Archdiocese of Chicago

*Consolidated Financial Statements
as of and for the Year Ended
June 30, 2006 (Restated), and
Independent Accountants' Review Report*

ARCHDIOCESE OF CHICAGO

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated financial statements of the Archdiocese of Chicago as of June 30, 2006, and for the year then ended, listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of the Archdiocese of Chicago.

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

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

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

As discussed in Note 17 to the financial statements, net assets at July 1, 2005 have been restated.

Deloitte & Touche LLP

November 21, 2006

ARCHDIOCESE OF CHICAGO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2006
(Amounts in thousands)

ASSETS

CASH AND CASH EQUIVALENTS:	
Parishes	$ 77,990
Other	41,950
Total cash and cash equivalents	119,940
INVESTMENTS	1,221,943
RECEIVABLES:	
Notes and accounts receivable—net	99,769
Cemeteries installment contracts	48,608
Total receivables	148,377
PREPAID PENSION BENEFITS	1,700
INTANGIBLE PENSION ASSET	3,086
UNSOLD GRAVES AND CRYPTS	48,598
REAL ESTATE:	
Undeveloped realty	20,720
Land, buildings, and equipment	2,192,161
Less accumulated depreciation	(995,618)
Real estate—net	1,217,263
OTHER ASSETS	34,794
TOTAL	$2,795,701

LIABILITIES AND NET ASSETS

LIABILITIES:	
Savings deposits	$ 1,421
Accounts payable and accrued expenses	124,379
Short-term borrowings	16,623
Deferred revenue	124,677
Asset retirement obligations	61,827
Accrued future care costs	304,327
Insurance claims	88,826
Accrued pension cost	122,438
Postretirement liability	76,091
Refundable advances from HUD	98,530
Long-term borrowings	38,915
Total liabilities	1,058,054
NET ASSETS (DEFICIENCY):	
Unrestricted—undesignated	(87,078)
Unrestricted—board designated	1,724,241
Temporarily restricted	82,972
Permanently restricted	17,512
Total net assets	1,737,647
TOTAL	$2,795,701

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

ARCHDIOCESE OF CHICAGO

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Parishes:				
Collections and activities	$ 310,677	$ -	$ -	$ 310,677
Tuition and related fees	262,293			262,293
Charitable activities:				
Fund appeals and bequests	70,415	11,527	493	82,435
Program services	217,984			217,984
Cemeteries sales and services	39,928			39,928
Archdiocesan Pastoral Center	78,704	537	618	79,859
PRMAA revenue	1,542			1,542
Annual Catholic Appeal	10,516			10,516
Investment income	26,188	1,204		27,392
Other	2,742			2,742
Net assets released from restrictions	26,966	(26,966)		-
Total revenues	1,047,955	(13,698)	1,111	1,035,368
EXPENSES:				
Parishes:				
School programs	296,126			296,126
General operations	253,197			253,197
Charitable activities	308,034			308,034
Cemeteries	40,637			40,637
Archdiocesan Pastoral Center	150,809			150,809
PRMAA expense	9,246			9,246
Annual Catholic Appeal distributions and fundraising expenses	2,230			2,230
Depreciation	47,867			47,867
Interest expense	1,701			1,701
Total expenses	1,109,847	-	-	1,109,847
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS	$ (61,892)	$(13,698)	$ 1,111	$ (74,479)

(Continued)

ARCHDIOCESE OF CHICAGO

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CHANGE IN NET ASSETS BEFORE OTHER OPERATING ITEMS	$ (61,892)	$ (13,698)	$ 1,111	$ (74,479)
MINIMUM PENSION LIABILITY RECOVERY	121,879			121,879
NET INVESTMENT RETURN	82,683	1,777	235	84,695
NET PROPERTY GAINS	32,806			32,806
GRANTS FOR NOISE ABATEMENT PROJECTS	1,296			1,296
PARISH BUILDING FUND COLLECTIONS	26,158	10,042		36,200
DEVELOPMENT FUND REVENUES	732			732
DEVELOPMENT FUND EXPENSES	(4,622)			(4,622)
EXTINGUISHMENT OF DEBT	(111)			(111)
TRANSFER OF NET ASSETS	4,595	(4,057)	(538)	-
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(60,824)			(60,824)
CHANGE IN NET ASSETS	142,700	(5,936)	808	137,572
NET ASSETS—Beginning of year	1,517,371	88,908	16,704	1,622,983
RESTATEMENT OF PRIOR PERIOD (NOTE 17)	(22,908)			(22,908)
NET ASSETS—End of year	$1,637,163	$ 82,972	$17,512	$1,737,647

(Concluded)

