



Financial Statements
June 30, 2011 and 2010

Roman Catholic Diocese of Joliet Administration and Ministerial Services

Roman Catholic Diocese of Joliet Administration and Ministerial Services

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Independent Auditor's Report

To His Excellency
The Most Reverend R. Daniel Conlon
Bishop of the Roman Catholic Diocese of Joliet and Diocesan Finance Council
Roman Catholic Diocese of Joliet Administration and Ministerial Services
Joliet, Illinois

We have audited the accompanying statements of financial position of the Roman Catholic Diocese of Joliet Administration and Ministerial Services (Diocese), a division of the Roman Catholic Diocese of Joliet, as of June 30, 2011 and 2010, 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 Diocese's management. 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 do not express such an 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, 2011 and 2010, 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.

Eide Bailly LLP

Dubuque, Iowa
November 22, 2011

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Assets	2011	2010
Cash and cash equivalents	\$ 5,469,703	\$ 9,664,779
Investments – Note 3	56,309,317	52,192,713
Pooled investment funds – Note 3	801,667	615,825
Beneficial interest in a trust – Note 5	495,469	452,525
Loans to Parishes and others, net of allowance of \$4,350,000 for 2011 and \$4,200,000 for 2010	41,651,202	47,195,686
Interest rate swap receivable	899,628	1,030,214
Accrued interest and dividends receivable	508,821	565,525
Receivables, net of allowance of \$6,026,000 for 2011 and \$5,330,000 for 2010 – Note 2	4,041,256	4,786,785
Prepaid expenses	146,286	216,446
Land, buildings, and equipment, net – Note 6	19,830,071	22,291,600
Due from other Diocesan agencies	505,755	431,288
	<u>\$ 130,659,175</u>	<u>\$ 139,443,386</u>
Total assets		

Roman Catholic Diocese of Joliet Administration and Ministerial Services
Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,445,263	\$ 4,627,438
Interest payable	30,750	31,291
Due to other Diocesan agencies	467,923	3,569,845
Contributions payable	153,319	493,201
Estimated unpaid insurance claims – Note 8	7,700,000	6,125,000
Deferred revenue – Note 1	3,160,642	3,930,753
Deposits from Parishes and others	49,272,184	55,054,345
Long-term debt – Note 7	9,412,684	13,952,070
Interest rate swap payable	899,628	1,030,214
Future cemetery care liability – Note 1	21,700,000	19,270,888
	<u>96,242,393</u>	<u>108,085,045</u>
Net Assets		
Unrestricted		
Designated for future insurance claims	11,422,379	10,089,918
Designated for future land and building funds	11,998,064	12,633,140
Designated for special purposes	3,160,157	2,638,646
Designated for cemetery operations	(17,251,315)	(18,033,588)
Undesignated	16,326,769	16,432,321
	<u>25,656,054</u>	<u>23,760,437</u>
Temporarily restricted – Note 15	7,019,649	5,856,825
Permanently restricted – Note 15	1,741,079	1,741,079
	<u>34,416,782</u>	<u>31,358,341</u>
Total net assets	<u>34,416,782</u>	<u>31,358,341</u>
Total liabilities and net assets	<u>\$ 130,659,175</u>	<u>\$ 139,443,386</u>

2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions				
Appeal fund drive	\$ 6,185,184	\$ -	\$ -	\$ 6,185,184
Parish assessments	3,606,864	-	-	3,606,864
Education fund assessment	600,719	-	-	600,719
Other contributions	268,021	111,831	-	379,852
Program fees				
Insurance premiums and recoveries	27,763,891	-	-	27,763,891
Fees, sales, and services	5,703,560	-	-	5,703,560
Interest on loans	1,888,606	-	-	1,888,606
Rental income	366,462	-	-	366,462
Net investment earnings – Note 3	4,395,308	1,551,664	-	5,946,972
Gain on sale of fixed assets	96,818	-	-	96,818
Other revenue	69,656	-	-	69,656
Total revenue	50,945,089	1,663,495	-	52,608,584
Net assets released from restrictions	500,671	(500,671)	-	-
	51,445,760	1,162,824	-	52,608,584
Expenses				
Administrative				
Salaries and benefits	2,329,079	-	-	2,329,079
Supplies and expenses	983,587	-	-	983,587
Programs and operations				
Salaries and benefits	4,315,122	-	-	4,315,122
Insurance claims, administration and reinsurance	27,795,204	-	-	27,795,204
Interest on deposits/loans	1,980,180	-	-	1,980,180
Other supplies and expenses	7,320,851	-	-	7,320,851
Land, buildings, and equipment	607,097	-	-	607,097
Donations	2,656,283	-	-	2,656,283
Depreciation	508,498	-	-	508,498
Bad debt expense	1,021,727	-	-	1,021,727
Total expenses	49,517,628	-	-	49,517,628
Revenues in Excess of Expenses	1,928,132	1,162,824	-	3,090,956
Transfers to Education Foundation	(32,515)	-	-	(32,515)
Increase in Net Assets	1,895,617	1,162,824	-	3,058,441
Net Assets – Beginning of Year	23,760,437	5,856,825	1,741,079	31,358,341
Net Assets – End of Year	\$ 25,656,054	\$ 7,019,649	\$ 1,741,079	\$ 34,416,782

