

**FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

**ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL
SERVICES**

**ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES**

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To His Excellency
The Most Reverend J. Peter Sartain
Bishop of the Roman Catholic Diocese of Joliet
Joliet, Illinois

We have audited the accompanying statements of financial position of the **Roman Catholic Diocese of Joliet Administration and Ministerial Services** (the "Diocese"), a division of the Roman Catholic Diocese of Joliet, as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the management of the Diocese. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Diocese'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Roman Catholic Diocese of Joliet Administration and Ministerial Services** as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
November 17, 2008

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ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 21,230,413	\$ 13,116,973
Investments – Note 3	25,744,838	28,521,068
Pooled investment funds – Note 3	1,113,286	1,248,333
Beneficial interest in a trust – Note 4	557,023	623,663
Loans to Parishes and others, net of allowance of \$3,273,000 for 2008 and \$3,453,000 for 2007	63,260,219	67,259,151
Accrued interest and dividends receivable	889,468	562,533
Receivables, net of allowance of \$3,619,000 for 2008 and \$3,159,000 for 2007 – Note 2	5,316,378	5,712,935
Prepaid expenses	383,569	82,642
Land, buildings, and equipment, net – Note 5	20,332,795	20,784,929
Due from other Diocesan agencies	80,144	112,597
	<u> </u>	<u> </u>
 Total assets	 <u>\$ 138,908,133</u>	 <u>\$ 138,024,824</u>

See notes to financial statements.

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,858,736	\$ 2,342,222
Interest payable	58,275	118,722
Due to other Diocesan agencies	618,310	307,262
Contributions payable	387,311	840,792
Estimated unpaid insurance claims – Note 7	5,323,000	4,000,000
Deferred revenue – Note 1	3,604,422	3,094,868
Deposits from Parishes and others	52,651,158	52,245,034
Long-term debt – Note 6	20,866,388	23,279,002
Future cemetery care liability – Note 1	<u>18,732,369</u>	<u>17,991,931</u>
Total liabilities	<u>105,099,969</u>	<u>104,219,833</u>
NET ASSETS		
Unrestricted		
Designated for future insurance claims	4,772,052	(1,588,259)
Designated for future land and building funds	10,849,244	11,272,349
Designated for special purposes	3,389,450	3,760,576
Undesignated	<u>6,725,750</u>	<u>11,928,844</u>
	25,736,496	25,373,510
Temporarily restricted – Note 15	6,330,589	6,690,402
Permanently restricted – Note 15	<u>1,741,079</u>	<u>1,741,079</u>
Total net assets	<u>33,808,164</u>	<u>33,804,991</u>
Total liabilities and net assets	<u>\$ 138,908,133</u>	<u>\$ 138,024,824</u>

ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Contributions				
Appeal fund drive	\$ 5,897,713	\$ -	\$ -	\$ 5,897,713
Parish assessments	3,452,524	-	-	3,452,524
Other contributions	389,831	223,015	-	612,846
Program fees				
Insurance premiums and recoveries	28,459,277	-	-	28,459,277
Fees, sales, and services	4,405,232	-	-	4,405,232
Interest on loans	1,978,262	-	-	1,978,262
Rental income	103,120	-	-	103,120
Net investment earnings (loss) – Note 3	198,560	(249,868)	-	(51,308)
Gain on sale of fixed assets	6,875	-	-	6,875
Other revenue	52,895	-	-	52,895
Total revenue	<u>44,944,289</u>	<u>(26,853)</u>	<u>-</u>	<u>44,917,436</u>
Net assets released from restrictions	<u>332,960</u>	<u>(332,960)</u>	<u>-</u>	<u>-</u>
	<u>45,277,249</u>	<u>(359,813)</u>	<u>-</u>	<u>44,917,436</u>
EXPENSES				
Administrative				
Salaries and benefits	1,475,219	-	-	1,475,219
Supplies and expenses	1,951,694	-	-	1,951,694
Programs and operations				
Salaries and benefits	4,833,702	-	-	4,833,702
Insurance claims and reinsurance	23,092,770	-	-	23,092,770
Interest on deposits/loans	2,413,959	-	-	2,413,959
Other supplies and expenses	6,296,031	-	-	6,296,031
Building, equipment, and grounds	549,462	-	-	549,462
Donations	2,188,773	-	-	2,188,773
Depreciation	528,672	-	-	528,672
Bad debt expense	1,272,331	-	-	1,272,331
Total expenses	<u>44,602,613</u>	<u>-</u>	<u>-</u>	<u>44,602,613</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER CHANGES	674,636	(359,813)	-	314,823
OTHER CHANGES				
Transfers to Education Foundation	<u>(311,650)</u>	<u>-</u>	<u>-</u>	<u>(311,650)</u>
TOTAL INCREASE (DECREASE) IN NET ASSETS	362,986	(359,813)	-	3,173
NET ASSETS – BEGINNING OF YEAR	<u>25,373,510</u>	<u>6,690,402</u>	<u>1,741,079</u>	<u>33,804,991</u>
NET ASSETS – END OF YEAR	<u>\$ 25,736,496</u>	<u>\$ 6,330,589</u>	<u>\$ 1,741,079</u>	<u>\$ 33,808,164</u>

