

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
ADMINISTRATIVE OFFICES OF THE CATHOLIC DIOCESE OF BELLEVILLE, ILLINOIS
AND RELATED ENTITIES



June 30, 2010

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
CONSOLIDATED STATEMENT OF ACTIVITIES	5
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS	6
CONSOLIDATED STATEMENT OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	
NOTE A - SUMMARY OF ACCOUNTING POLICIES	8
NOTE B - CONCENTRATION OF CREDIT RISK	12
NOTE C - ACCOUNTS RECEIVABLE	12
NOTE D - INVESTMENTS AND INVESTMENTS IN CATHOLIC COMMUNITY FOUNDATION	12
NOTE E - PROPERTY AND EQUIPMENT	15
NOTE F - ANNUITIES PAYABLE	15
NOTE G - NOTES PAYABLE	15
NOTE H - SAFETY NET PAYABLE	17
NOTE I - POSTRETIREMENT HEALTH PLAN	18
NOTE J - RETIREMENT PLAN	20
NOTE K - RELATED PARTY TRANSACTIONS	20
NOTE L - TEMPORARILY RESTRICTED NET ASSETS	21
NOTE M - DESIGNATED NET ASSETS	21
NOTE N - NET ASSETS RELEASED FROM RESTRICTIONS	22
NOTE O - CONTINGENCIES	22



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Independent Auditors' Report

Administrative Offices of The Catholic Diocese of Belleville, Illinois
and Related Entities
Belleville, Illinois

We have audited the accompanying consolidated statement of financial position of the Administrative Offices of The Catholic Diocese of Belleville, Illinois and related entities (the Diocese) as of June 30, 2010, and the related consolidated statements of activities, of changes in net assets, and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Diocesan management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Administrative Offices of The Catholic Diocese of Belleville, Illinois and related entities as of June 30, 2010, and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kerber, Eck & Braeckel LLP

Springfield, Illinois
November 4, 2010

Other Locations

Jacksonville, IL • Belleville, IL • Carbondale, IL • Cape Girardeau, MO • St. Louis, MO • Milwaukee, WI

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2010

ASSETS

Cash	\$ 321,670
Restricted cash	5,180,000
Accounts receivable, net	1,048,621
Other receivables	175,973
Investments	167,593
Investments in Catholic Community Foundation	2,160,011
Accrued investment income	37,800
Prepaid expenses	7,387
Property and equipment, net	<u>3,125,746</u>
Total assets	<u><u>\$ 12,224,801</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 320,336
Due to other Diocesan funds	13,718
Collections held for transmittal	379,745
Grant distributions payable	62,639
Annuities payable	439,876
Notes payable	2,361,595
Safety net obligation	3,000,000
Postretirement health plan obligation	<u>5,905,610</u>
Total liabilities	12,483,519
Net assets	
Unrestricted	
Undesignated	(2,715,905)
Designated	<u>1,164,043</u>
Total unrestricted net assets	(1,551,862)
Temporarily restricted	<u>1,293,144</u>
Total net assets	<u>(258,718)</u>
Total liabilities and net assets	<u><u>\$ 12,224,801</u></u>

The accompanying notes are an integral part of this statement.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2010