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

ARCHDIOCESE OF CHICAGO

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

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 137,572
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:	
Cumulative effect of change in accounting principle	60,824
Accrued future care costs	1,254
Gains on real estate sales	(32,281)
Net investment return	(84,695)
Depreciation	47,867
Minimum pension liability recovery	(121,879)
Market value of noncash contributions received	(2,742)
Changes in assets and liabilities:	
Receivables	(11,904)
Intangible pension asset	34,084
Unsold graves and crypts	490
Other assets	3,298
Savings deposits and accounts payable and accrued expenses	19,893
Deferred revenue	9,977
Insurance claims	9,416
Accrued pension and postretirement costs	(8,958)
Refundable grant advances from HUD	15,176
Net cash flows provided by operating activities	77,392
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales of investments	671,766
Purchases of investments	(706,326)
Proceeds from sales of real estate	39,745
Purchases of land, buildings, and equipment	(85,430)
Net cash flows used in investing activities	(80,245)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Change in short-term borrowings under lines of credit	(7,991)
Issuance of long-term borrowings	445
Repayment of long-term borrowings	(5,183)
Net cash flows used in financing activities	(12,729)
CHANGE IN CASH AND CASH EQUIVALENTS	(15,582)
CASH AND CASH EQUIVALENTS—Beginning of year	135,522
CASH AND CASH EQUIVALENTS—End of year	$ 119,940
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest	$ 2,743

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

1. NATURE OF OPERATIONS

The consolidated financial statements include the accounts of certain organizations which are overseen by the Catholic Bishop of Chicago ("CBC") and which operate under the auspices of the Archdiocese of Chicago ("Archdiocese") as follows:

Parishes and Related Schools—The Parishes of the Archdiocese of Chicago ("Parishes") include the parishes, schools, and various shrines and oratories owned by the Archdiocese in Lake and Cook counties of Illinois. These sites minister to the spiritual, social, and educational needs of the faithful. They provide catechesis for people at all age levels—from young children to the elderly, as part of the educational ministry of the Church. The Parishes' fiscal operations include sacramental services, religious education training, formal preschool through 12th grade educational instruction, fundraising, and investment of reserve funds. Operating support is derived primarily from parishioners' contributions, tuition and fees, and fundraising activities.

Archdiocesan Pastoral Center—The Archdiocesan Pastoral Center ("Pastoral Center") is the ministerial and administrative center for 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 available 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.

Catholic Cemeteries—The Catholic Cemeteries ("Cemeteries") assists the CBC in caring for the faithful departed by performing the most ancient corporal work of mercy—the burial of the dead. The Cemeteries further assists the CBC by providing appropriate facilities for burial and for celebration of the funeral rites for each member of the Catholic community. Operating support is derived primarily from the sale of grave sites, crypts and burial services, and from investment earnings.

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

Misericordia Home ("Home") currently operates at two facilities: Misericordia South located on the south side of Chicago and Misericordia North located on the north side of Chicago. In November 2005, the Home closed the south campus and transferred the residents to a new skilled nursing facility, McAuley residence, which is adjacent to the north campus. The Archdiocese assumed ownership and control of the Misericordia South facility as of July 1, 2006.

On June 6, 2005, the St. Joseph Carondelet Board of Directors ("Board") voted to cease the program activities of St. Joseph's Carondelet (the "Center") as of June 30, 2005, following loss of government funding. The business operations of the Center ceased on September 30, 2005, and all liabilities were paid off prior to September 30, 2005. On October 13, 2005, the Board approved the transfer of ownership of certain computer-related equipment, all of its facilities, and remaining net assets to the Catholic Charities. Catholic Charities' Development Office plans to contact donors to obtain revisions for their donations that are currently restricted.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Use of Estimates***—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b. ***Classification of Net Assets***—Resources are classified into three classifications of net assets according to externally (donor) imposed restrictions. Unrestricted net assets are free of donor-imposed restrictions and include all revenues, expenses, gains, and losses that are not changes in restricted net assets. Donor-restricted contributions whose restrictions are met in the same accounting period are also reported as unrestricted. Temporarily restricted net assets, consisting primarily of funds restricted for parish capital improvements or programs administered by the Charitable Activities, are those whose use has been limited by donors to a specific time period or purpose. When a donor restriction expires, that is, when a stipulation ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Permanently restricted net assets are donated with stipulations that they be invested to provide a permanent source of income (e.g., endowment funds); such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose.

c. ***Cash Equivalents***—For purposes of the consolidated 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 Archdiocese.

d. ***Investments***—Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as an increase or decrease in unrestricted net assets unless such income or loss is temporarily or permanently restricted by explicit donor stipulation or by law.

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

f. ***Unsold Graves and Crypts***—Developed graves and crypts are carried at average cost which includes land and construction costs. Such costs are expensed when graves and crypts are sold.

g. ***Real Estate***—Undeveloped realty represents sites held for future development and is carried at cost. Depreciation is recorded on buildings and equipment.