See notes to financial statements.

2007

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 6,149,762	\$ -	\$ -	\$ 6,149,762
3,216,037	-	-	3,216,037
284,891	148,298	-	433,189
26,836,709	-	-	26,836,709
4,562,461	-	-	4,562,461
2,097,020	-	-	2,097,020
99,957	-	-	99,957
2,627,571	840,836	-	3,468,407
423,445	-	-	423,445
5,299	-	-	5,299
<u>46,303,152</u>	<u>989,134</u>	<u>-</u>	<u>47,292,286</u>
<u>330,542</u>	<u>(330,542)</u>	<u>-</u>	<u>-</u>
<u>46,633,694</u>	<u>658,592</u>	<u>-</u>	<u>47,292,286</u>
1,476,156	-	-	1,476,156
2,068,499	-	-	2,068,499
5,052,461	-	-	5,052,461
23,474,910	-	-	23,474,910
2,432,680	-	-	2,432,680
4,939,277	-	-	4,939,277
542,747	-	-	542,747
1,883,916	-	-	1,883,916
533,430	-	-	533,430
<u>1,788,968</u>	<u>-</u>	<u>-</u>	<u>1,788,968</u>
<u>44,193,044</u>	<u>-</u>	<u>-</u>	<u>44,193,044</u>
2,440,650	658,592	-	3,099,242
<u>(328,398)</u>	<u>-</u>	<u>-</u>	<u>(328,398)</u>
2,112,252	658,592	-	2,770,844
<u>23,261,258</u>	<u>6,031,810</u>	<u>1,741,079</u>	<u>31,034,147</u>
<u>\$ 25,373,510</u>	<u>\$ 6,690,402</u>	<u>\$ 1,741,079</u>	<u>\$ 33,804,991</u>

ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Increase in net assets before other changes	\$ 314,823	\$ 3,099,242
Adjustments to reconcile increase in net assets before other changes to net cash from (used for) operating activities		
Depreciation	528,672	533,430
Change in unrealized gains and losses on investments	1,901,553	(440,405)
Gain on sale of fixed assets	(6,875)	(423,445)
Changes in assets and liabilities		
Loans to Parishes and others	3,998,932	2,626,453
Receivables	69,622	(499,193)
Prepaid expenses	(300,927)	(78,802)
Due to/from other Diocesan agencies	343,501	85,350
Accounts payable and accrued expenses	2,586	1,776,150
Deposits from Parishes and others	406,124	(8,890,205)
Estimated unpaid insurance claims	1,323,000	-
Future cemetery care liability	740,438	513,354
Deferred revenue	509,554	325,147
Transfers to Education Foundation	(311,650)	(328,398)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>9,519,353</u>	<u>(1,701,322)</u>
INVESTING ACTIVITIES		
Decrease in investments	1,076,364	3,150,743
Purchases of land, buildings, and equipment	(238,555)	(544,001)
Proceeds from sale of fixed assets	168,892	799,643
NET CASH FROM INVESTING ACTIVITIES	<u>1,006,701</u>	<u>3,406,385</u>
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	3,117,110
Repayment of long-term debt	(2,412,614)	(2,196,507)
NET CASH FROM (USED FOR) FINANCING ACTIVITIES	<u>(2,412,614)</u>	<u>920,603</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,113,440	2,625,666
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>13,116,973</u>	<u>10,491,307</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 21,230,413</u>	<u>\$ 13,116,973</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 2,474,406</u>	<u>\$ 2,446,038</u>

See notes to financial statements.

ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 –ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Roman Catholic Diocese of Joliet Administration and Ministerial Services (the “Diocese”) is the support center for Diocesan Parishes. The Diocese provides support and services to 120 Parishes, 10 missions, and other agencies in seven counties in northeastern Illinois. It operates as a central bank and provides loans, holds deposits of excess funds, holds title to all property, administers the employee benefit programs, and administers a self-insurance program. Operating support is mainly derived from fees for various programs, the appeal drive, parish assessments, and donations.

The information contained in the financial statements relates only to the operations of the Roman Catholic Diocese of Joliet Administration and Ministerial Services, a division of the Roman Catholic Diocese of Joliet, a trust exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. However, the Diocese would be subject to federal income tax on any unrelated business taxable income. Various other organizations, such as Parishes, Catholic High Schools, Catholic Charities, and the Catholic Education Foundation of the Diocese, operate within the Diocese, but they are considered separate juridical entities; therefore, those entities are not included in the accompanying financial statements. Financial reporting for the Diocese Employees’ Retirement Plan and the Priests’ Pension and Disability Plan are also excluded from the accompanying financial statements.

Method of Accounting

The financial statements have been prepared on the accrual basis under accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 include highly liquid investments with original maturities of three months or less when purchased.

Loans and Operating Receivables and Deposits Payable

Loans and operating receivables are presented net of an allowance. The majority of the loans receivable and deposits payable represent loans to and deposits made by Parishes and other related Diocesan organizations resulting from a cooperative investment and lending program established for the mutual benefit of the participants. The loans are receivable and deposits are payable on demand. The loans and deposits bear interest at the rate of 5% per annum.

ROMAN CATHOLIC DIOCESE OF JOLIET
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Investments

Investments, including the Catholic Umbrella Pool and Priest's Long Term Care Fund (pooled investment funds), are carried at fair value. The fair value of marketable securities is based on quoted market prices.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost. Depreciation is provided over the estimated useful life of each depreciable asset, 5 years for equipment and 50 years for buildings, and is computed using the straight-line method. Renewals and betterments in excess of \$10,000 are capitalized and maintenance and repairs are charged to expense.

Property/Liability/Medical Insurance Claims

Property of the Parishes and participating religious organizations of the Diocese are covered by self-insurance programs administered through the Diocese. Losses in excess of self-insured retention levels are insured under commercial excess policies. Medical and dental risks are covered by self-insurance programs. Losses in excess of self-insured retention levels are insured under commercial excess policies. Long-term disability, life, and vision insurance are covered under commercial policies. In each of the above plans, Parishes and participating organizations are assessed to defray costs of the programs.

Insurance claims reserves are 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 Diocese's experience with similar cases.

Temporarily and Permanently Restricted Net Assets

- *Temporarily Restricted* – Net assets whose use by the Diocese is limited by donor-imposed restrictions that either expire by the passage of time or can be removed by the fulfillment of the stipulated purpose for which the donation was restricted.
- *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 the fulfillment of a stipulated purpose.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Diocese are reported as 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 gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statement of activities as net assets released from restrictions.

ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Contributed Services

Support arising from contributed services of certain personnel has not been recognized in the accompanying financial statements. While the services contributed are important to the operation of the Diocese, the financial value of the services is deemed immaterial.

Cemetery Revenue Recognition

Diocesan cemeteries sell burial spaces, as well as mausoleum crypts, on a pre-need basis. The Diocese defers revenue recognition to the extent sales are refundable and relate to future costs to be incurred by the Diocese under existing sales contracts.

Cemeteries Future Income Care

The amounts recorded as “future cemetery care liability” in the statements of financial position represent the estimated future costs to maintain the cemeteries’ existing graves and crypts, discounted to present value at the rate of 8.75%. For these estimates, current maintenance costs are assumed to escalate 3% per year using a 5-year average. The change in the estimate from the beginning of the year to the end of the year is recorded as operations expense in the statements of activities and changes in net assets. The policy characterizes the obligation to provide future cemetery care as a liability and is stated at the estimated cost (discounted to present value) of providing such care in the future. During 2008, the Diocese changed its assumption relating to the discount rate used to calculate present value from 9% to 8.75%. The effect of this change was to decrease net assets by \$142,500.

Reclassifications

Certain 2007 balances have been reclassified to conform to the 2008 presentation.

