

***Archdiocesan Pastoral
Center—Archdiocese of
Chicago***

*Financial Statements as of and for the
Year Ended June 30, 2006,
Additional Information for the Year Ended
June 30, 2006, and
Independent Auditors' Report*

ARCHDIOCESAN PASTORAL CENTER—ARCHDIOCESE OF CHICAGO

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INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the Archdiocesan Pastoral Center—Archdiocese of Chicago as of June 30, 2006, and for the year then ended, listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Archdiocesan Pastoral Center—Archdiocese of Chicago as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Archdiocesan Pastoral Center—Archdiocese of Chicago changed its method of accounting for conditional asset retirement obligations in 2006.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

November 8, 2006

ARCHDIOCESAN PASTORAL CENTER—ARCHDIOCESE OF CHICAGO

STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2006

(Amounts in thousands)

ASSETS		LIABILITIES AND NET ASSETS	
CASH AND CASH EQUIVALENTS	\$ 13,494	SAVINGS DEPOSITS:	
INVESTMENTS	<u>231,704</u>	Parishes	\$ 171,964
RECEIVABLES:		Other religious organizations	<u>3,621</u>
Loans to parishes and religious orders—net	101,505	Total savings deposits	<u>175,585</u>
Operating—net	14,257	ACCOUNTS PAYABLE	<u>17,403</u>
Development fund—net	<u>7,241</u>	BANK BORROWINGS	<u>37,245</u>
Total receivables	<u>123,003</u>	LIABILITIES OF AFFILIATED AGENCIES	<u>6,256</u>
ASSETS OF AFFILIATED AGENCIES	<u>18,821</u>	ASSET RETIREMENT OBLIGATIONS	<u>1,423</u>
LAND, BUILDINGS, AND EQUIPMENT:		OTHER LIABILITIES:	
Undeveloped realty	12,205	Insurance claims	88,826
Closed parish property	3,408	Accrued pension cost	95,984
Land	17,016	Undistributed collections	2,339
Buildings and equipment	96,677	Annuity obligations	<u>2,677</u>
Accumulated depreciation	<u>(60,546)</u>	Total other liabilities	<u>189,826</u>
Land, buildings, and equipment—net	68,760	Total liabilities	<u>427,738</u>
		NET ASSETS:	
		Unrestricted—undesignated	(87,078)
		Unrestricted—board designated—seminaries	66,302
		Temporarily restricted	35,345
		Permanently restricted	<u>13,475</u>
		Total net assets	<u>28,044</u>
TOTAL	<u>\$455,782</u>	TOTAL	<u>\$ 455,782</u>

See notes to financial statements.

ARCHDIOCESAN PASTORAL CENTER—ARCHDIOCESE OF CHICAGO

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Parishes assessment	\$ 21,976	\$ -	\$ -	\$ 21,976
Cemeteries assessment	5,500			5,500
Assessments for insurance	89,068			89,068
Investment return designated for current operations	9,760	1,420		11,180
Interest income—parish and agency loans	6,773			6,773
Food service	42,982			42,982
Publications	8,728			8,728
Pastoral Center services	11,150			11,150
Seminaries	11,341			11,341
Annual Catholic Appeal	10,516			10,516
Contributions and bequests	3,930	537	618	5,085
Other	573			573
	<u>222,297</u>	<u>1,957</u>	<u>618</u>	<u>224,872</u>
Total revenues				
EXPENSES:				
Parish and agency grants:				
Operating	3,954			3,954
Capital	1,091			1,091
Provision for uncollectible loans and operating receivables	12,287			12,287
Insurance program	132,215			132,215
Interest expense:				
Savings deposits	9,742			9,742
Bank borrowings	1,701			1,701
Food service	40,270			40,270
Publications	7,694			7,694
Pastoral Center services	39,544			39,544
Seminaries	15,408			15,408
Annual Catholic Appeal distributions and fundraising expenses	2,230			2,230
Depreciation	2,895			2,895
Other	4,746			4,746
	<u>273,777</u>			<u>273,777</u>
Total expenses				
LOSS FROM OPERATIONS	(51,480)	1,957	618	(48,905)
NET ASSETS RELEASED FROM RESTRICTIONS	9,450	(9,450)		
MINIMUM PENSION LIABILITY RECOVERY	102,760			102,760
INVESTMENT RETURN IN EXCESS OF RETURNS FOR CURRENT OPERATIONS	7,657	1,522	283	9,462
NET PROPERTY GAINS	31,750			31,750
DEVELOPMENT FUND REVENUES	200	532		732
DEVELOPMENT FUND EXPENSES	(4,664)			(4,664)
INTER-ENTITY TRANSFERS	(2,320)			(2,320)
PARISH IMPROVEMENT FUND GRANTS	(622)			(622)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(1,290)			(1,290)
CHANGE IN NET ASSETS	91,441	(5,439)	901	86,903
NET ASSETS—Beginning of year	(112,217)	40,784	12,574	(58,859)
NET ASSETS—End of year	<u>\$ (20,776)</u>	<u>\$ 35,345</u>	<u>\$13,475</u>	<u>\$ 28,044</u>