See Notes to Financial Statements

Roman Catholic Diocese of Joliet Administration and Ministerial Services
 Statements of Activities and Changes in Net Assets
 Years Ended June 30, 2011 and 2010

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 5,029,495	\$ -	\$ -	\$ 5,029,495
3,661,736	-	-	3,661,736
609,796	-	-	609,796
616,326	237,252	-	853,578
27,466,619	-	-	27,466,619
5,178,454	-	-	5,178,454
2,199,333	-	-	2,199,333
338,041	-	-	338,041
2,232,636	790,223	-	3,022,859
3,573,553	-	-	3,573,553
390,277	-	-	390,277
51,296,266	1,027,475	-	52,323,741
500,348	(500,348)	-	-
51,796,614	527,127	-	52,323,741
2,134,555	-	-	2,134,555
1,000,790	-	-	1,000,790
4,194,040	-	-	4,194,040
26,404,648	-	-	26,404,648
2,238,549	-	-	2,238,549
6,758,487	-	-	6,758,487
455,992	-	-	455,992
2,673,357	-	-	2,673,357
517,944	-	-	517,944
1,355,274	-	-	1,355,274
47,733,636	-	-	47,733,636
4,062,978	527,127	-	4,590,105
(1,195,321)	(53,813)	-	(1,249,134)
2,867,657	473,314	-	3,340,971
20,892,780	5,383,511	1,741,079	28,017,370
\$ 23,760,437	\$ 5,856,825	\$ 1,741,079	\$ 31,358,341

Roman Catholic Diocese of Joliet Administration and Ministerial Services

Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Increase in net assets	\$ 3,058,441	\$ 3,340,971
Adjustments to reconcile increase in net assets to net cash from operating activities		
Depreciation	508,498	517,944
Change in unrealized gains and losses on investments	(2,803,520)	(148,422)
Transfer of land to the Diocese	-	(300,000)
Gain on sale of fixed assets	(96,818)	(3,573,553)
Changes in assets and liabilities		
Loans to Parishes and others, net	5,544,484	8,024,302
Receivables, net	932,819	570,064
Prepaid expenses	70,160	(82,108)
Due to/from other Diocesan agencies	(276,389)	171,541
Accounts payable and accrued expenses	(1,653,184)	953,416
Deposits from Parishes and others	(5,782,161)	2,761,517
Estimated unpaid insurance claims	1,575,000	345,000
Future cemetery care liability	2,429,112	378,139
Deferred revenue	(770,111)	315,979
Net Cash from Operating Activities	2,736,331	13,274,790
Investing Activities		
Purchases of investments	(38,442,164)	(41,040,187)
Proceeds from sales of investments	36,900,294	19,548,783
Purchases of land, buildings, and equipment	(1,069,963)	(336,011)
Proceeds from sale of fixed assets	219,812	4,278,474
Net Cash used for Investing Activities	(2,392,021)	(17,548,941)
Financing Activities		
Repayment of long-term debt	(4,539,386)	(4,300,787)
Net Decrease in Cash and Cash Equivalents	(4,195,076)	(8,574,938)
Cash and Cash Equivalents, Beginning of Year	9,664,779	18,239,717
Cash and Cash Equivalents, End of Year	\$ 5,469,703	\$ 9,664,779
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 1,980,721	\$ 2,282,737

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Roman Catholic Diocese of Joliet Administration and Ministerial Services (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. Various other organizations, such as Parishes, Catholic High Schools, Catholic Charities, and the Catholic Education Foundation of the Diocese, operate within the Diocese, but are considered separate juridical entities; therefore, those entities are not included in the accompanying financial statements. Financial reporting for the Educational Endowment Fund, Diocese Employees' Retirement Plan and the Priests' Pension and Disability Plan are also excluded from the accompanying financial statements.