NOTE 2 – PROMISES TO GIVE

Included in receivables are amounts pledged to the Diocese at June 30, 2008, of \$846,139, net of an allowance for uncollectible pledges of \$331,746 and at June 30, 2007, of \$813,037, net of an allowance for uncollectible pledges of \$327,309. All pledges are due within one year.

NOTE 3 – INVESTMENTS

Investments are stated at fair value and consist of the following at June 30, 2008 and 2007:

	<u>June 30, 2008</u>		<u>June 30, 2007</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Government obligations	\$ 9,107,518	\$ 9,318,788	\$ 10,330,579	\$ 10,316,314
Equities	11,945,602	13,015,076	12,601,344	15,782,888
Corporate bonds	3,488,748	3,410,974	2,484,622	2,421,866
Total investments	<u>\$ 24,541,868</u>	<u>\$ 25,744,838</u>	<u>\$ 25,416,545</u>	<u>\$ 28,521,068</u>

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ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Pooled investment funds consist of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Equity in Catholic Umbrella Pool – Note 9	\$ 753,940	\$ 924,663
Equity in Priests' Long Term Care Fund – Note 8	<u>359,346</u>	<u>323,670</u>
Total	<u>\$ 1,113,286</u>	<u>\$ 1,248,333</u>

The composition of net investment earnings (loss) is as follows:

	<u>2008</u>	<u>2007</u>
Interest and dividends for the year	\$ 1,623,153	\$ 2,251,532
Net realized gains for the year	227,092	776,470
Change in unrealized gains and losses on investments	<u>(1,901,553)</u>	<u>440,405</u>
Total	<u>\$ (51,308)</u>	<u>\$ 3,468,407</u>

NOTE 4 – BENEFICIAL INTEREST IN A TRUST (NONCASH INVESTING ACTIVITY)

The Diocese is the beneficiary of a charitable remainder uni-trust. According to the terms of the trust agreement, the net asset value (\$557,023) of the trust at June 30, 2008, is owed to a Diocesan high school (related party). The liability to the school has been included in loans to Parishes and others as a reduction on a construction loan.

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

A summary of net land, buildings and equipment at June 30, 2008 and 2007 follows:

	<u>June 30, 2008</u>			<u>June 30, 2007</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land						
Vacant	\$ 8,088,527	\$ -	\$ 8,088,527	\$ 8,160,358	\$ -	\$ 8,160,358
Cemeteries	2,277,255	-	2,277,255	2,277,255	-	2,277,255
Shrines	213,492	-	213,492	213,492	-	213,492
Buildings and equipment						
Cemeteries	10,230,466	3,968,173	6,262,293	10,146,789	3,714,688	6,432,101
Operating	<u>7,733,986</u>	<u>4,242,758</u>	<u>3,491,228</u>	<u>7,681,951</u>	<u>3,980,228</u>	<u>3,701,723</u>
Total	<u>\$ 28,543,726</u>	<u>\$ 8,210,931</u>	<u>\$ 20,332,795</u>	<u>\$ 28,479,845</u>	<u>\$ 7,694,916</u>	<u>\$ 20,784,929</u>

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ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 6 – LONG-TERM DEBT

A summary of the Diocese's debt is as follows:

	<u>2008</u>	<u>2007</u>
Asbestos loan 1	\$ 48,065	\$ 93,464
Asbestos loan 2	101,237	130,761
Construction loan	1,110	41,725
Land contract	-	101,775
All Saints Catholic Academy bonds	11,200,000	11,800,000
Church of the Holy Ghost loan	687,780	775,355
Notre Dame Parish loan	89,409	464,953
St. Mary Church loan	1,445,030	1,505,272
St. Scholastica Parish loan	1,865,691	1,963,975
Holy Spirit Catholic Community loan	3,179,960	3,287,274
St. Michael Parish loan	215,797	1,000,000
St. Francis of Assisi Parish loan	<u>2,032,309</u>	<u>2,114,448</u>
 Total	 <u>\$ 20,866,388</u>	 <u>\$ 23,279,002</u>

Asbestos Loans

In 1992 and 1995, the Diocese obtained two interest-free mortgages on behalf of certain Parishes from the U.S. Environmental Protection Agency (EPA) in the amounts of \$670,030 and \$855,360 for the removal of asbestos. The Diocese has pledged ten acres of vacant farmland in Will County, Illinois, as collateral. These notes are payable in 36 semi-annual installments, with final installments due November 30, 2010, and May 30, 2013, respectively.