Changes in unrestricted net assets	
Support and revenue	
Parish assessments	\$ 1,749,601
Unemployment fund assessments	335,645
Contributions and bequests	199,578
Investment income	352,825
Contributions from other Diocesan funds	250,000
Premiums	109,438
Rental and farm income	335,406
Management fees	47,600
Agency revenues	10,320
Other	32,483
	<hr/>
Total support and revenue before releases	3,422,896
Net assets released from restrictions	
Satisfaction of program restrictions	319,866
	<hr/>
Total unrestricted support and revenue	3,742,762
Expenses	
Program	
Benefits of parishes and agencies	2,083,742
Educational	125,623
Christian services	220,955
Pastoral services	161,532
Seminarian training	9,376
Permanent Diaconate and lay formation	4,219
	<hr/>
Total program services	2,605,447
Supporting services	
Management and general	1,371,839
Fundraising	16,405
	<hr/>
Total supporting services	1,388,244
Total expenses	3,993,691
Pension-related changes other than net periodic pension cost	(1,757,316)
	<hr/>
Increase in unrestricted net assets	1,506,387
Unrestricted net assets at beginning of year	
Undesignated	(4,082,807)
Designated	1,024,558
	<hr/>
Unrestricted net assets at beginning of year	(3,058,249)
Unrestricted net assets at end of year	<u>\$ (1,551,862)</u>
Changes in temporarily restricted net assets	
Grants	\$ 195,600
Net assets released from restrictions	
Satisfaction of program restrictions	(319,866)
	<hr/>
Decrease in temporarily restricted net assets	(124,266)
Temporarily restricted net assets at beginning of year	1,417,410
Temporarily restricted net assets at end of year	<u>\$ 1,293,144</u>

The accompanying notes are an integral part of this statement.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended June 30, 2010

	<u>Unrestricted - Undesignated</u>	<u>Unrestricted - Designated</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets at June 30, 2009	\$ (4,082,807)	\$ 1,024,558	\$ 1,417,410	\$ (1,640,839)
Increase (decrease) in net assets	<u>1,366,902</u>	<u>139,485</u>	<u>(124,266)</u>	<u>1,382,121</u>
Net assets at June 30, 2010	<u>\$ (2,715,905)</u>	<u>\$ 1,164,043</u>	<u>\$ 1,293,144</u>	<u>\$ (258,718)</u>

The accompanying notes are an integral part of this statement.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2010

Cash flows from operating activities	
Change in net assets	\$ 1,382,121
Adjustments to reconcile change in net assets to net cash used in operating activities	
Unrealized gain on investments	(197,276)
Depreciation expense	133,596
Change in assets and liabilities	
Decrease in accounts receivable	375,278
Decrease in other receivables	645,283
Increase in accrued investment income	(37,800)
Increase in prepaid expenses	(4,321)
Decrease in accounts payable and accrued expenses	(118,804)
Increase in due to other Diocesan funds	13,718
Increase in collections held for transmittal	222,680
Increase in grant distributions payable	61,389
Increase in annuities payable	116,035
Decrease in estimated claims payable	(500,000)
Decrease in safety net payable	(200,000)
Decrease in postretirement health plan obligation	(1,067,210)
Decrease in accrual for lawsuit settlement	(1,200,000)
	<hr/>
Net cash used in operating activities	(375,311)
Cash flows from investing activities	
Purchase of investments	(47,394)
Proceeds from sale of investments	41,424
Distributions from Foundation investments	403,225
Purchase and improvement of property and equipment	(17,605)
	<hr/>
Net cash provided by investing activities	379,650
Cash flows from financing activities	
Principal payments on notes payable	(253,126)
Proceeds from notes payable	800,000
	<hr/>
Net cash provided by financing activities	546,874
	<hr/>
Net increase in cash and cash equivalents	551,213
Cash at beginning of year	<hr/> 4,950,457
Cash at end of year	<hr/> <hr/> \$ 5,501,670
Interest paid	<hr/> <hr/> \$ 89,723

The accompanying notes are an integral part of this statement.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statement follows.

1. Financial Reporting Entity

The Administrative Offices of The Catholic Diocese of Belleville, Illinois and related entities (the Diocese), is a not-for-profit corporation established under the laws of the State of Illinois, and it operates as a religious organization. The Diocese is located in Southern Illinois and it provides services to the various parishes, schools, and other agencies and organizations of the Diocese.

2. Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and, accordingly, report all significant receivables, payables, and other liabilities.

The accompanying consolidated financial statements exclude the accounts of the activities of the Diocese such as the Parish and Agency Resource Fund, Catholic Service and Ministry Appeal, Catholic Community Foundation, Catholic Charities, Inc., parishes, schools, cemeteries, etc. These activities may or may not be separately incorporated under civil law; however, each is an operating entity distinct from the Diocesan administrative offices, maintains separate accounts and carries on its own services and programs.