Tax-Exempt Status

The Diocese is organized as an Illinois non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Diocese is not required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS pursuant to Section 501(a) of the Code. However, the Diocese is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Diocese would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

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 bear interest at the rate of 5% per annum and deposits bear interest at a rate of 3% per annum.

Investments

Marketable securities are stated at fair value. Securities traded on national securities exchanges are valued at the last reported sales price on the last business day of the fiscal year. Investments traded in the over-the-counter market and listed securities, for which no sale was reported on that date, are valued at the average of the last reported bid and asked prices.

Investment – Pooled Insurance

The Diocese accounts for its participation interest in the Catholic Umbrella Pool (CUP) under the equity method. The Diocese shares in the operating and investment income and expenses of this investment based on their contributions into the funds.

Derivative Financial Instruments

The Diocese makes limited use of derivative instruments for the purpose of managing interest rate risk. An interest rate swap agreement was used to convert floating rate long-term debt to a fixed rate (Note 7).

Receivables and Credit Policies

Receivables are uncollateralized parish obligations due under normal terms requiring payment within 30 days from the invoice date. Parish account balances with invoices dated over 30 days old are considered delinquent. Delinquent accounts are not assessed interest. The carrying amount of receivables is reduced by a valuation allowance that reflects management's estimate of amounts that may not be collected. Management reviews all receivable balances; and estimates the portion, if any, of the balance that will not be collected.

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. Cemetery columbarium costs are capitalized when occurred and a per unit cost is expensed during the period in which a unit is sold. 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 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 gift is received. The gifts are reported as either temporarily or permanently restricted 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 and changes in net assets as net assets released from restrictions. However, if the restriction on the temporary support is met in the same reporting period as the contribution or income is received or earned, the activity is recorded as unrestricted on the statement of activities and changes in net assets.

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, and services on a pre-need basis. The Diocese defers revenue recognition of services purchased on a pre-need basis until the fiscal year that the service is performed.

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 7.5%. For these estimates, current maintenance costs are assumed to escalate 3% per year for the next 150 years. The change in the estimate from the beginning of the year to the end of the year is recorded as operations 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 2011, the Diocese changed its assumption relating to the discount rate used to calculate present value from 8% to 7.5%.

Fair Value Measurements

The Diocese has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the increase in net assets.

Subsequent Events

The Diocese has evaluated subsequent events through November 22, 2011, the date which the financial statements were available to be issued.

Note 2 - Promises to Give

Included in receivables are amounts pledged to the Diocese. The total of these pledges was \$647,993 and, \$639,105 at June 30, 2011 and 2010, respectively. Amounts included in receivables were recorded net of an allowance for uncollectible pledges of \$276,509 and \$230,700 at June 30, 2011 and 2010, respectively. All pledges are due within one year and are included in unrestricted net assets.

Note 3 - Investments

Investments are stated at fair value and consist of the following at June 30, 2011 and 2010:

	June 30, 2011		June 30, 2010	
	Cost	Market	Cost	Market
Common Stock	\$ 11,861,779	\$ 13,667,489	\$ 10,758,889	\$ 10,537,665
Common Collective Trust	3,984,924	4,519,968	3,915,184	3,380,228
Government Obligations	16,381,756	16,377,881	9,871,702	10,009,826
Corporate Bonds and Notes	21,568,135	21,743,979	27,937,735	28,264,994
Total investments	<u>\$ 53,796,594</u>	<u>\$ 56,309,317</u>	<u>\$ 52,483,510</u>	<u>\$ 52,192,713</u>

Pooled investment funds consist of the following at June 30, 2011 and 2010:

	2011	2010
Equity in Catholic Umbrella Pool – Note 9	<u>\$ 801,667</u>	<u>\$ 615,825</u>

The composition of net investment earnings is as follows:

	2011	2010
Interest and Dividends for the Year	\$ 1,744,414	\$ 1,425,933
Net Realized Gains for the Year	1,399,038	1,448,504
Change in Unrealized Gains and Losses on Investments	<u>2,803,520</u>	<u>148,422</u>
Total	<u>\$ 5,946,972</u>	<u>\$ 3,022,859</u>

Note 4 - Risks and Uncertainties

The Diocese invests in various investment securities which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of activities and changes in net assets.