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.

Buildings, equipment, major improvements, and betterments are capitalized and depreciated, using the straight-line method, over the estimated useful lives of the assets, which range from 3 to 75 years. Repairs and maintenance which do not extend the life of the applicable assets are charged to expense as incurred.

h. ***Asset Impairment***—The Archdiocese follows SFAS No. 143, *Accounting for Asset Retirement Obligations.* SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Archdiocese has implemented SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The provisions under this statement include a requirement that long-lived assets be reviewed for impairment by comparing the future cash flows expected from the asset to the carrying value of the asset. The Archdiocese reviews the carrying amount of long-lived assets whenever events or changes in circumstances indicate that impairment may have occurred.

i. ***Cemeteries Future Care***—The amount recorded as "accrued future care costs" in the consolidated statement of financial position represents the estimated cost to maintain the Cemeteries' existing graves and crypts in the future, discounted to present value. For this estimate, current maintenance costs are assumed to escalate 2.75% per year for the next 50 years.

   Pursuant to future care agreements and commitments, a portion of the proceeds from sales of graves and crypts is invested by the Cemeteries in the Pooled Investment Fund. Interest and dividends earned on such investments are withdrawn currently to fund current maintenance costs, while net capital gains realized are reinvested.

j. ***Insurance***—Insurance claims reserves are an accumulation of the estimated amounts necessary to settle outstanding claims, including claims that are incurred but not reported, based on the facts in each case and the Archdiocese's experience with similar cases. These estimates are reviewed and updated regularly, and any resulting adjustments are reflected in current operations.

   Property/casualty risks of the parishes and participating religious organizations of the Archdiocese are covered in part by self-insurance programs administered through the Pastoral Center. Property/casualty losses in excess of self-insured retention levels are insured under commercial excess policies. Medical and health insurance for employees is provided through a combination of HMO and self-insured PPO plans. The Pastoral Center assesses the parishes and participating religious organizations of the Archdiocese to fund the costs of such programs.

   During 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 an additional $5.2 million in claims. The costs of settlement are included in the insurance claims reserve at June 30, 2006.

k. ***Refundable Advances from HUD***—Roseland Manor's, Hayes Manor's, Matthew Manor's, Tolton Manor's, Frances Manor's, Lawrence Manor's, Bernardin Manor's, St. Ailbe Faith Apartments', St. Sabina Elders', St. Ailbe Hope Apartments', Ozanam Village's, St. Ailbe Love Apartments', St. Peter Claver Courts', St. Brendan Apartments', Bishop Goedert Residences', St. Vincent de Paul Residences', and Donald Kent Residences' (the "Residences") development and construction are being or have been substantially funded under noninterest-bearing mortgage agreements with the U.S. Department of Housing and Urban Development ("HUD"). The Residences are not required to make principal or interest payments on the mortgage notes, provided they maintain housing in accordance with the Capital Advance Program Use and Regulatory Agreements. If all requirements continue to be met, the grant advances will be considered earned in not less than 40 years or an earlier date if approved by HUD. The refundable grant advances are collateralized by the Residences' property and equipment associated with the advance.

l. ***Contributed Services***—Support arising from contributed services of religious personnel in Archdiocesan schools totaling $1,842 during 2006 has been recognized in the consolidated financial statements as both income and expense. The amounts recognized represent the difference between stipends paid and comparable compensation that would be paid to lay personnel.

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

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

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

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

p. ***Derivative Instruments***—The Pastoral Center entered into interest rate swap agreements to hedge a portion of its variable rate borrowings against adverse changes in interest rates. These swaps have been classified as cash flow derivatives and are recorded at fair value in the consolidated statement of financial position with the corresponding adjustment to interest expense in the consolidated statement of activities.

q. ***Accounting Pronouncements***—In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") 47, *Accounting for Conditional Asset Retirement Obligations—An Interpretation of SFAS No. 143*. FIN 47 clarifies the term conditional asset retirement obligation as it is used in SFAS No. 143, 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 Archdiocese adopted FIN 47 effective July, 1 2005. In accordance with FIN 47, the Archdiocese 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 Archdiocese recorded a cumulative effect of change in accounting principle of $60,824. The Archdiocese also recorded a liability for asset retirement obligations of $61,827 and increased the carrying value of the related assets by $1,003.

3. INVESTMENTS

As of June 30, 2006, the Archdiocese's investment portfolio consisted of the following:

Invested cash	4 %	$ 52,648
Common stocks	55	665,826
Alternative investments	14	173,247
Fixed income securities	27	330,222
Total	100 %	$ 1,221,943

As required by Illinois law, collections on the portion of pre-need contracts applicable to future interment services are invested in the Pooled Investment Fund and retained, along with 75% of interest and dividends earned and 100% of net capital gains realized on such investments, until the interment service is performed. Invested cash includes short-term investments and money market accounts.