See notes to financial statements.

ARCHDIOCESAN PASTORAL CENTER—ARCHDIOCESE OF CHICAGO

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2006 (Amounts in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 86,903
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Cumulative effect of change in accounting principle	1,290
Net investment return	(16,327)
Property gains—net	(31,750)
Market value of noncash contribution received	(556)
Noncash transfer of property	(1,635)
Provision for uncollectible loans and operating receivables	12,017
Depreciation	2,895
Minimum pension liability recovery	(102,760)
Changes in assets and liabilities:	
Receivables	5,168
Intangible pension asset	32,871
Assets of affiliated agencies	(26)
Accounts payable	(785)
Liabilities of affiliated agencies	1,442
Accrued pension cost	(19,416)
Other liabilities	<u>9,281</u>
Net cash from operating activities	<u>(21,388)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales of investments	126,207
Purchases of investments	(145,495)
Proceeds from sales of land, buildings, and equipment	38,415
Purchases of land, buildings, and equipment	(8,301)
Principal collected on loans to parishes and religious orders	21,963
Loans to parishes and religious orders	<u>(23,434)</u>
Net cash from investing activities	<u>9,355</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Savings deposits	65,442
Savings withdrawals	(54,341)
Bank repayments	(6,030)
Proceeds from investments subject to annuity agreements	708
Payments of annuity obligations	<u>(289)</u>
Net cash from financing activities	<u>5,490</u>

CHANGE IN CASH AND CASH EQUIVALENTS (6,543)

CASH AND CASH EQUIVALENTS—Beginning of year 20,037

CASH AND CASH EQUIVALENTS—End of year \$ 13,494

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—

Cash paid during the year for interest:	
Savings deposits	<u>\$ 9,680</u>
Bank borrowings	<u>\$ 1,808</u>

See notes to financial statements.

ARCHDIOCESAN PASTORAL CENTER—ARCHDIOCESE OF CHICAGO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2006 (Amounts in thousands)

1. NATURE OF OPERATIONS

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

These 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 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.

Assets and liabilities of affiliated agencies represent the aggregate assets and liabilities of several departments of the Pastoral Center, which are operated independently of the Pastoral Center’s primary operations. Affiliated agencies include Quigley Seminary (see Note 13), Saint Joseph’s Seminary, University of Saint Mary of the Lake, Liturgy Training Publications, New World, Chicago Catolico, Ceres Food Group, Inc., and Food Service Professionals. All significant interorganizational balances and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. The preparation of the 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, 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.
- b. The net assets of the Pastoral Center are classified as unrestricted, temporarily restricted, or permanently restricted. The net asset categories are as follows:
 - *Unrestricted*—Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in temporarily restricted or permanently restricted net assets. The unrestricted net assets of the Pastoral Center are primarily derived from parish and Cemeteries assessments, insurance program assessments, sale of real estate, and investment earnings and gains. Donor-restricted contributions whose restrictions are met in the same reporting period are also reported as unrestricted.