3. Principles of Consolidation

Since 1997 the Diocese has managed the collection and disbursement of funds for several Diocesan-affiliated entities under management and administrative agreements. These affiliated entities are separate corporations, although reported on a consolidated basis in the accompanying consolidated financial statements. All material interorganization transactions have been eliminated.

Group Health Insurance Fund - The Group Health Insurance Fund provides a health and death benefits program covering substantially all active and retired employees of the Administrative Offices of The Catholic Diocese of Belleville, Illinois, and related parishes, schools and other agencies of the Diocese.

Custodial Fund - The Custodial Fund receives monies to be held in a fiduciary capacity for the others and contributions received with specific donor restrictions. Remittances are made to the appropriate grantee at regular time intervals.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

4. Financial Statement Presentation

The Diocese is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. To ensure observance of limitations and restrictions placed on the use of resources available, the Diocese reports donations of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. There were no permanently restricted net assets at June 30, 2010.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of short-term highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase, including cash and cash equivalents held temporarily as part of an investment portfolio. There were no cash equivalents at June 30, 2010.

6. Investments and Investments in Catholic Community Foundation

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the consolidated statement of activities.

7. Accounts Receivable

Allowances for accounts receivable are recorded based on a combination of historical information, industry practice, and aging analysis.

8. Property and Equipment

Property and equipment are stated at cost, or if acquired by gift, the fair value at the date of the gift.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

9. Depreciation

Depreciation is provided for in amount sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for financial reporting purposes.

The estimated lives used in determining depreciation are:

	<u>Years</u>
Buildings and improvements	20 - 40
Equipment and furniture	7
Automobiles	5

10. Collections

Contributed collection items are not reflected in the consolidated financial statements. The Diocese's collections are made up of art objects that are held for curatorial purposes. Each of the items is preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. Any proceeds from sale of collectibles or insurance recoveries will be reflected as increases in the appropriate net asset classes. No collection items were sold or disposed of in 2010.

11. Contributed Services

The Diocese receives a substantial amount of services donated by its members in carrying out the Church ministry. No amounts have been reflected in the consolidated financial statements for those services since they do not meet the criteria for recognition under accounting standards for contributions received and contributions made.

12. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

13. Income Taxes

The Administrative Offices of The Catholic Diocese of Belleville, Illinois is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from income taxes under Section 501(a) of the Code.

The Diocese adopted the accounting standards for uncertainty in income taxes effective July 1, 2009. This guidance prescribes a comprehensive model for financial statement recognition, measurement, classification and disclosure of uncertain tax positions. The implementation of the standards had no net effect on consolidated net assets.

As of June 30, 2010, the Diocese has recognized in the consolidated financial statements the effects of all tax positions and continually evaluates expiring statutes of limitations, audits, changes in tax law and new authoritative rulings. The Diocese is not aware of any circumstances or events that make it reasonably possible that unrecognized tax benefits may increase or decrease within 12 months of the balance sheet date. Penalties and interest assessed by taxing authorities are included in the provision for income taxes, if applicable. There were no interest or penalties paid during the year ended June 30, 2010.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

15. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the consolidated financial statements through November 4, 2010, which is the date the consolidated financial statements were available to be issued. Through November 4, 2010, no subsequent events required recognition or disclosure in the consolidated financial statements.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE B - CONCENTRATION OF CREDIT RISK

The Diocese maintains its primary cash balances at a financial institution in Belleville, Illinois. At June 30, 2010, accounts at this institution were insured by the Federal Deposit Insurance Corporation up to \$ 250,000. At times, these accounts may exceed federally insured limits. As of June 30, 2010, the Diocese has not experienced any losses in such accounts.