Note 5 - Beneficial Interest in a Trust (Noncash Investing Activity)

The Diocese is the beneficiary of a charitable remainder uni-trust valued at \$495,469 and \$452,525 at June 30, 2011 and 2010, respectively. According to the terms of the trust agreement, a Catholic high school within the Diocese of Joliet is the beneficiary of 80% of the trust value up to \$800,000. Any remainder in excess of that amount is held for the benefit of the Diocese. The high school has received \$461,572 in credits against the construction loan that it had with the Diocese. Additional liability may exist for the Diocese if the high school's interest in the trust exceeds this amount in the future. There is no additional liability at June 30, 2011.

Note 6 - Land, Buildings, and Equipment

A summary of net land, buildings and equipment at June 30, 2011 and 2010 follows:

	June 30, 2011			June 30, 2010		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land						
Vacant	\$ 7,867,808	\$ -	\$ 7,867,808	\$ 10,713,079	\$ -	\$ 10,713,079
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	10,921,717	4,697,041	6,224,676	10,255,728	4,454,978	5,800,750
Operating	8,218,278	5,027,540	3,190,738	7,996,792	4,793,451	3,203,341
Construction in progress	56,102	-	56,102	83,683	-	83,683
Total	\$ 29,554,652	\$ 9,724,581	\$ 19,830,071	\$ 31,540,029	\$ 9,248,429	\$ 22,291,600

Construction in progress at June 30, 2011, represents costs incurred for architectural designs for a cemetery improvement project that has not yet been approved for construction.

Note 7 - Long-Term Debt

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

	2011	2010
Asbestos Loan 2	\$ 12,684	\$ 42,189
All Saints Catholic Academy Bonds	9,400,000	10,000,000
Asbestos Loan 1	-	19
Our Lady of Mercy Parish Loan	-	1,820,940
St. Alexander Parish Loan	-	779,583
Christ the King Parish Loan	-	1,309,339
Total	\$ 9,412,684	\$ 13,952,070

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. The loan of \$670,030 was paid in full in November 2010, and the final installment for the loan of \$855,360 is due May 30, 2013.

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 (collectively referred to as All Saints) and mature June 1, 2027. Interest rate is 3.57% until June 1, 2015, at which time the rate will be based on an adjustable rate. The loan is secured by a letter of credit.

Our Lady of Mercy Parish Loan

On April 14, 2009, the Diocese negotiated a secured note from Harris Bank for parish construction. The note is fully payable to the Diocese by Our Lady of Mercy Parish. Terms are 119 monthly installments of \$13,304, including interest, commencing May 1, 2009, with a final installment due on April 1, 2019. Interest rate is 5.4%. The loan is secured by real estate. In October 2010, the Diocese paid off the outstanding balance on this note with Harris Bank and brought the loan into the Diocesan lending program.

St. Alexander Parish Loan

On April 14, 2009, the Diocese negotiated a secured note from Harris Bank for parish construction. The note is fully payable to the Diocese by St. Alexander Parish. Terms are 119 monthly installments of \$6,713, including interest, commencing May 1, 2009, with a final installment due on April 1, 2019. Interest rate is 5.4%. The loan is secured by real estate. In October 2010, the Diocese paid off the outstanding balance on this note with Harris Bank and brought the loan into the Diocesan lending program.

Christ the King Parish Loan

On April 14, 2009, the Diocese negotiated a secured note from Harris Bank for parish construction. The note is fully payable to the Diocese by Christ the King Parish. Terms are 119 monthly installments of \$9,279, including interest, commencing May 1, 2009, with a final installment due on April 1, 2019. Interest rate is 5.4%. The loan is secured by real estate. In October 2010, the Diocese paid off the outstanding balance on this note with Harris Bank and brought the loan into the Diocesan lending program.