As of June 30, 2006, investments are held by the following entities:

Cemeteries	$ 532,394
Pastoral Center	75,473
Pastoral Center—on behalf of parishes	71,386
Pastoral Center—on behalf of seminaries	84,845
Misericordia	264,497
Maryville Academy	90,136
Catholic Charities	49,082
Mercy Home for Boys and Girls	49,064
PRMAA	5,066
Total	$ 1,221,943

Net investment income and returns for the year ended June 30, 2006, are as follows:

Interest and dividends	$ 27,392
Realized gains—net	39,448
Unrealized gains—net	45,247
Net investment income and returns	$ 112,087

Net investment income and return in the consolidated statement of activities at June 30, 2006, are as follows:

Investment income	$ 27,392
Investment return	84,695
Net investment income and return	$ 112,087

4. MILLENNIUM CAMPAIGN

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 consisted of two sub-campaigns. The first sub-campaign was the School Major Gift Campaign, the purpose of which was 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 was Sharing Christ’s Gifts, the purpose of which was to raise funds for the capital, endowment, and ministerial needs of parishes. As part of the campaign, parishes provided 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 were 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 the University of St. Mary of the Lake) and pay for the primary expenses of the campaign.

The Millennium Campaign recognizes revenue consistent with other pledges. Unconditional promises to give cash and other assets 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. Millennium Campaign revenue is recorded in Development Fund Revenue in the consolidated statement of activities.

5. PARISHES

Revenues—Contributions at the parish level are the most significant source of funds for the Archdiocese. In addition to defraying local church, school, and general parish operating cost at some parishes, they also provide funds for the Archdiocesan assessment.

Included in collections are special parish collections for building funds, school support, and memorials. Not included in this latter category are various annual collections either for national or local Archdiocesan causes. The Pastoral Center usually receives the proceeds from each Parish’s special collections and undertakes the distribution of the funds to the applicable office, program, or national campaign.

Expenses—School Programs—The Archdiocese and its Parishes operated 212 elementary schools and 7 high schools in 2006. The following is a summary of school programs expenses for the year ended June 30, 2006, prior to consolidation eliminations and reclassifications:

Salaries, wages, and benefits	$ 238,108
Utilities, repairs, and insurance	27,135
Books and instructional materials	12,343
Depreciation and other expenses	28,349
Total expenses—school programs	$ 305,935

Expenses exceeded school revenues (tuition and related fees) by $43,642 in 2006. These excess costs were financed from general parish revenues and reserves, special fundraising activities, and grants from the Archdiocese. The data above do not include 5 private elementary schools and 33 private high schools within the Archdiocese, operated by various religious orders.

Expenses—General Operations—For the year ended June 30, 2006, the following is a summary of the general operations, other than for the school programs, prior to consolidation elimination and reclasses:

Salaries, wages, and benefits	$ 121,498
Utilities, repairs, and insurance	71,082
Religious education (CCD)—including salaries and expenses	19,884
Other expenses—including administrative, depreciation, church and rectory operating costs	98,786
Total expenses—general operations	$ 311,250

Each Parish pays an annual assessment for continuing Archdiocesan programs. Ordinary income is the main factor considered in arriving at the individual assessments. The assessment is used to support the activities of the Pastoral Center and amounted to $21,976 in 2006. This assessment is eliminated in the consolidated financial statements.

Building Fund Pledges Receivable—As of June 30, 2006, the Parishes have remaining uncollected unconditional pledges, principally from the Millennium campaign of 2000–2005, totaling $36,773. For measurement purposes, a 5.125% discount rate is used to determine the present value of the pledges receivable.

Aging and valuation of the building fund pledges receivable at June 30, 2006, are as follows:

	Unrestricted	Temporarily Restricted	Total
Due in less than one year	$ 22,898	$ -	$ 22,898
Due in two to five years		17,858	17,858
Gross building fund pledges receivable	22,898	17,858	40,756
Less allowance for uncollectible pledges	(1,144)	(893)	(2,037)
Less discount to present value		(1,946)	(1,946)
Building fund pledges receivable—net	$ 21,754	$ 15,019	$ 36,773

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

6. REAL ESTATE

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

Undeveloped realty at June 30, 2006, consists of the following sites for future development:

Future parish sites	$ 12,205
Cemeteries	8,515
Total	$ 20,720

All property held for future parish or cemetery purposes remains on the tax rolls until utilized.