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 consists of:

	<u>Receivable</u>	Allowance for Doubtful <u>Accounts</u>	Net <u>Receivable</u>
Parish assessments	\$ 566,599	\$ 82,200	\$ 484,399
Unemployment assessments	96,758	10,600	86,158
Other	27,465	-	27,465
Health insurance premiums	<u>681,699</u>	<u>231,100</u>	<u>450,599</u>
	<u>\$ 1,372,521</u>	<u>\$ 323,900</u>	<u>\$ 1,048,621</u>

NOTE D - INVESTMENTS AND INVESTMENTS IN CATHOLIC COMMUNITY FOUNDATION

Investments at June 30, 2010 consist of:

	<u>Cost</u>	Fair <u>Value</u>	Unrealized <u>Gain</u>
Money market	\$ 33,647	\$ 33,647	\$ -
Certificates of deposit	<u>133,946</u>	<u>133,946</u>	<u>-</u>
	<u>\$ 167,593</u>	<u>\$ 167,593</u>	<u>\$ -</u>

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE D - INVESTMENTS AND INVESTMENTS IN CATHOLIC COMMUNITY FOUNDATION
- Continued

The Diocese has various investments at June 30, 2010 in the Catholic Community Foundation, which is a related party, as follows:

	<u>Basis</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Endowment agreements	\$ 1,371,734	\$ 1,574,586	\$ 202,852
Limited term agreements	<u>516,780</u>	<u>585,425</u>	<u>68,645</u>
	<u>\$ 1,888,514</u>	<u>\$ 2,160,011</u>	<u>\$ 271,497</u>

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. Accounting standards establish a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standards describe three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities. Level 2 assets also include certain entities that calculate net asset value per share if the Company has the ability to redeem the investment at net asset value per share at the measurement date or shortly thereafter. Examples of these entities include hedge funds, private equity funds, real estate funds, offshore funds and funds of funds.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE D - INVESTMENTS AND INVESTMENTS IN CATHOLIC COMMUNITY
FOUNDATION - Continued

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant measurement judgment or estimation. This category generally includes certain private debt and equity investments. Level 3 assets also include certain entities that calculate net asset value per share in which the Company never has the ability to redeem the investment at net asset value per share or cannot redeem the investment in the near-term.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

Fair values of money market accounts have been determined by the quoted market prices as determined by the Diocese's custodian. Fair values of certificates of deposit were determined by amortized cost, which approximates fair value. The Catholic Community Foundation is invested entirely in equity securities and mutual funds, for which fair values also have been determined from by the quoted market prices as determined by the Foundation's custodian.

The following table presents the Diocese's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 33,647	\$ 33,647	\$ -	\$ -
Certificates of deposit	133,946	-	133,946	-
Catholic Community Foundation	<u>2,160,011</u>	<u>2,160,011</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,327,604</u>	<u>\$ 2,193,658</u>	<u>\$ 133,946</u>	<u>\$ -</u>

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE E - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment as of June 30, 2010:

Buildings and improvements	\$ 3,426,757
Equipment and furniture	91,435
Automobile	<u>66,674</u>
	3,584,866
Less accumulated depreciation	<u>(1,578,185)</u>
	2,006,681
Land	<u>1,119,065</u>
	<u>\$ 3,125,746</u>

Buildings and improvements over 40 years old, which would be fully depreciated, have not been included in property and equipment. Depreciation expense for the year ending June 30, 2010 was \$ 133,596.

NOTE F - ANNUITIES PAYABLE

The annuities payable of \$ 439,876 June 30, 2010, represent annuity contracts specifying the Diocese, parishes, and schools as the beneficiaries of the contracts.