- *Temporarily Restricted*—Net assets whose use has been limited by donors to a specific time period or purpose. The balance consists primarily of funds restricted for parish capital improvements. 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 statements of activities as net assets released from restrictions.
 - *Permanently Restricted*—Net assets 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. The restricted portion of the Seminary Endowment Fund has been classified as permanently restricted. This fund is the recipient of contributions which specify that only the earnings of the fund may be spent in support of seminaries' operations.
- c. For purposes of the statement of cash flows, cash equivalents are defined as all highly liquid debt instruments with purchased maturities of three months or less used for the operating activities of the Pastoral Center.
- d. Investments, including pooled investment funds, are carried at fair value based on quoted market prices. The Pastoral Center, Catholic Cemeteries, Parishes, Priests Retirement and Mutual Aid Association ("PRMAA"), Catholic Charities, and Mercy Home for Boys and Girls manage a portion of their investments through a pooled investment fund. Interest and dividend income, realized gains and losses, and unrealized gains and losses are allocated based on a proportionate share of each entity's market value at the time of allocation. The entities have no cross interest in the funds of the other entities and, therefore, the financial statements of each entity only reflect that entity's share of the pooled fund.

The estimated fair values of equity securities that do not have readily determined 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. After this review, management may determine that an adjustment to the external managers' valuations is appropriate in recording the securities' fair value at June 30. A range of possible values exists for these securities, and therefore the estimated values may differ from the values that would have been used had a ready market for these securities existed.

- e. Loans to parishes and religious orders and operating receivables are presented net of an allowance for uncollectible balances. The allowance for uncollectible loans to parishes and religious orders and operating receivables includes amounts due from parishes that are scheduled to receive grants from the Pastoral Center as well as other parishes that have operating deficits.
- f. The Development Fund is presented net of an allowance for uncollectible balances. This fund accumulates amounts due from parishes and other outside parties for the Millennium and other capital campaigns which the Pastoral Center administers and records the distribution of funds as they are spent or awarded.
- g. From time to time, the Pastoral Center is named as a beneficiary of a revocable estate. It is the Pastoral Center's policy to recognize revenue on such estate when either the cash is received or the commitment from the estate becomes irrevocable.
- h. Related parties include Charitable Activities, Catholic Cemeteries, Priests' Retirement & Mutual Aid Association, Parishes, Big Shoulders, Society for the Propagation of the Faith, and Catholic Conference of Illinois.

i. Land, Buildings, and Equipment:

- *Undeveloped Realty*—Represents sites held for future development and is carried at cost. Depreciation is recorded on buildings and equipment.
- *Closed Parish Property*—Represents parish property transferred from parishes to the Pastoral Center after the parish was closed. The Pastoral Center follows Statement of Financial Accounting Standards (“SFAS”) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.
- *Held for Sale*—Represents property that qualifies as held for sale (as defined by SFAS No. 144). Held for sale is generally defined as a property which is immediately available for sale, expected to be sold within one year and is actively marketed for sale. No depreciation is recorded on this property.
- *Land, Buildings, and Equipment*—Represents active property and is carried at cost. Where historical cost is unavailable, buildings are carried at the reported insurable value as of July 1, 1980, with subsequent additions recorded at cost. Land is carried at the estimated fair market values as of July 1, 1980, with subsequent additions recorded at cost. Depreciation is recorded on building and equipment.
- Depreciation is computed using the straight-line method based on the estimated useful lives of assets, which range from 3 to 50 years. Repairs and maintenance which do not extend the life of the applicable assets are charged to expense as incurred.
- The Pastoral Center reviews the carrying amount of long-lived assets whenever events or changes in circumstances indicate that impairment may have occurred.

j. Loans to Parishes and Religious Orders and Savings Deposits:

- Loans to parishes and religious orders bear interest at rates below prevailing commercial interest rates.
- Savings deposits bear interest at rates which vary depending on the amount and availability of the deposit. During 2006, interest rates paid on savings deposits ranged from 1.00% to 4.90%.

k. Insurance Claims:

- 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 2006, the Pastoral Center settled several legal claims related to allegations of past sexual misconduct by priests totaling \$17.7 million. Subsequent to June 30, 2006, the Pastoral Center settled additional \$5.2 million in claims. The costs of these settlements are included in the insurance claims reserve at June 30, 2006.
- l. Food service, publications, and seminaries expenses as reported on the statement of activities do not include expenses that result from insurance and other related assessments from the Pastoral Center. Expenses for food service, publications, and seminaries of \$3,356, \$410, and \$702, respectively have been eliminated from the statement of activities presentation.
 - m. Undistributed collections represent the proceeds from special collections that will be distributed to the applicable office, program, or national campaign.
 - n. Fair Value of Financial Instruments:
 - The carrying amounts of cash and cash equivalents, operating receivables, development fund receivables, accounts payable, and undistributed collections approximate their fair values as they are short term in nature.
 - The carrying values of deposits and loans approximate fair value.
 - The carrying values of bank borrowings approximate fair value as interest rates on the line-of-credit facilities are adjusted quarterly based on current market rates.
 - o. The Pastoral Center entered into interest rate swap agreements to hedge a portion of its variable rate borrowings against adverse changes in interest rates. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the interest rate swaps have been classified as cash flow derivatives and are recorded at fair value on the statements of financial position with the corresponding adjustment to interest expense in the statements of activities. The adjustment recorded in 2006 resulted in recognizing a reduction of the liability and expense in the amount of \$366.
 - p. *Revenue Recognition*—Unconditional promises to give cash and other assets to the Pastoral Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the contribution is received. Parish, Cemeteries, and insurance assessments are recorded as revenue when billed. Foodservice revenue is recognized when the food is delivered to customers. Seminary tuition revenue is recognized during the related academic year. Gift annuity revenue is recognized when the contract is signed and the assets are received.
 - q. Gift annuities payable result from funds granted to the Pastoral Center by individuals in return for payments to those individuals during their lifetime. The liabilities are actuarially determined using the market interest rate at the time of the annuity agreement and are based upon the annuitant's age and life expectancy. Assets received under these arrangements are recorded as investments on the statements of financial position. The excess of the funds granted to the Pastoral Center over the calculated annuity payable is recorded as contributions.
 - r. *Accounting Pronouncements*—In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—An Interpretation of SFAS No. 143* ("FIN 47"). FIN 47 clarifies the term conditional asset retirement obligation as it is used in SFAS 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. Asset retirement obligations covered by FIN 47 include those for which an entity has a legal obligation to perform an asset retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

The Pastoral Center adopted FIN 47 effective July, 1 2005. In accordance with FIN 47, the Pastoral Center records all known asset retirement obligations for which the fair value of the liability can be reasonably estimated, including certain obligations relating to regulatory remediation. As a result of adopting FIN 47, the Pastoral Center recorded a cumulative effect of change in accounting principle of \$1,290. The Pastoral Center also recorded a liability for asset retirement obligations of \$1,423 and increased the carrying value of the related assets by \$133.

3. INVESTMENTS

The Pastoral Center's investment portfolio at June 30, 2006 consisted of the following:

Invested cash	\$ 9,332
Common stocks	122,742
Alternative investments	49,432
U.S. government securities	14,504
Corporate debt securities	<u>35,694</u>
 Total	 <u>\$ 231,704</u>

Invested cash includes short-term investments and money market accounts.