Developed real estate at June 30, 2006, consists of the following:

	Land	**Buildings and Equipment**	**Accumulated Depreciation**	**Total**
Parishes	$ 155,353	$ 1,516,681	$ (791,345)	$ 880,689
Charitable Activities	25,901	313,958	(104,663)	235,196
Pastoral Center	18,881	115,737	(78,063)	56,555
Cemeteries	20	45,630	(21,547)	24,103
Total	$ 200,155	$ 1,992,006	$ (995,618)	$ 1,196,543

7. BANK BORROWINGS

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

Pastoral Center $16,000 line of credit, payable on demand, interest rate is below prime (6.08% and 6.15% at June 30, 2006)	$ 5,470
Pastoral Center $10,000 line of credit, payable on demand, interest rate is below prime (5.80% at June 30, 2006)	5,000
Pastoral Center $10,000 term loan, due May 31, 2008 interest rate is fixed (4.72% at June 30, 2006)	10,000
Pastoral Center $5,000 line of credit, payable on demand interest rate is below prime (6.02% at June 30, 2006)	5,000
Pastoral Center $8,800 line of credit, due July 3, 2006, interest rate is based on LIBOR plus 50 basis points (3.15% at June 30, 2006)	200
Pastoral Center note payable to bank, due December 27, 2010, interest rate is fixed (4.84% at June 30, 2006)	5,800
Pastoral Center note payable, due December 20, 2008, interest rate is fixed (5.92% at June 30, 2006)	4,100
Pastoral Center note payable, due January 7, 2010, interest rate is fixed (4.75% at June 30, 2006)	1,675
Catholic Charities Adjustable Demand Revenue Bonds:	
Series 1993 A, due January 1, 2028, interest rate adjusted weekly	9,160
Series 1993 B, due January 1, 2028, interest rate adjusted weekly	910
Catholic Charities note payable to City of Chicago, due 2006, interest free	557
Catholic Charities note payable to City of Chicago, due 2015, interest free	388
Catholic Charities note payable to Illinois Facilities Fund, due 2015, interest rate 5.00%	281
Catholic Charities mortgages payable to U.S. Department of Housing and Urban Development, due in equal monthly installments through 2033, interest rate 8.375% at June 30, 2006	5,936
Catholic Charities mortgages payable to Illinois Housing Development Authority, due in equal monthly installments, with additional principal payments required based on residual receipts, interest free	1,061
	55,538
Less current portion	16,623
Total	$38,915

Principal payments at June 30, 2006, are due as follows:

Years Ending June 30	
2007	$ 16,623
2008	10,403
2009	3,911
2010	1,494
2011	5,925
Thereafter	17,182
Total	$ 55,538

Debt Covenants—The Archdiocese is required to meet certain debt covenants related to minimum liquidity levels and investment-to-debt ratios. The Archdiocese was in compliance with all debt covenants at June 30, 2006.

Deferred Debt Issuance Costs—Expenses related to the procurement and underwriting of the direct obligation notes and revenue bonds have been deferred and are being amortized using the bonds outstanding method. These costs are shown net of accumulated amortization of $2,495 as of June 30, 2006, and are included in other assets in the consolidated statement of financial position.

Extinguishment of Debt—During fiscal year 2006, Catholic Charities extinguished $1,755 of debt. The repayment of debt was funded from the capital reserve fund. Catholic Charities recognized a loss on the early extinguishment of debt in the amount of $111, which included the write-off of issuance costs of $76.

8. REFUNDABLE ADVANCES FROM HUD

During the year ended June 30, 2006, the Catholic Charities received certain HUD Supportive Housing for the Elderly—(Section 202) grant advances of approximately $12,943 under the terms of the federally-funded program. In addition, Catholic Charities received certain Affordable Housing Residence Loans of approximately $2,233 during the year ended June 30, 2006. Total advances at June 30, 2006, were as follows:

Project	Advance	End of 40-Year Commitment
Matthew Manor	$ 4,016	December 2035
Tolton Manor	5,515	July 2036
Frances Manor	4,823	April 2037
Lawrence Manor	8,215	October 2039
Bernardin Manor	13,990	June 2040
St. Ailbe Faith Apartments	6,836	July 2040
St. Sabina Elders	6,728	September 2040
St. Ailbe Hope Apartments	814	March 2041
Ozanam Village	5,152	May 2041
St. Ailbe Love Apartments	6,300	February 2042
St. Peter Claver Courts	7,749	March 2043
St. Brendan Apartments	7,958	April 2044
Bishop Goedert Residence	9,592	December 2044
St. Vincent de Paul Residence	2,232	November 2045
Donald Kent Residence	962	January 2046
Total HUD Grant Advances	90,882	
Affordable Housing Residence Loans	7,648	Various through 2046
Total Refundable Grant Advances	$ 98,530	

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, other accounts receivable, accounts payable and accrued expenses, and borrowings approximate their fair value as they are short-term in nature.

The carrying values of deposits and loans to religious organizations approximate their fair value.

The combined fair value and carrying amount of the fixed rate revenue bonds are $1,798 and $1,755, respectively, at June 30, 2006.

