the FASB issued 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 Parishes market assumptions. This hierarchy requires the Parishes 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* (FSP FAS No. 157-2), 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 Parishes partially applied the provisions of FASB Statement No. 157 upon adoption at July 1, 2008. The Parishes will apply the provisions of FASB Statement No. 157 to assets or liabilities measured at fair value on a nonrecurring basis at July 1, 2009. Adoption of these remaining provisions is not anticipated to impact the Parishes combined financial statements.

The Parishes 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 Parishes have complied with the disclosure requirements of FASB Statement No. 157 in Note 5.

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 Parishes adoption of FSP FAS 157-3 had no impact on the combined 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 combined financial statements as of and for the year ended June 30, 2009.

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 Parishes' fiscal year ending June 30, 2010. At this time, the implications of ASU 2009-12 and its impact on the combined financial statements are being evaluated.

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 Parishes fiscal year beginning July 1, 2008. The Parishes 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 Parishes have elected to defer the application of FIN No. 48 until fiscal 2010.

The Parishes evaluate 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 implications of FIN No. 48 and its impact on the combined financial statements are being evaluated.

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 Parishes adopted this statement in June 2009. For the year ended June 30, 2009, the Parishes have evaluated all subsequent events through December 7, 2009, which is the date the financial statements were available to be issued.

3. DEPOSITS WITH ARCHDIOCESAN PASTORAL CENTER

Deposits at June 30, 2009 and 2008, consisted of the following:

	2009	2008
Savings accounts	\$ <u>97,150</u>	<u>\$ 107,309</u>
Investments:		
Invested cash	<u>2,030</u>	<u>3,822</u>
Common stocks and mutual funds	<u>3,622</u>	<u>5,037</u>
Fixed income mutual funds	<u>12,565</u>	<u>379</u>
Alternative investments:		
Marketable alternative equity	25,923	29,644
Fixed income	10,238	23,890
Marketable energy and commodities	4,628	8,698
Private equity	<u>9,243</u>	<u>10,302</u>
Total alternative investments	<u>50,032</u>	<u>72,534</u>
Total investments	<u>68,249</u>	<u>81,772</u>
Total	<u>\$ 165,399</u>	<u>\$ 189,081</u>

(Losses) return on deposits with Archdiocesan Pastoral Center for the years ended June 30, 2009 and 2008, are as follows:

	2009	2008
Interest income on savings accounts and investments	\$ 1,999	\$ 4,106
Realized/unrealized (loss) gain on investments	<u>(11,228)</u>	<u>2,109</u>
Total	<u>\$ (9,229)</u>	<u>\$ 6,215</u>

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 statements of financial position and in the statements of activities.

4. BUILDING FUND PLEDGES RECEIVABLE

As of June 30, 2009 and 2008, the Parishes have remaining 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>
Total building fund pledges receivable — net	<u>\$ 10,270</u>	<u>\$ 10,524</u>	<u>\$ 20,794</u>

5. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
Invested cash	<u>\$ 2,030</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,030</u>
Common stock and mutual funds	<u>3,622</u>	<u> </u>	<u> </u>	<u>3,622</u>
Fixed income mutual funds	<u>12,565</u>	<u> </u>	<u> </u>	<u>12,565</u>
Alternative investments:				
Marketable alternative equity		11,561	14,362	25,923
Fixed income			10,238	10,238
Marketable energy and commodities			4,628	4,628
Private equity	<u> </u>	<u> </u>	<u>9,243</u>	<u>9,243</u>
Total alternative investments	<u>-</u>	<u>11,561</u>	<u>38,471</u>	<u>50,032</u>
Total	<u>\$ 18,217</u>	<u>\$ 11,561</u>	<u>\$ 38,471</u>	<u>\$ 68,249</u>

The 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	\$ 63,946
Purchases	4,303
Sales	(21,253)
Realized and unrealized gains (losses) — net	<u>(8,525)</u>
Balance — June 30, 2009	<u>\$ 38,471</u>
The amount of total gains (losses) for the year included in changes in net assets attributable to the change in unrealized gains (losses) relating to assets still held at June 30, 2009	<u>\$ (8,853)</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 Parishes use 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.

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.

Marketable alternative equity securities are comprised of investments in fund of funds and hedge funds. Marketable alternative equity securities 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 securities 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 investment securities 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.

6. COMMITMENTS

At June 30, 2009 and 2008, contractual commitments on construction in process amounted to \$29,632 and \$18,170, respectively. There were no purchases pending at June 30, 2009 or 2008.

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.

7. RETIREMENT BENEFITS

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

Parishes are assessed for fringe benefits by the Pastoral Center based on the parish payroll. The assessment for these costs was \$19,767 for both 2009 and 2008.

Parishes are also assessed for health and medical benefits related to priests by the PRMAA. The assessment for these costs was \$7,478 and \$7,448 for 2009 and 2008, respectively, and is reflected in parish operations — salaries, wages, and benefits on the combined statements of activities.