Investments at June 30, 2006 are allocated as follows:

Pastoral Center	\$ 61,413
Seminary	84,845
Bank operations	14,060
Parishes	<u>71,386</u>
 Total	 <u>\$ 231,704</u>

Net investment return for the year ended June 30, 2006 is as follows:

Interest and dividends on investments	\$ 4,315
Realized gains—net	9,175
Unrealized gains—net	<u>7,152</u>
 Net investment return	 <u>\$ 20,642</u>

4. LOANS AND OPERATING RECEIVABLES

The Archdiocese has a parish loan program which lends at rates generally below the prevailing commercial interest rate. This program is funded by deposits of surplus funds from Parishes and other religious organizations. At June 30, 2006 there were loans outstanding to Parishes, net of reserves for doubtful accounts, aggregating \$97,092.

In 2006, the Pastoral Center changed the timing of conversion of outstanding operating receivables to loans resulting in two conversions in fiscal year 2006.

The following table sets forth the activity for the allowance for impaired loans to parishes and religious orders included in the net loan balances at June 30, 2006:

Allowance for impaired loans—beginning of year	\$ (28,904)
Current year activity:	
Change in provision	(6,108)
Write-offs—net of recoveries	366
Transfer of allowance on impaired receivables reclassified as loans	<u>(10,218)</u>
Allowance for impaired loans—end of year	<u>\$ (44,864)</u>

At June 30, 2006, operating receivables were net of an allowance for doubtful accounts of \$2,993.

5. DEVELOPMENT FUND

During 2000, the Archdiocese launched the Millennium Campaign, with a goal to raise a minimum of \$250,000 over the following four years. The Campaign consists of two sub-campaigns. The first sub-campaign is the School Major Gift Campaign, the purpose of which is to raise funds for the capital needs of Archdiocesan schools. This campaign is administered by Big Shoulders, an unconsolidated affiliated agency of the Archdiocese. All funds raised by Big Shoulders under this campaign will be remitted to the Pastoral Center or directly to the Archdiocesan schools. All outstanding pledge receivables recorded by Big Shoulders as of June 30, 2006 (discounted and net of an allowance for uncollectible pledges) are recorded by the Pastoral Center as a Development Fund receivable.

The second sub-campaign is Sharing Christ's Gifts, the purpose of which is to raise funds for the capital, endowment, and ministerial needs of parishes. As part of the campaign, parishes will provide 20% of their ordinary income (defined as total revenues from parish operations) for the fiscal year prior to their participation in Sharing Christ's Gifts. These sharing funds will be remitted to the Pastoral Center and used to support various Archdiocesan-wide capital projects (e.g., grants to support Archdiocesan programs at needy parishes, Priests' retirement home, repairs at University of St. Mary of the Lake) and to pay for the primary expenses of the campaign. The Pastoral Center has recorded sharing amounts due from those parishes in the year in which the campaign was commenced.

The School Major Gift Campaign recognizes revenue consistent with other pledges. Unconditional promises to give cash and other assets to the Pastoral Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the contribution is received. The Sharing Christ's Gifts Campaign recognizes 100% of the revenue due from each parish in the year in which the parish participates in the fundraising campaign as designated by the Pastoral Center. Millennium Campaign revenue is recorded in Development Fund Revenue in the statements of activities.

The Development Fund receivable, net of reserves, at June 30, 2006 consisted of the following:

Due from Big Shoulders—School Major Gift Campaign	\$ 4,980
Due from Parishes—Sharing Christ's Gifts	2,247
Due from third parties—other campaigns	<u>14</u>
Total Development Fund	<u>\$ 7,241</u>

6. BANK BORROWINGS

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

\$16,000 line of credit, payable on demand, interest rate below prime, (6.08% and 6.15% at June 30, 2006)	\$ 5,470
\$10,000 line of credit, payable on demand, interest rate below prime, (5.80% at June 30, 2006)	5,000
\$10,000 term loan, due May 31, 2008, interest rate is fixed, (4.72% at June 30, 2006)	10,000
\$5,000 line of credit, payable on demand, interest rate below prime, (6.02% at June 30, 2006)	5,000
\$8,800 term loan, due July 3, 2006, interest rate is based on LIBOR plus 50 basis points (3.15% at June 30, 2006)	200
Note payable, due December 27, 2010, interest rate is fixed, (4.84% at June 30, 2006)	5,800
Note payable, due December 20, 2008, interest rate is fixed, (5.92% at June 30, 2006)	4,100
Note payable, due January 7, 2010, interest rate is fixed, (4.57% at June 30, 2006)	<u>1,675</u>
Total bank borrowings	<u>\$37,245</u>