Future principal payments on the above loans are as follows:

Year Ending June 30,	Amount
2012	\$ 612,684
2013	600,000
2014	600,000
2015	600,000
2016	600,000
Thereafter	6,400,000
Total	\$ 9,412,684

On December 8, 2005, the Diocese entered into an interest rate swap agreement (a derivative financial instrument) with an effective date of December 21, 2005 and a termination date of June 1, 2015 on a notional amount of \$12,560,000 (currently \$9,400,000) of the outstanding principal of their 2005 Letter of Credit Agreement. The Company's interest rate strategy is to hedge its variable LIBOR-based interest rate for a fixed rate of 3.0% per annum through and including July 2007, and 3.57% per annum thereafter, to protect the Diocese from potential future interest rate increases. The differential to be paid or received each month as the interest rate changes is recognized as an expense related to the debt. The differential increased interest expense by \$343,593 and \$363,139 for the years ended June 30, 2011 and 2010, respectively. Under FASB Accounting Standards Codification Topic (ASC) 815 *Derivatives and Hedging*, the Diocese is required to recognize the agreement on the balance sheet at its estimated fair market value using the present value of the expected future cash flows. The Diocese has recorded a liability of \$899,628 and \$1,030,214 at June 30, 2011 and 2010, respectively. There is a corresponding asset (other receivable) recorded for these same amounts since any liability associated with the swap is the responsibility of All Saints. The change in the fair market value of the agreement has not been recorded in the statement of activities and changes in net assets. The change would be an increase (decrease) in fair value of interest rate swap agreement of \$(130,586) and \$174,791 at June 30, 2011 and 2010, respectively. Since the change in the fair value is considered to be the responsibility of All Saints, there would also be an offsetting increase (decrease) for the same values, resulting in no change to net assets.

Note 8 - Insurance Claims

The Diocese self-insures for losses related to health benefits, property and liability coverage, automobile coverage, and workers' compensation. Excess commercial 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 \$7,700,000 and \$6,125,000 for the years ended June 30, 2011 and 2010, respectively.

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. 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 \$148,085 and \$152,493 for the years ended June 30, 2011 and 2010, respectively. The equity interest and participation percentage in CUP was \$801,667 (3.12%) and \$615,825 (3.14%) at June 30, 2011 and 2010, 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 \$32,125,401 and \$37,053,360 as of June 30, 2011 and 2010, respectively.

Included in receivables – net of allowance are related net receivables of \$2,585,284 and \$3,384,580 as of June 30, 2011 and 2010, respectively.

Included in deposits from Parishes and others are related deposits of \$48,983,330 and \$54,759,393 as of June 30, 2011 and 2010, respectively.

Note 11 - Commitments and Contingencies

As of June 30, 2011 and 2010, commitments on construction pending or in process amounted to approximately \$2,800,000 and \$9,700,000 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 Accounting Standards Codification Topic (ASC) 410-20 *Asset Retirement Obligations*, this situation creates a future asset retirement obligation. In accordance with ASC 410-20, 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.

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.

The Diocese has guaranteed demand revenue bonds issued by the Illinois Finance Authority for St. Francis High School, a Catholic high school operating in the Diocese of Joliet. St. Francis High School has entered into a swap agreement to fix the interest at 4.05% in January 2011. These bonds mature in December 2035. The principal balance of the bonds at June 30, 2011 was \$4,500,000.

The Diocese has guaranteed \$100,000 of Series 2, Chicago Station WWCA Tranche B Bonds, which mature in October 2023. These bonds were issued to support Relevant Radio in the Chicago land area.

Note 12 - Functional Expenses

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

	2011	2010
Program Activities		
Insurance program	\$ 27,041,332	\$ 26,407,679
Publications	651,866	823,157
Donations	2,656,283	2,673,357
Cemeteries operations	6,121,324	4,843,650
Parish services	1,980,179	2,238,548
Scholarships	23,550	425,000
Ministry services	7,085,429	6,889,202
Total program activities	45,559,963	44,300,593
Supporting Activities		
Fund-raising and development	995,959	955,231
Management and general	2,961,703	2,477,812
Total supporting activities	3,957,662	3,433,043
 Total expenses	 \$ 49,517,625	 \$ 47,733,636

Management and general expenses includes bad debts approximating \$1,100,000 and \$1,400,000 for the years ending June 30, 2011 and 2010, 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 designated full-time or part-time benefited 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.

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, 2011 and 2010, the maximum pension benefit was \$1,525 and \$1,500 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, 2011 and 2010, the employers contributed \$3,500 and \$3,000 per year, respectively, per priest, for each priest assigned in the Diocese. The annual contribution is due on October 1 of each year, beginning with the first July 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, 2011 and 2010.