Construction Loan

In 1995, the Diocese negotiated an unsecured note from First Chicago for construction work at St. Isidore Parish. The note was fully payable to the Diocese by St. Isidore. The original note was refinanced and became due on July 31, 1997, at which time the entire principal balance remaining plus any interest was due. The interest rate was equal to the sum of one and one-quarter percent per annum plus the Bank's then cost of funds. On September 10, 2003, the note was repriced with an interest rate of 5.84% per annum and a maturity date of September 29, 2008.

Land Contract

In 2003, the Diocese entered into a land contract for the purchase of real estate which will be used for a future parish site. The real estate was pledged as collateral. The contract had a 6% interest rate and was paid in full during February 2008.

ROMAN CATHOLIC DIOCESE OF JOLIET
ADMINISTRATION AND MINISTERIAL SERVICES
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JUNE 30, 2008 AND 2007

All Saints Catholic Academy Bonds

On December 21, 2005, the Diocese issued \$12,560,000 adjustable rate demand revenue bonds – Series 2005A. The bonds are fully payable to the Diocese by All Saints Catholic Academy and St. Thomas the Apostle, St. Margaret Mary, and St. Elizabeth Seton parishes and mature June 1, 2027. Interest rate is 3% through July 2007 and 3.57% thereafter until June 1, 2015, at which time the rate will be based on an adjustable rate. The loan is secured by a line of credit.

Church of the Holy Ghost

On June 4, 2004, the Diocese negotiated a secured note from Harris Bank for construction of Church of the Holy Ghost. The note is fully payable to the Diocese by Church of the Holy Ghost. Terms are 83 monthly installments of \$6,501 including interest, commencing July 1, 2004, with a final installment due on June 1, 2011. Interest rate is 6.57%. The loan is secured by real estate.

Notre Dame Parish

On August 2, 2004, the Diocese negotiated a secured note from Harris Bank for construction of a Church. The note is fully payable to the Diocese by Notre Dame Parish. Terms are 59 monthly installments of \$14,544 including interest, commencing September 1, 2004, with a final installment due on August 1, 2009. Interest rate is 6.5%. The loan is secured by real estate.

St. Mary's Church

On August 2, 2004, the Diocese negotiated a secured note from Harris Bank for construction of a Church. The note is fully payable to the Diocese by St. Mary's Church. Terms are 119 monthly installments of \$14,175, including interest, commencing September 1, 2004 with a final installment due on August 1, 2014. Interest rate is 7.31%. The loan is secured by real estate.

St. Scholastica Parish

On February 1, 2005, the Diocese negotiated a secured note from Harris Bank for construction of a Church. The note is fully payable to the Diocese by St. Scholastica Parish. Terms are 83 monthly installments of \$15,947, including interest, commencing March 1, 2005, with a final installment due on February 1, 2012. Interest rate is 6.44%. The loan is secured by real estate.

Holy Spirit Catholic Community

On December 10, 2004, the Diocese negotiated a secured note from Harris Bank for construction of a Church. The note is fully payable to the Diocese by Holy Spirit Catholic Community. Terms are 120 monthly installments of \$27,465, including interest, commencing January 1, 2005 with a final installment due on December 1, 2014. Interest rate is 6.75%. The loan is secured by real estate.

ROMAN CATHOLIC DIOCESE OF JOLIET
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St. Michael Parish

On June 11, 2007, the Diocese negotiated a secured note from Harris Bank for construction of a Church. The note is fully payable to the Diocese by St. Michael Parish. Terms are 120 monthly installments of \$7,897, including interest, commencing July 11, 2007 with a final installment due on June 11, 2017. Interest rate is 7.12%. The loan is secured by real estate.

St. Francis of Assisi Parish

On June 11, 2007, the Diocese negotiated a secured note from Harris Bank for construction of a Church. The note is fully payable to the Diocese by St. Francis of Assisi Parish. Terms are 120 monthly installments of \$16,694, including interest, commencing July 11, 2007 with a final installment due on June 11, 2017. Interest rate is 7.12%. The loan is secured by real estate.