Total principal payments are due as follows:

Years Ending June 30	
2007	\$ 15,970
2008	10,300
2009	3,800
2010	1,375
2011	<u>5,800</u>
Total bank borrowings	<u>\$37,245</u>

The Pastoral Center is required to meet certain debt covenants related to minimum liquidity levels and investment to debt ratios. The Pastoral Center was in compliance with all debt covenants at June 30, 2006.

7. ANNUAL CATHOLIC APPEAL

Annual Catholic Appeal operations for the years ended June 30, 2006 is as follows:

Contributions	\$ 13,102
Parish rebates	<u>2,586</u>
Net contributions after Parish rebates	<u>\$ 10,516</u>
Specific distribution to Catholic Relief Services	\$ 640
Pastoral Center program and grant support	8,286
Fundraising expenses	<u>1,590</u>
Total distributions	<u>\$ 10,516</u>

8. EMPLOYEE BENEFITS

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

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

The Pastoral Center has recorded the total minimum pension liability on the statements of financial position. This liability is related to all participants of the plan which include those employed by parishes and participating charitable organizations. The information to allocate the liability to the parish and other charitable organizations is available and those parties are responsible for their related costs. This liability may be transferred to those other organizations in the future.

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

Summary information for the Plan at June 30, 2006 is as follows:

Accumulated benefit obligation	<u>\$ 461,252</u>
Projected benefit obligation	487,510
Plan assets—at fair value	<u>454,607</u>
Funded status	<u>\$ (32,903)</u>
Additional liability	\$ -
Accrued pension cost	<u>95,984</u>
Total accrued pension liability	<u>\$ 95,984</u>
Minimum pension liability (recovery) adjustment to be recognized in the statement of activities	<u>\$ (102,760)</u>
Benefit cost	<u>\$ 31,456</u>
Employer contributions	<u>\$ 18,000</u>
Benefits paid	<u>\$ (15,842)</u>

During 2006, the Pastoral Center changed the discount rate assumption for the Plan from 5.25% to 6.50%. The Pastoral Center also amended the Plan by reducing the maximum cost-of-living adjustment from 3.0% to 1.5%. Finally, the Pastoral Center changed the Plan's mortality table from the 1983 Group Annuity Mortality Table to the RP-2000 Mortality Table. As a result of these changes, the accumulated benefit obligation and projected benefit obligation were reduced by \$163,615 and \$182,657, respectively.

Actuarial assumptions for the Plan as of June 30, 2006:

Weighted-average assumptions used to determine benefit obligations and cost as of June 30:

Discount rate	6.50 %
Expected return on plan assets	8.00
Rate of compensation increase	4.00

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

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

Invested cash	2 %
Common stocks	54
Alternative investments	19
U.S. government securities	7
Corporate debt securities	<u>18</u>
Total	<u>100 %</u>

The Pastoral Center's investment strategy is to meet its obligations to retired employees. To achieve this objective, the Pastoral Center maintains an investment composition of approximately 75% equities and 25% fixed income.

The Pastoral Center plans to contribute \$20,000 to the Plan in 2007.

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

Years Ending June 30	
2007	\$ 18,860
2008	21,085
2009	23,087
2010	25,189
2011	27,400
Years 2012 and beyond	175,565

Under SFAS No. 87, *Employer's Accounting for Pensions*, a minimum pension liability has been recorded as of June 30, 2006, as the fair value of plan assets is less than the accumulated benefit obligation. At June 30, 2006, the Pastoral Center removed an intangible asset of \$32,871 in the statement of financial position and recognized an additional minimum liability recovery of \$102,760 in 2006 in the statement of activities.

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.