For the purposes of these financial statements, these pension plans are considered to be multi-employer plans as defined under FASB Accounting Standards Codification Topic (ASC) 715, *Compensation – Retirement 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, 2011, pension costs recognized by the Diocese for the Employees' Retirement Plan and the Priests' Pension and Disability Plan were \$360,866 and \$57,502 respectively, and \$343,557 and \$40,553, respectively, for the year ended June 30, 2010.

Note 14 - Concentration of Credit Risk

The Diocese maintains cash balances in various bank deposit accounts. At June 30, 2011 and 2010, 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, 2011, the Diocese had \$15,000,000 of unused line of credit with Harris Bank to be drawn upon as needed, with interest at 2.5% above the Treasury bill rate.

Note 15 - Temporarily and Permanently Restricted Net Assets

Restricted funds by net asset class are as follows:

<u>Purpose</u>	2011			2010
	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	\$ 318,730	\$ 471,032	\$ 789,762	\$ 698,629
Parish operations	1,409,094	1,105,899	2,514,993	2,119,698
Masses	50,741	25,000	75,741	69,598
Seminarians/need deacons	1,697,880	-	1,697,880	1,459,592
CHD grants	121,738	-	121,738	100,382
Senior housing	980,763	87,179	1,067,942	881,569
Orphanage	478,132	-	478,132	412,455
Priest's medical costs	782,198	-	782,198	672,313
Priest's continued education	1,027,396	-	1,027,396	878,013
Other purposes	152,977	51,969	204,946	305,655
Totals	<u>\$ 7,019,649</u>	<u>\$ 1,741,079</u>	<u>\$ 8,760,728</u>	<u>\$ 7,597,904</u>

Note 16 - Endowment

The Diocese's endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The management of the Diocese has interpreted the State of Illinois Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization.

The composition of Endowment Net Assets by fund type as of June 30, 2011 and 2010, respectively, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2011				
Donor-Restricted Endowment Funds	<u>\$ -</u>	<u>\$ 810,070</u>	<u>\$ 1,741,079</u>	<u>\$ 2,551,149</u>
June 30, 2010				
Donor-Restricted Endowment Funds	<u>\$ -</u>	<u>\$ 470,879</u>	<u>\$ 1,741,079</u>	<u>\$ 2,211,958</u>

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June 30, 2011 and 2010

Changes in Endowment Net Assets for the years ending June 30, 2011 and 2010, respectively, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2011				
Endowment Net Assets, Beginning of Year	\$ -	\$ 470,879	\$ 1,741,079	\$ 2,211,958
Investment Return:				
Investment income	-	92,480	-	92,480
Net realized and unrealized appreciation	-	373,103	-	373,103
Contributions	-	38,971	-	38,971
Appropriation of Endowment Assets for Expenditure	-	(165,363)	-	(165,363)
Endowment Net Assets, End of Year	\$ -	\$ 810,070	\$ 1,741,079	\$ 2,551,149
June 30, 2010				
Endowment Net Assets, Beginning of Year	\$ -	\$ 351,264	\$ 1,741,079	\$ 2,092,343
Investment Return:				
Investment income	-	81,470	-	81,470
Net realized and unrealized appreciation	-	90,663	-	90,663
Contributions	-	38,920	-	38,920
Appropriation of Endowment Assets for Expenditure	-	(91,438)	-	(91,438)
Endowment Net Assets, End of Year	\$ -	\$ 470,879	\$ 1,741,079	\$ 2,211,958

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The components of endowment funds classified as temporarily restricted net assets and permanently restricted net assets as of June 30, 2011 and 2010, respectively, are as follows:

	2011	2010
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds subject to a time restriction under SPMIFA:		
With purpose restrictions	\$ 810,070	\$ 470,879
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by SPMIFA	\$ 1,741,079	\$ 1,741,079

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Diocese to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2011 and 2010.

Return Objectives and Risk Parameters

The Diocese has adopted investment and spending policies for endowment assets that attempt to ensure the health and long-term life of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Diocese must hold in perpetuity or for a donor-specified period(s). Under this policy, the endowment assets are invested in a manner to accept prudent levels of short and long-term volatility consistent with the near-term cash flow needs, funding level, and long-term liability structure of the investment portfolio.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Diocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Diocese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Diocese has a policy of making available for appropriation each year the net investment earnings plus accumulated earnings from prior periods. The amount to be appropriated each year from this temporarily restricted income related to the endowment funds is determined by the trustee as directed by donor-imposed restrictions. In periods when there are no investment earnings and no accumulated earnings from prior years, appropriations of these endowment funds are not allowed.