Future principal payments on the above loans are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2009	\$ 1,127,886
2010	1,020,444
2011	1,642,294
2012	2,578,750
2013	949,404
Thereafter	<u>13,547,610</u>
Total	<u>\$ 20,866,388</u>

NOTE 7 – INSURANCE CLAIMS

The Diocese self-insures for losses related to health benefits and property and liability coverage in addition to workers' compensation and automobile coverage. Insurance coverage is maintained for per incident and aggregate liability losses over specified amounts. A provision for estimated claims payable is provided for in the financial statements in the amount of \$5,323,000 and \$4,000,000 for the years ended June 30, 2008 and 2007, respectively.

NOTE 8 – PRIESTS' LONG TERM CARE FUND

The Diocese, along with four other dioceses, participates in a long-term care program for priests. The Diocese's equity in the Priests' Long Term Care Fund, which is administered by Catholic Mutual Insurance, was \$359,346 and \$323,670 at June 30, 2008 and 2007, respectively. The Diocese's contribution to the fund was \$19,700 and \$53,325 for the years ended June 30, 2008 and 2007, respectively. Prior to 2004, the Priests' Long Term Care Fund was administered by the Priests' Pension and Disability Plan.

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NOTE 9 – PROPERTY/LIABILITY REINSURANCE

The Diocese, along with several other similar entities, participates in the Catholic Umbrella Pool (CUP). CUP was formed to insure participants for excess general liability and morality claims. The participating entities are liable for any losses beyond CUP's ability to fund losses. However, the independent auditor's report on CUP's June 30, 2008, financial statement states, "We were unable to obtain sufficient evidential matter regarding the provision and reserve for unpaid claims and claim expenses due to lack of historical loss experience given the limited number of claims." Therefore, the Diocese's exposure to additional loss funding, if any, because of its participation in CUP is unknown.

The Diocese's contribution to CUP was \$241,992 and \$162,487 for the years ended June 30, 2008 and 2007, respectively. The equity interest and participation percentage in CUP was \$753,940 (3.42%) and \$924,663 (3.76%) at June 30, 2008 and 2007, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Diocese, by its nature, engages in transactions with other separately incorporated and/or other divisions of the Roman Catholic Diocese of Joliet. The Diocese receives substantial support from these related organizations.

Included in loans to Parishes and others – net of allowance are related net loans of \$51,926,810 and \$55,402,563 as of June 30, 2008 and 2007, respectively.

Included in receivables – net of allowance are related net receivables of \$3,680,968 and \$4,162,048 as of June 30, 2008 and 2007, respectively.

Included in deposits from Parishes and others are related deposits of \$52,400,869 and \$51,915,192 as of June 30, 2008 and 2007, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2008 and 2007, commitments on construction pending or in process amounted to approximately \$2,452,000 and \$4,137,623, respectively. These commitments will be fully funded by Parishes and/or Diocesan loans to Parishes.

Certain facilities of the Roman Catholic Diocese of Joliet contain asbestos. Current regulations require that the potential hazard created by the asbestos be remediated if the facilities undergo major renovations or are demolished. Under the provisions of FASB Interpretation (FIN) No. 47 *Accounting for Asset Retirement Obligations* this situation creates a future asset retirement obligation. In accordance with FIN 47, the Diocese has not recognized a liability for the asset retirement obligation at this time because the fair value of the liability cannot be reasonably estimated. This is because the settlement date, which would be the date of major renovation or demolition, is indeterminate since the Diocese has no current plans to perform either of these functions. The Diocese will recognize a liability in the period when sufficient information is available to reasonably estimate its fair value.

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Various legal actions and proceedings are pending against the Diocese of Joliet. These actions involve claims for compensatory and punitive damages, as well as other types of relief. The outcome of these matters is not presently determinable but, in the opinion of management, the ultimate liability in excess of established reserves and insurance coverage will not have a material effect on the net assets of the Diocese.

NOTE 12 – FUNCTIONAL EXPENSES

The following is a summary of operating expenses by functional classification:

	<u>2008</u>	<u>2007</u>
Program activities		
Insurance program	\$ 22,502,569	\$ 23,157,455
Publications	798,390	842,680
Donations	2,188,773	1,883,916
Cemeteries operations	4,959,968	4,761,638
Parish services	2,453,374	2,472,095
Ministry services	<u>7,726,059</u>	<u>6,631,934</u>
Total program activities	<u>40,629,133</u>	<u>39,749,718</u>
Supporting activities		
Fund-raising and development	816,970	909,303
Management and general	<u>3,156,510</u>	<u>3,534,023</u>
Total supporting activities	<u>3,973,480</u>	<u>4,443,326</u>
Total expenses	<u>\$ 44,602,613</u>	<u>\$ 44,193,044</u>

Management and general expenses includes bad debts approximating \$1,300,000 and \$1,800,000 for the years ending June 30, 2008 and 2007, respectively.