In September 2006, FASB issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*. This Statement amends SFAS No. 87, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and other related accounting literature.

SFAS No. 158 requires an employer that sponsors one or more single-employer defined benefit plans to recognize the funded status of the plan in its statement of financial position. With limited exceptions, funded status is measured as the difference between the fair value of plan assets and the related benefit obligation. For pension plans, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. The Statement also requires an employer to recognize in other comprehensive income (i.e., changes in unrestricted net assets for a not-for-profit entity), actuarial gains (losses) and prior service costs (credits) that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS Nos. 87 or 106. Further, the Statement requires an employer to measure defined benefit plan assets and obligations as of the date of its fiscal year-end statement of financial position and to disclose certain effects on net periodic benefit cost for the upcoming fiscal year resulting from delayed recognition of actuarial gains (losses) and prior service costs (credits).

The Pastoral Center has not yet completed the process of evaluating the impact of adopting SFAS No. 158. Therefore, management is unable at this time to disclose the impact that adopting this new pronouncement will have on its financial position and the results of operations when it is adopted for the fiscal year ended June 30, 2007.

9. COMMITMENTS AND CONTINGENCIES

The Archdiocese has entered into contracts with Exelon Energy to purchase substantially all of its natural gas needs until December 2007 and electricity needs until December 2009.

At June 30, 2006, the Pastoral Center has \$3,289 of real estate sales pending or in process.

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

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

10. LEASES

The Archdiocese entered into an agreement with a telecommunications provider in 2002 to lease its excess Instructional Television Fixed Service ("ITFS") capacity.

At June 30, 2006, future minimum rental income related to the ITFS noncancelable operating lease is \$285 in 2007. The lease expires in June 2007.

The Archdiocese 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 year ended June 30, 2006 was \$655.

Future payments under this agreement are as follows:

Years Ending June 30	
2007	\$ 674
2008	674
2009	674
2010	674
2011	<u>674</u>
Total	<u>\$ 3,370</u>

In accordance with SFAS No. 13, *Accounting for Leases*, the Pastoral Center recognizes the associated rental income and expense on a straight-line basis over the term of the lease.

11. FUNCTIONAL EXPENSES

The following is a summary of expenses by functional classification and reconciliation to total expenses for the year ended June 30, 2006. Certain expenses in the summary include the allocation of depreciation expense:

Program activities:	
Insurance program	\$132,215
Food service	40,270
Publications	7,693
Ministerial services	16,001
Seminaries	<u>15,408</u>
Total program activities	211,587
Fundraising and development expense	2,409
Management and general expense (including depreciation)	<u>27,780</u>
Total functional expenses	241,776
Parish and agency grants	5,045
Provision for uncollectible loans and operating receivables	12,287
Annual appeal distributions	640
Annual appeal rebates	2,586
Interest expense for savings deposits and line of credit	<u>11,443</u>
Total expenses	<u>\$273,777</u>

12. TAX-EXEMPT STATUS

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

13. SUBSEQUENT EVENTS

On September 19, 2006, the Pastoral Center announced its plans to close Quigley Seminary in June 2007. Management does not believe the closing of this facility to have a material impact on the Pastoral Center operations.

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ADDITIONAL INFORMATION

ARCHDIOCESAN PASTORAL CENTER—ARCHDIOCESE OF CHICAGO

UNRESTRICTED NET ASSETS FOR THE YEAR ENDED JUNE 30, 2006 (Amounts in thousands)

The Pastoral Center operates six separate funds under the classification of unrestricted net assets. A summary of the changes in net assets including inter-entity transfers of these funds for the year is as follows:

Pastoral Center Activities Fund	\$ 4,964
Archdiocesan Bank	(3,836)
Insurance Fund	86,301
Real Estate Fund	23,422
Endowment Fund	9,553
Development Fund	1,654
Professional Conduct Fund	<u>(30,617)</u>
Total change in unrestricted net assets	<u>\$ 91,441</u>