Management was not able to practicably estimate the fair value of installment contracts receivable. Installment contracts receivable arise from the pre-need sale of graves and crypts. Customers pay for pre-need purchases over five years on an interest-free basis. While the installment contracts receivable require scheduled payments, the actual timing of receipts may vary. Balances must be paid in full prior to burial.

10. EMPLOYEE BENEFITS

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

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

The Pastoral Center 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 match 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.

Cemeteries—The Cemeteries has a contributory defined benefit retirement plan for field employees and a noncontributory defined benefit plan for administrative employees. Eligibility for both plans is based on certain minimum service requirements. Benefits for both plans are based on compensation and years of service. The contributory defined benefit plan is funded through contracts administered by Metropolitan Life Insurance Company. The noncontributory defined benefit plan is funded through contracts administered by Metropolitan Life Insurance Company and Prudential Insurance Company. The Cemeteries funds the plans based on actuarial funding recommendations using the aggregate cost method.

Charitable Activities—The Catholic Charities sponsors a noncontributory pension plan covering substantially all lay employees. The plan is funded through the plan trustee. The plan provides annual retirement benefits (over and above normal Social Security benefits) equal to 1% of average earnings within the last five years of service multiplied by the number of years of full-time service up to 15 years, plus 1.5% of average earnings, as defined above, multiplied by the number of years of service in excess of 15 years. Plan assets consist primarily of common stock and fixed income securities.

The Catholic Charities offers certain medical and dental benefits for retired employees. The Catholic Charities amended this policy as of February 1, 2002. A cap was placed on the net employer contribution to the cost of medical coverage for employees retiring on or after July 1, 2002. The cap is equal to $500 per month for retirees with single coverage and $700 per month for retirees with family coverage. The amended policy also states that all new employees hired after July 1, 2002, will not be offered postretirement medical and dental benefits. Employees hired before July 1, 2002, had a choice of continuing their eligibility for postretirement medical and dental benefits or electing to participate in the new 403(b) plan and permanently forgo any eligibility for future postretirement medical and dental benefits.

The Catholic Charities has a defined contribution plan under Internal Revenue Service Code Section 403(b) covering all new employees hired after July 1, 2002, as well as employees hired before July 1, 2002, who have opted out of the postretirement medical and dental benefits plan. The eligibility guidelines are based on one year of service and employees who work at least 20 hours per week. The Catholic Charities contributes 1% of all participants' compensation plus matching contributions of 1.5% of the individual participant's compensation. Total employer contributions for the year ended June 30, 2006, was approximately $350.

Maryville Academy provides certain medical and dental benefits for retired employees. Maryville Academy's employees do not contribute to the cost of this benefit plan. During fiscal year 2006, the plan was amended whereby any Maryville employee with less than 10 years of service as well as any future Maryville employees will not be eligible to participate in the postretirement benefit plan. Current Maryville employees with 10 or more years of service had an option to either remain eligible for the postretirement benefit plan or become a participant in Maryville's new 403(b) defined contribution plan. The effect of this plan amendment was to reduce the projected benefit obligation by approximately $4,200.

PRMAA—In 1999, PRMAA established a defined contribution plan covering substantially all active priests. The plan operates as a deferred salary arrangement under Section 403(b) of the Internal Revenue Code. PRMAA is currently in the process of determining the need for an Internal Revenue Service determination letter and as of October 23, 2006, a conclusion had not been reached. Under the plan, participating priests may defer a portion of their pretax earnings. PRMAA matches 50% of each priest's contributions up to a maximum matching contribution of five hundred dollars; however, PRMAA's contributions are discretionary. PRMAA's contribution to the plan for 2006 was $369.

The Archdiocese sponsors, through PRMAA, a defined benefit pension plan covering all the priests of the Archdiocese. The Plan provides a flat benefit which varies depending on whether the retired priest resides in an ecclesiastical institution. The Plan is funded based on actuarial funding determinations. Plan assets consist of deposits in an insurance company separate account and in a bank trust account. Plan expenses are borne by the Plan. Priests are also able to participate in a defined contribution plan with a match funded from PRMAA's assessment.