NOTE 13 – DEFINED BENEFIT PLANS

Employees' Retirement Plan

The Diocese of Joliet Employees' Retirement Plan is a defined benefit pension plan which covers all regular full-time lay employees of the Diocese, who are employed by one of the 130 participating Parishes and missions, or the 19 participating agencies and offices of the Diocese.

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Retirement benefits for the Employees' Retirement Plan are determined based on a percentage of the total amount of the employees' earnings while they are eligible to participate in the Plan. Employees become completely vested after 5 years of service or when they reach 70 years of age, whichever is earlier. All costs of the Employees' Retirement Plan are paid by the Diocese's participating units as determined by the Lay Retirement Allowance Committee.

Priests' Pension and Disability Plan

The Diocese of Joliet Priests' Pension and Disability Plan is a defined benefit pension plan which covers the Diocesan priests who become participants of such plan by ordination, incardination, or petition.

At July 1, 2008 and 2007, the maximum pension benefit was \$1,364 and \$1,334 per month, respectively. Priests entitled to the maximum benefit will have provided at least 30 years of service and have 30 years of annual contributions (whether or not paid by the priests, or on behalf of the priests by a Parish or agency of this Diocese, or by a Religious Community).

Annual contributions to the Priests' Pension and Disability Plan are set by the Clergy Retirement Board to adequately fund the plan. During the years ended June 30, 2008 and 2007, the employers contributed \$1,500 per year per priest, for each priest assigned in the Diocese. The annual contribution is due on January 1 of each year, beginning with the first January after the priest is assigned to the Parish, agency, or institution in the Diocese.

Both plans invest in equity and fixed income securities. There were no significant non-benefit liabilities within either plan at June 30, 2008 and 2007.

For the purposes of these financial statements, these pension plans are considered to be multi-employer plans as defined under FASB Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," since the financial activity of Parishes and other units of the Diocese which contribute to these plans is not included in these financial statements.

For the year ended June 30, 2008, pension costs recognized by the Diocese for the Employees' Retirement Plan and the Priests' Pension and Disability Plan were \$252,170 and \$40,490, respectively, and \$258,375 and \$44,052, respectively, for the year ended June 30, 2007.

NOTE 14 – CONCENTRATION OF CREDIT RISK

The Diocese maintains cash balances in various bank deposit accounts. At June 30, 2008 and 2007, the balance of these deposits was in excess of federally insured limits. The Organization has not experienced any losses in accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

At June 30, 2008, the Diocese had \$10,484,000 of unused line of credit with Harris Bank to be drawn upon as needed, with interest at 2.5% above the Treasury bill rate.

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NOTE 15 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted funds by net asset class are as follows:

Purpose	2008			2007
	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Restricted Net Assets	Total Restricted Net Assets
Diocesan funds restricted for the following purposes:				
Cemetery maintenance	\$ 298,236	\$ 471,032	\$ 769,268	\$ 809,989
Parish operations	1,112,884	1,105,899	2,218,783	2,277,153
Masses	34,272	25,000	59,272	61,640
Seminarians/Needy Deacons	1,472,353	-	1,472,353	1,578,968
CHD grants	103,795	-	103,795	111,500
Senior housing	796,806	87,179	883,985	913,813
Orphanage	454,908	-	454,908	491,859
Priest's medical costs	742,183	-	742,183	781,229
Priest's continued education	974,007	-	974,007	1,038,768
Undistributed special collections	44,024	-	44,024	44,024
Other purposes	297,121	51,969	349,090	322,538
Totals	<u>\$ 6,330,589</u>	<u>\$ 1,741,079</u>	<u>\$ 8,071,668</u>	<u>\$ 8,431,481</u>

NOTE 16 – SUBSEQUENT EVENT

Subsequent to June 30, 2008 the financial markets experienced a significant decline in market value of securities. The Diocese's investment experience has been consistent with the losses experienced in the overall financial market.