NOTE G - NOTES PAYABLE

The Diocese has an unsecured line-of-credit with the Catholic Diocese of Belleville Parish and Agency Resource Fund aggregating \$ 1,250,000 at June 30, 2010. There was \$ 800,000 outstanding at June 30, 2010. The line-of-credit expires June 30, 2011. Interest is payable monthly at 5%.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE G - NOTES PAYABLE - Continued

As of June 30, 2010, the Diocese had the following long-term obligations:

Catholic Diocese of Belleville Parish and Agency Resource Fund

Note payable with fixed monthly principle payments of \$ 3,805 and interest at 5%, with final installment due July 2008.	\$ 186,445
Note payable with fixed monthly principle payments of \$ 11,333 and interest at 5%, with final installment due June 2010.	555,333
Note payable with fixed monthly principle payments of \$ 639 and interest at 5%, with final installment due August 2013.	31,316
Note payable with fixed monthly principle payments of \$ 7,234 and interest at 5%, with final installment due November 2018.	<u>788,501</u>
	<u>\$ 1,561,595</u>

The notes payable shown above are all to the Parish and Agency Resource Fund, a related party. Although two of the notes are at or past their maturity dates, no formal extension agreements have been prepared.

Aggregate maturities of long-term obligations for fiscal years 2011 through 2015 are as follows:

2011	\$ 841,824
2012	100,046
2013	91,647
2014	86,807
2015	86,807

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE H - SAFETY NET OBLIGATION

The Diocese has recognized an estimated liability relative to benefits which may be payable to participants of the defined benefit plan for the lay employees of the Diocese that was administered by Aetna Life Insurance Company and terminated on August 31, 1991.

Any participant of the defined benefit plan which was terminated on August 31, 1991, who is employed by the Diocese (parish, school or agency), who leaves his or her job after age 55 and maintains a Delta annuity contract until age 65, may be eligible to receive a "safety net benefit".

Safety net benefits will provide the participant with additional benefits measured by the difference between the life only annuity contract provided by Delta Life and Annuity and the accrued benefit owed from the defined benefit plan, which was terminated on August 31, 1991.

The estimated liability included in the consolidated financial statements of \$ 3,000,000 as of June 30, 2010, is based upon plan participants that have attained age 55.

There are employees of the Diocese (parishes, schools or agencies) who have not yet attained age 55 but upon attaining age 55 may become eligible for safety net benefits. The potential liability for individuals who have not yet attained age 55 is estimated to be \$ 35,000.

Payments related to the safety net payable are estimated as follows:

Year Ended	
<u>June 30</u>	
2011	\$ 113,000
2012	131,000
2013	137,000
2014	153,000
2015	163,000
2016 and thereafter	<u>2,303,000</u>
	<u>\$ 3,000,000</u>

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE I - POSTRETIREMENT HEALTH PLAN

The Diocese sponsors a postretirement health plan that provides access to medical and prescription benefits to former employees who satisfy certain age and service requirements at the time of retirement. Additionally, priests who enter a nursing home are reimbursed for that care up to the cost of the home's established semi-private room rate.

The Diocese has adopted accounting standards for employers' accounting for defined benefit pension and other postretirement plans. These standards require the Diocese to recognize the funded status of its postretirement health plan in its consolidated statement of financial position. The funded status is defined as the difference between plans assets at fair value and the benefit obligation.

The following summarizes the Group Health Insurance Fund's post retirement health plan as of June 30, 2010:

Amount contributed by the Diocese during the fiscal year	\$	308,820
Benefits paid	\$	485,520
Benefits expected to be paid in following fiscal years:		
2011	\$	275,875
2012		288,691
2013		295,587
2014		308,227
2015		321,252
2016 - 2020		1,916,255

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE I - POSTRETIREMENT HEALTH PLAN - Continued

Postretirement health information for fiscal 2010 follows:

Change in benefit obligation

Benefit obligation at beginning of year	\$ 7,149,520
Service cost	93,478
Interest cost	381,920
Actuarial gain	(1,233,788)
Benefits paid	<u>(485,520)</u>
Benefit obligation at end of year	<u>\$ 5,905,610</u>

Change in plan assets

Fair value of plan assets at beginning of year	\$ 176,700
Employer contributions	308,820
Benefits paid	<u>(485,520)</u>
Fair value of plan assets at end of year	<u>-</u>