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

Summary information for all plans at June 30, 2006, is as follows:

	Pension Benefits	Postretirement Benefits
Accumulated benefit obligation	$ 587,743	$ 74,501
Projected benefit obligation	$ 628,670	$ 102,917
Plan assets at fair value	559,272	4,906
Funded status	$ (69,398)	$ (98,011)
Additional liability	$ 7,618	$ -
Accrued benefit cost	114,820	76,091
Accrued pension cost	$ 122,438	$ 76,091
Minimum pension liability recovery to be recognized in the consolidated statement of activities	$ (121,879)	$ -
Benefit cost	$ 41,753	$ 10,153
Employer contributions	$ 23,486	$ 3,724
Participant contributions	$ 225	$ 197
Benefits paid	$ (21,841)	$ (4,050)

Actuarial assumptions for the Plans as of June 30, 2006, are as follows:

	Pension Benefits	Postretirement Benefits
Weighted-average assumptions used to determine benefit obligations and cost as of June 30:		
Discount rate—Charities	6.36 %	6.25 %
Discount rate—all other entities	6.50	6.50
Expected return on plan assets	8.00	
Rate of compensation increase—Charities	3.50	

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

Plan assets for the Plans at June 30, 2006 and 2005, are as follows:

	Pension Benefits	Postretirement Benefits
Invested cash	3 %	- %
Common stocks	55	2
Alternative investments	14	
U.S. government securities	12	98
Corporate debt securities	16	
Total	100 %	100 %

The Archdiocese's investment strategy is to meet its obligations to retired employees. To achieve this objective, the Archdiocese maintains an investment composition of approximately 70%-75% equities and alternative investments and 25%-30% fixed income for pension assets and an investment composition of approximately 0%-10% equities and 90%100% fixed income for postretirement assets.

The Archdiocese plans to contribute $25,220 to the pension plans and $4,416 to the postretirement plans in 2007.

The following benefit payments, which reflect expected future services, as appropriate, at June 30, 2006, are expected to be paid:

Years Ending June 30	Pension Benefits	Postretirement Benefits
2007	$ 25,822	$ 4,695
2008	28,249	4,899
2009	30,435	5,158
2010	32,817	5,454
2011	35,345	5,833
2012 and beyond	220,822	34,306

Under SFAS No. 87, *Employers' 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 consolidated statement of financial position includes an intangible asset of $3,086 and a liability of $122,438, and the consolidated statement of activities includes an additional minimum liability recovery of $121,879.

In September 2006, FASB issued SFAS No. 158, *Employers' 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 No. 87 or No. 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 Archdiocese 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.

For measurement purposes, a 10% gross health care trend rate was used for 2006 disclosures. Trend rates were assumed to decrease gradually to 5% in fiscal year 2010 and remain at that level beyond.

11. NONCASH ASSISTANCE

During the year ended June 30, 2006, the Catholic Charities received certain food commodities with a value of approximately $2,880 under the terms of a federally funded program whereby the Catholic Charities acts as a distributor. The receipt and subsequent distribution of these commodities are not shown as revenues or expenditures in the consolidated financial statements.

The Catholic Charities recorded a $4,000 noncash donation for the St. Vincent de Paul residence during the year ended June 30, 2006. The Catholic Charities recorded in-kind donations of gifts in the amount of $1,060 during the year ended June 30, 2006, which it distributed to the families it serves.

12. NET ASSETS (DEFICIENCY)

Net assets (deficiency) at June 30, 2006, comprise the following:

	Unrestricted Undesignated	Unrestricted Designated	Temporarily Restricted	Permanently Restricted	Total
Parishes	$ -	$ 876,366	$ 64,784	$ -	$ 941,150
Charitable Activities		530,465	22,193	4,037	556,695
Cemeteries		211,334			211,334
Pastoral Center	(87,078)	66,302	35,345	13,475	28,044
PRMAA		424			424
Eliminations		39,350	(39,350)		-
Total	$ (87,078)	$ 1,724,241	$ 82,972	$ 17,512	$ 1,737,647

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

13. COMMITMENTS AND CONTINGENCIES

Cemeteries owns two landfills, which are the subject of certain environmental remediation plans required by the Illinois Environmental Protection Agency. Both landfills are now closed and have been closed for more than 15 years. The ultimate cost of the remediation will be shared by two parties, including Cemeteries, who is the owner, and an unrelated party, who was the operator. While the owner and the operator have each engaged engineers to study the issues related to these sites and develop plans and estimates related to remediation, and remediation has begun, the future costs are only estimable within a wide range covering a period of more than 20 years. The engineering estimates for the total costs of remediation for both the owner and the operator are likely to fall in a range of $17,600 to $45,000. The accounts payable and accrued expenses balance related to the owner's landfill liability was $18,388 as of June 30, 2006. The increase in the 2006 balance represents changes in estimates and the input of additional engineers. The estimates will change in the future and are sensitive to factors such as testing results, the success of current remediation efforts, technological developments in the field of environmental remediation, regulatory changes, and the continued participation of the operator in funding remediation.

At June 30, 2006, contractual commitments on construction and sales pending or in process amounted to approximately $49,143.

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

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. A portion of the investments are in nonmarketable investments through Limited Partnerships. At any point in time, the Archdiocese has open commitments to fund additional capital calls to the Limited Partnerships. The aggregate amount of open commitments 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 Catholic Bishop of Chicago beyond the reserve for insurance claims already reflected in the consolidated statement of financial position. The ultimate liability will change in the future and is sensitive to precedents established by pending court cases, possible legislative action, particularly related to the statutes of limitation, and additional claims that may be asserted in the future.