Note 17 - Fair Value of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and 2010, are as follows:

	2011	2010
Assets		
Common stock	\$ 13,667,489	\$ 10,537,665
Common collective trust	4,519,968	3,380,228
Government obligations	16,377,881	10,009,826
Corporate bonds and notes	21,743,979	28,264,994
Beneficial interest in charitable remainder trust	495,469	452,525
Total assets	\$ 56,804,786	\$ 52,645,238
Liability		
Interest rate swap agreement	\$ 899,628	\$ 1,030,214

The related fair values of these assets and liabilities are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2011			
Assets			
Government obligations			
Maturing in less than 1 year	\$ 30,211	\$ -	\$ -
Maturing in 2-9 years	16,158,410	-	-
Maturing in 10 years or more	189,260	-	-
Total government obligations	16,377,881	-	-
Corporate bonds and notes			
Maturing in less than 1 year	16,472,086	-	-
Maturing in 2-10 years	5,271,893	-	-
Total corporate bonds and notes	21,743,979	-	-

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	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
June 30, 2011			
Common stock			
Basic industries	\$ 1,034,363	\$ -	\$ -
Materials	223,542	-	-
Capital goods	681,577	-	-
Industrial	530,381	-	-
Consumer staples	908,445	-	-
Consumer cyclical	111,418	-	-
Consumer discretionary	508,172	-	-
Energy	840,839	-	-
Financial	1,293,427	-	-
Health care	700,646	-	-
Utilities	211,799	-	-
Technology	378,881	-	-
Information technology	757,019	-	-
Transportation	89,661	-	-
Telecommunication services	186,618	-	-
Foreign stock	<u>5,210,701</u>	<u>-</u>	<u>-</u>
Total common stock	<u>13,667,489</u>	<u>-</u>	<u>-</u>
Common collective trust			
CUIT Core Equity Index Fund	<u>-</u>	<u>4,519,968</u>	<u>-</u>
Beneficial interest in charitable remainder trust			
	<u>-</u>	<u>495,469</u>	<u>-</u>
Total assets	<u>\$ 51,789,349</u>	<u>\$ 5,015,437</u>	<u>\$ -</u>
Liability			
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 899,628</u>	<u>\$ -</u>

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	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2010			
Assets			
Government obligations			
Maturing in less than 1 year	\$ 786,934	\$ -	\$ -
Maturing in 2-10 years	9,222,892	-	-
Total government obligations	10,009,826	-	-
Corporate bonds and notes			
Maturing in less than 1 year	17,429,609	-	-
Maturing in 2-9 years	10,759,458	-	-
Maturing in 10 years or more	75,927	-	-
Total corporate bonds and notes	28,264,994	-	-
Common stock			
Basic industries	805,978	-	-
Materials	136,902	-	-
Capital goods	489,609	-	-
Industrial	413,658	-	-
Consumer staples	767,472	-	-
Consumer cyclical	80,471	-	-
Consumer discretionary	731,267	-	-
Energy	796,869	-	-
Financial	1,508,264	-	-
Health care	727,092	-	-
Utilities	261,947	-	-
Technology	375,581	-	-
Information technology	894,265	-	-
Transportation	58,053	-	-
Telecommunication services	222,399	-	-
Foreign stock	2,267,838	-	-
Total common stock	10,537,665	-	-

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	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2010			
Common collective trust			
CUIT Core Equity Index Fund	\$ -	\$ 3,380,228	\$ -
Beneficial interest in charitable remainder trust			
	-	452,525	-
Total assets	<u>\$ 48,812,485</u>	<u>\$ 3,832,753</u>	<u>\$ -</u>
Liability			
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 1,030,214</u>	<u>\$ -</u>

The fair value for common stock is determined by reference to quoted market prices. The common collective trust is valued at fair value based on the net asset value of the underlying assets held in the trust. Government obligations and corporate bonds and notes are measured at fair value, determined by reference to yields currently available on comparable securities issues with similar credit ratings. Fair value for the beneficial interest in the charitable remainder trust is determined by reference to the underlying investments held in the trust. The fair value of the interest rate swap agreement is calculated using the present value of the expected future cash flows.