ARCHDIOCESAN PASTORAL CENTER—ARCHDIOCESE OF CHICAGO

**SEMINARIES OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2006
(Amounts in thousands)**

	University of St. Mary of the Lake	St. Joseph Seminary	Archbishop Quigley Seminary	Total
REVENUES:				
Tuition, fees, and room and board	\$ 4,617	\$ 1,741	\$ 1,246	\$ 7,604
Development	1,606	632	360	2,598
Other	<u>1,139</u>	<u> </u>	<u> </u>	<u>1,139</u>
Total revenues	<u>7,362</u>	<u>2,373</u>	<u>1,606</u>	<u>11,341</u>
EXPENSES:				
Salaries and wages	3,465	776	1,696	5,937
Employee benefits	166	162	309	637
Occupancy	729	881	420	2,030
Other	<u>2,288</u>	<u>2,051</u>	<u>760</u>	<u>5,099</u>
Total expenses	<u>6,648</u>	<u>3,870</u>	<u>3,185</u>	<u>13,703</u>
SURPLUS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE PRIESTHOOD CANDIDATE EXPENSE, DEPRECIATION, AND EXTERNAL SUPPORT				
	714	(1,497)	(1,579)	(2,362)
PRIESTHOOD CANDIDATE EXPENSE	<u>1,705</u>	<u> </u>	<u> </u>	<u>1,705</u>
DEFICIENCY OF REVENUES UNDER EXPENSES BEFORE DEPRECIATION AND EXTERNAL SUPPORT				
	(991)	(1,497)	(1,579)	(4,067)
DEPRECIATION	(1,159)	(76)	(214)	(1,449)
EXTERNAL SUPPORT:				
Endowment Fund income	539	1,438	896	2,873
Seminary Appeal allocation	<u>442</u>	<u>72</u>	<u>83</u>	<u>597</u>
DEFICIENCY OF REVENUES UNDER EXPENSES	<u>\$ (1,169)</u>	<u>\$ (63)</u>	<u>\$ (814)</u>	<u>\$ (2,046)</u>
CAPITAL EXPENDITURES	<u>\$ 2,306</u>	<u>\$ -</u>	<u>\$ 122</u>	<u>\$ 2,428</u>

ARCHDIOCESAN PASTORAL CENTER—ARCHDIOCESE OF CHICAGO

SEMINARIES OPERATIONS (Continued) FOR THE YEAR ENDED JUNE 30, 2006 (Amounts in thousands)

The Seminaries expense line in the Pastoral Center's Statements of Activities includes \$1,705 for charges related to preparing candidates for priesthood in Chicago at University of St. Mary of the Lake (the "University"). The University is owned and operated by the Archdiocese. The University contains the following departments: Mundelein Seminary, Pastoral Associates, Liturgical Institute, Diaconate Formation, Instituto de Liderazgo, Lay Ministry, and Ongoing Formation Programs. The Archdiocese had 66 students studying under these arrangements in 2006. This schedule reflects this cost as revenue to the seminary and an expense to the Pastoral Center.

The University has a capital campaign to raise \$9,000 for the Theological Resource Center ("TRC"). In 2006 the University had \$597 in cash, \$163 in outstanding pledges, and a gift annuity for \$500. The University revenue includes pledges and gifts related to the TRC campaign totaling \$598 in 2006.

External support excludes restricted and designated gifts of \$998 and \$329 in 2006. Realized gains of \$4,060 in 2006 were also excluded. These amounts were added to the corpus of the Seminary Endowment Fund. In addition, unrealized gains of \$4,078 were reported for the fund in 2006.

Endowment income is calculated as 5% of a 4-quarter sliding scale market value of the Seminary Endowment Fund.

In 2006, capital expenditures included \$1,606 for the TRC, \$241 for roof repairs at the University and \$79 for window repairs at Archbishop Quigley Seminary.

On September 19, 2006, the Pastoral Center announced their plans to close Quigley Seminary in June 2007. Management does not believe the closing of this facility to have a material impact on the Pastoral Center operations.