In September 2003, the U.S. Department of Justice issued a subpoena to Maryville Academy. This subpoena was issued subsequent to the State of Illinois' investigation into a February 2002 resident suicide. The subpoena was not issued by a grand jury and contained no charges of the commission of criminal activities. The government's investigation continues; however, at this time no determination as to the outcome of this investigation can be made.

In August 2004, the Council on Accreditation (the "Council"), a New York based national social service accreditation agency, revoked Maryville Academy's accreditation status citing concerns with Maryville

Academy's leadership and organizational structure, its ability to effectively manage risk, and behavior management practices. The Council also noted lack of evidence of long-term planning. The Council's revocation of Maryville Academy's status may impact the number and nature of the contracts that the Illinois Department of Children and Family Services ("DCFS") can award to Maryville Academy. DCFS was informed of Maryville Academy's revocation by the Council in September 2004.

In September 2004, Maryville Academy filed its intent to appeal the Council's revocation and will be subject to the Council's reapplication procedures and a full site visit. In December 2004, the Council rescinded its revocation and reinstated Maryville Academy to probationary status. In February 2005, Maryville filed its quadrennial application with the Council to renew its accreditation. During the first week of May 2005, the accreditation team visited the Maryville programs and observed the children and the Maryville staff. When Maryville received the Preliminary Accreditation Report ("PAR") in July 2005, Maryville responded to the two areas of concern: aftercare planning of discharged clients and the lack of an adequate transition to independent living programs. In September 2005, the Council on Accreditation requested some additional information regarding Maryville's finances and Maryville's plans to combine the Madden (Paulina) Home program with the Eisenberg program. Maryville responded to those inquiries and is now awaiting a response from the Council.

Maryville participates in a number of Federal and State of Illinois grant programs. Participation in these programs is subject to future financial and compliance procedures by the granting agencies or their representatives. In management's opinion, any future amounts owed to these granting agencies, except as otherwise accrued for as of June 30, 2006, cannot be determined at this time. In the opinion of Maryville management, the ultimate resolution of any future liability will not have a material adverse effect on the financial position of Maryville.

During 2006, Maryville's management made a decision to close the Columbus Shelter program after providing 18 years of service. The program, which was funded by the Department of Children and Family Services, ended on September 30, 2006, in fiscal year 2007. As a result of this decision, Maryville's management offered all full-time employees with the exception of the executive director a voluntary separation package based on years of service. The financial statements at June 30, 2006, do not include a potential liability relating to the separation package; however, Maryville expects the separation package to cost approximately $830.

14. LEASES

The Pastoral Center 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.

Catholic Charities leases office space under a conditional operating lease which contains a rent escalation provision. Rent expense under the lease is recognized based on straight-line amortization of total rent over the term of the lease. In addition, Maryville Academy leases buildings under operating leases, some of which contain a rent escalation clause based upon the Consumer Price Index.

At June 30, 2006, future minimum rental expense related to these operating leases is as follows:

Years Ending June 30	
2007	$ 6,874
2008	6,139
2009	5,395
2010	4,433
2011	4,358
Thereafter	14,071
Total	$ 41,270

15. FUNCTIONAL EXPENSES

For the year ended June 30, 2006, the following is a summary of expenses by functional classification and reconciliation to total expenses:

Program activities:	
Pastoral Center program activities	$ 122,698
Cemetery services	37,884
Educational activities	305,935
Parish operations	276,136
Charitable Activities programs	283,558
PRMAA expense	9,246
Total program activities	1,035,457
Fundraising and development expenses	15,414
Management and general expenses	54,049
Total functional expenses	1,104,920
Annual appeal disbursements	3,226
Interest expense	1,701
Expenses—net	$ 1,109,847

16. TAX-EXEMPT STATUS

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

17. RESTATEMENT OF PRIOR PERIOD

Subsequent to the issuance of its 2005 financial statements, the Cemeteries determined that $27,221 of revenue recognized related to crypts and niches from prior years should have been deferred in accordance with generally accepted accounting principles. The Cemeteries also determined the deferred revenue related to optional and complete cemetery package services was overstated by $4,313 as of June 30, 2005. Accordingly, the beginning balance of net assets in the consolidated statement of activities has been restated to correct the net impact of these errors.

The net impact of the prior period adjustments described above is summarized in the following table:

	As Previously Reported	As Restated
Total net assets—June 30, 2005	$1,622,983	$1,600,075

18. SUBSEQUENT EVENT

In November 2006, Catholic Charities was awarded $10,900 by HUD to construct a new residential housing facility for the elderly. The building will be located in Palos Park.

* * * * * *