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

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

Summary information for the priests' postretirement benefit plan at June 30, 2009 and 2008, is as follows:

	2009	2008
Change in benefit obligation:		
Benefit obligation — beginning of year	\$ 65,356	\$ 66,280
Service cost	1,633	1,611
Interest cost	4,310	4,116
Actuarial losses (gains)	6,368	(3,795)
Benefits paid	<u>(2,925)</u>	<u>(2,856)</u>
Benefit obligation — end of year	<u>\$ 74,742</u>	<u>\$ 65,356</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ -	\$ -
Employer contributions	2,925	2,856
Benefits paid	<u>(2,925)</u>	<u>(2,856)</u>
Fair value of plan assets — end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status — end of year	<u>\$ (74,742)</u>	<u>\$ (65,356)</u>
Net accrued benefit cost	<u>\$ (74,742)</u>	<u>\$ (65,356)</u>
Amounts recognized in the combined statements of financial position — accrued postretirement cost	<u>\$ (74,742)</u>	<u>\$ (65,356)</u>

The components of net periodic benefit cost for the years ended June 30, 2009 and 2008, are as follows:

	2009	2008
Components of net periodic benefit cost:		
Service cost	\$ 1,633	\$ 1,611
Interest cost	4,310	4,116
Recognized net actuarial loss	<u>927</u>	<u>1,292</u>
Total net periodic benefit cost	<u>\$ 6,870</u>	<u>\$ 7,019</u>

The postretirement plan items not yet recognized as a component of periodic postretirement cost, but included as a separate charge to net assets during 2009 and 2008, are as follows:

	2009	2008
Actuarial loss (gain) arising during the period	\$ 6,367	\$ (3,794)
Reclassification adjustment for recognition of actuarial loss	<u>(927)</u>	<u>(1,292)</u>
Total recognized as a separate charge to net assets	<u>\$ 5,440</u>	<u>\$ (5,086)</u>

The postretirement plan accumulated net actuarial loss not yet recognized as a component of periodic postretirement cost but accumulated in unrestricted net assets as of June 30, 2009 and 2008, are \$25,787 and \$20,347, respectively. An estimated \$1,245 of net actuarial loss will be included as a component of periodic postretirement cost in 2010.

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

	2009	2008
Weighted-average assumptions used to determine benefit obligations as of June 30:		
Discount rate	6.20 %	6.75 %
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine benefit cost for the years ended June 30:		
Discount rate	6.75 %	6.36 %
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

For measurement purposes, a 8.5% and 9.0% net health care trend rate was used for fiscal year 2009 and 2008, respectively. Trend rates were assumed to decrease gradually to 5% in fiscal year 2017 and remain at this level beyond.

Benefits paid in fiscal years 2009 and 2008 of \$2,925 and \$2,856, respectively, have been recorded in the PRMAA financial statements. The excess of total postretirement benefit expense over such benefits paid (\$3,945 in 2009 and \$4,163 in 2008) has been recorded in the Parishes' combined financial statements.

The Parishes expect to contribute, via assessments collected by PRMAA, \$3,219 to this plan in 2010.

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

2010	\$ 3,219
2011	3,421
2012	3,574
2013	3,725
2014	3,949
2015–2019	24,703

8. TRANSACTIONS WITH RELATED PARTIES

Archdiocesan Assessments — Each parish is assessed annually from the Pastoral Center for the support of Pastoral Center activities. This assessment is computed as 10% of operating revenue from two years prior. For example, the 2009 assessment is 10% of 2007 operating revenue. Archdiocesan assessments were \$23,756 and \$23,066 in 2009 and 2008, respectively.

PRMAA Assessments — Each parish is assessed annually from the PRMAA to reimburse the PRMAA for health and medical benefits for current and retired priests. This assessment is computed as 3.5% of prior-year ordinary income. PRMAA assessments were \$7,478 and \$7,448 in 2009 and 2008, respectively, and were recorded in parish salaries, wages, and benefits.

Sharing Christ's Gifts Assessment — The purpose of the Sharing Christ's Gifts Campaign is to raise funds for the capital, endowment, and ministerial needs of the Parishes. As part of the campaign, the Parishes will provide 20% of their ordinary income (defined as total revenues from parish operations) for the fiscal year prior to their participation in Sharing Christ's Gifts. The portion of funds to be shared will be remitted to the Pastoral Center and used to support various Archdiocesan-wide capital projects (e.g., grants to support Archdiocesan programs at needy parishes, priests' retirement home, repairs at University of St. Mary of the Lake) and pay for the primary expenses of the campaign. The Parishes have recorded sharing amounts due to the Pastoral Center in the year that the campaign was commenced. Included in accounts payable is the net amount due to the Pastoral Center related to prior-year's Sharing Christ's Gifts assessments totaling \$273 and \$245 at June 30, 2009 and 2008, respectively.

Insurance Program — The Parishes participate in a self-insurance program coordinated by the Archdiocese of Chicago. In the event that the Parishes withdraw from participation in the program, amounts may be payable to the Archdiocese of Chicago for residual liabilities relating to historical claims experience or for claims incurred but not yet reported.

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

Deposits With and Loans From Archdiocesan Pastoral Center — Generally, deposits bear interest at rates that are contingent upon the amount and availability of the deposit. During 2009 and 2008, the interest rates paid on deposits ranged from 0.75% to 2.5% and 1.25% to 5.10%, respectively. The Parishes may invest in pooled investment accounts that are in various investments and whose returns are dependent upon market conditions. The estimated fair values of investments that do not have readily determinable fair values, and of other investments, are based on estimates provided by external investment managers and are examined through a valuation review process performed by management. A range of possible values exists for these investments, and therefore, the estimated values may differ from the values that would have been used had a ready market for these securities existed. Loans bear interest at rates below the prevailing commercial interest rates.

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