Funded status	(5,905,610)
Unrecognized net actuarial gain	(2,115,039)
Unrecognized transition obligation	<u>5,959,439</u>

Accrued benefit cost	<u>\$ (2,061,210)</u>
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Accumulated benefit obligation	\$ 5,905,610
Less fair value of plan assets at end of year	<u>-</u>

Minimum benefit liability	<u>\$ 5,905,610</u>
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Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE I - POSTRETIREMENT HEALTH PLAN - Continued

Weighted average assumptions as of June 30, 2010:

Discount rate	5.40%
Nursing Home Average Daily Benefit	\$ 140.00

Components of net periodic pension cost

Service cost	\$ 93,478
Interest cost	381,920
Expected return on plan assets	(4,467)
Amortization of actuarial gain	(13,771)
Amortization of transition obligation	<u>541,767</u>
Net periodic benefit cost	<u>\$ 998,927</u>

NOTE J - RETIREMENT PLAN

The Diocese maintains a defined contribution annuity plan (Internal Revenue Code, Sec. 403(b)) for the benefit of the lay employees of the Diocese who meet certain age and length of service requirements. The plan provides for employer contributions equal to 3% of compensation, plus a match of the first 2% of employee contributions for eligible participants. Employee contributions are permitted but not mandatory. Contributions to the annuity plan by the Diocese totaled \$ 36,294 for the year ended June 30, 2010.

NOTE K - RELATED PARTY TRANSACTIONS

The Diocese received management fees of \$ 47,600 from various agencies of the Catholic Diocese of Belleville for the year ending June 30, 2010. In addition, the Diocese received \$ 250,000 in contributions from various agencies of the Catholic Diocese of Belleville for the year ending June 30, 2010.

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE L - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 are available for the following purposes:

Program restrictions	
Immaculate Conception - Kaskaskia	\$ 329,902
Future Full of Hope Campaign	
Youth Ministry	15,967
Diocesan Buildings	156,504
Custodial accounts	61,674
SLU Scholarship	157,690
Tuition and technology assistance	476,750
Time restrictions	
Annuities	<u>94,657</u>
	<u>\$ 1,293,144</u>

NOTE M - DESIGNATED NET ASSETS

Designated net assets at June 30, 2010 are available for the following purposes:

Tuition and technology assistance	\$ 639,869
Emergency fund	500,000
SLU Scholarship earnings	<u>24,174</u>
	<u>\$ 1,164,043</u>

Administrative Offices of The Catholic Diocese of Belleville, Illinois and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE N - NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended June 30, 2010, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time stipulated by donors as follows:

Purpose restriction accomplished	
Tuition and technology assistance	\$ 54,456
Future Full of Hope Campaign	32,210
Custodial expenses	10,650
SLU Scholarship	26,950
Pass-through grants	<u>195,600</u>
	<u>\$ 319,866</u>

NOTE O - CONTINGENCIES

The Diocese is currently involved in various legal proceedings involving alleged sexual misconduct of certain priests or former priests. The legal proceedings are in various stages. On August 27, 2008, a verdict was returned in favor of the plaintiff in one case. The plaintiff was awarded \$ 2,400,000 in compensatory damages and \$ 2,600,000 in punitive damages. The Diocese is in the process of appealing the verdict. As a result of the appeal, the Diocese was required to deposit \$ 5,900,000 into an escrow account in connection with the posting of an appeal bond. As of June 30, 2010, the Diocese has a letter of credit with the Bank of Edwardsville for \$ 5,900,000. It is secured by a cash deposit of \$ 5,180,000 and land of \$ 720,000. On August 18, 2010, the Diocese was ordered to increase the deposit to \$ 6,125,000. On July 20, 2009, a settlement was reached in another proceeding in the amount of \$ 1,200,000. This amount was paid during the year ended June 30, 2010.

In regard to all of the above proceedings involving the Diocese, the Diocese does not believe sufficient information is yet available to determine the outcome of these proceedings; and therefore, a contingent liability cannot be estimated.