

**Financial Statements, Supplemental Schedules and  
Report of Independent Certified Public Accountants**

**The Roman Catholic Archbishop of Boston,  
A Corporation Sole**

**June 30, 2011 and 2010**

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## Report of Independent Certified Public Accountants

His Eminence  
Cardinal Sean Patrick O'Malley, O.F.M. Cap.  
The Roman Catholic Archbishop of Boston

We have audited the accompanying statements of financial position of The Roman Catholic Archbishop of Boston, A Corporation Sole (the "Corporation Sole") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation Sole's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Roman Catholic Archbishop of Boston, A Corporation Sole as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Boston, Massachusetts  
January 13, 2012

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,  
A CORPORATION SOLE**

Statements of Financial Position (in thousands)  
June 30, 2011 and 2010

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents:		
Parish operations	\$ 64,041	\$ 62,705
Revolving loan fund	8,062	637
Central operations	15,642	19,400
Insurance operations	3,242	2,439
Parish reconfiguration	4,205	4,899
Total cash and cash equivalents	<u>95,192</u>	<u>90,080</u>
Interest and dividends receivable, net	1,559	1,095
Prepaid expenses and other assets	9,113	8,104
Accounts receivable, net	5,092	5,211
Contributions receivable, net	3,078	5,085
Loans receivable, net (note C)	24,820	29,051
Land and buildings held for sale (note E)	2,141	1,345
Investments (note D)	145,346	138,739
Interest in net assets of a foundation	14,580	13,184
Land, buildings and equipment, net (note E)	<u>466,215</u>	<u>445,323</u>
 Total assets	 <u>\$ 767,136</u>	 <u>\$ 737,217</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 23,808	\$ 24,695
Agency obligations	2,126	1,502
Reserves for losses (note J)	9,937	8,958
Due to related organizations	5,971	2,064
Deferred revenue and support	19,454	19,791
Accrued pension and other post-retirement costs (note M)	95,744	101,792
Other liabilities	2,682	3,327
Notes payable - related organization (note F)	43,517	42,014
Other notes payable (note F)	399	630
Total liabilities	<u>203,638</u>	<u>204,773</u>
 <b>NET ASSETS:</b>		
Unrestricted	486,390	461,188
Temporarily restricted (note G)	42,152	36,985
Permanently restricted (note G)	34,956	34,271
Total net assets	<u>563,498</u>	<u>532,444</u>
 Total liabilities and net assets	 <u>\$ 767,136</u>	 <u>\$ 737,217</u>

The accompanying notes are an integral part of the financial statements.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,  
A CORPORATION SOLE**

Statements of Activities (in thousands)

For the year ended June 30, 2011

(With summarized comparative information for the year ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
<b>REVENUES AND OTHER SUPPORT:</b>					
Collections	\$ 114,044	\$ 1,635	\$ -	\$ 115,679	\$ 111,138
Collections - clergy benefits	-	9,344	-	9,344	8,401
Catholic Appeal	11,490	1,054	-	12,544	13,975
Contributions and bequests	21,773	6,243	-	28,016	22,650
Parish fundraiser events	15,477	-	-	15,477	14,840
Tuition and fees	102,799	-	-	102,799	106,117
Investment income	3,724	1,543	1	5,268	3,895
Rental income	14,456	-	-	14,456	12,317
Cemetery operations	4,196	-	-	4,196	4,064
Revenue from services provided (note N)	4,425	-	-	4,425	4,380
Insurance revenues	1,818	-	-	1,818	1,493
Sacramental offerings	6,118	-	-	6,118	5,896
Other revenues	21,249	29	422	21,700	22,522
Change in interest in net assets of a foundation	-	1,380	19	1,399	1,152
Net assets released from restrictions (note G)	25,755	(25,755)	-	-	-
	<u>347,324</u>	<u>(4,527)</u>	<u>442</u>	<u>343,239</u>	<u>332,840</u>
Total revenues and other support					
<b>EXPENSES:</b>					
Program:					
Parish life and leadership	170,309	-	-	170,309	166,636
Catholic education	121,857	-	-	121,857	129,080
Faith formation and evangelization	7,604	-	-	7,604	7,080
Health and social services	2,588	-	-	2,588	2,744
Central and regional services	3,963	-	-	3,963	5,220
Media and public relations	519	-	-	519	1,863
Cemetery operations	4,273	-	-	4,273	4,581
Total program expenses	<u>311,113</u>	<u>-</u>	<u>-</u>	<u>311,113</u>	<u>317,204</u>
Management and general	18,467	-	-	18,467	18,793
Property and casualty insurance costs	5,059	-	-	5,059	3,909
Fundraising (note N)	1,996	-	-	1,996	1,800
Parish reconfiguration (note I)	1,553	-	-	1,553	1,072
Total expenses	<u>338,188</u>	<u>-</u>	<u>-</u>	<u>338,188</u>	<u>342,778</u>
Operating income (loss)	9,136	(4,527)	442	5,051	(9,938)
<b>NONOPERATING INCOME:</b>					
Contributions	-	6,795	615	7,410	9,079
Contributions to related organizations (note N)	(2,254)	-	-	(2,254)	-
Net assets released from restrictions and reclassifications	875	(503)	(372)	-	-
Net realized and unrealized gain on investments	12,020	3,402	-	15,422	8,252
Gain on sale of land and buildings	9,284	-	-	9,284	7,162
Insurance and other recoveries	1,926	-	-	1,926	1,953
Settlements and related expenses	(4,350)	-	-	(4,350)	(2,400)
Pension-related charges other than periodic pension costs	(112)	-	-	(112)	(3,031)
Nonoperating income	<u>17,389</u>	<u>9,694</u>	<u>243</u>	<u>27,326</u>	<u>21,015</u>
<b>CHANGE IN NET ASSETS</b>	<b>26,525</b>	<b>5,167</b>	<b>685</b>	<b>32,377</b>	<b>11,077</b>
Net assets at beginning of year	461,188	36,985	34,271	532,444	523,867
Net asset transfers to related organizations (note N)	<u>(1,323)</u>	<u>-</u>	<u>-</u>	<u>(1,323)</u>	<u>(2,500)</u>
Net assets at end of year	<u>\$ 486,390</u>	<u>\$ 42,152</u>	<u>\$ 34,956</u>	<u>\$ 563,498</u>	<u>\$ 532,444</u>

The accompanying notes are an integral part of the financial statements.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,  
A CORPORATION SOLE**

Statement of Activities (in thousands)

For the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>
<b>REVENUES AND OTHER SUPPORT:</b>				
Collections	\$ 109,365	\$ 1,773	\$ -	\$ 111,138
Collections - clergy benefits	-	8,401	-	8,401
Catholic Appeal	8,879	5,096	-	13,975
Contributions and bequests	16,233	6,417	-	22,650
Parish fundraiser events	14,840	-	-	14,840
Tuition and fees	106,117	-	-	106,117
Investment income	2,732	1,162	1	3,895
Rental income	12,317	-	-	12,317
Cemetery operations	4,064	-	-	4,064
Revenue from services provided (note N)	4,380	-	-	4,380
Insurance revenues	1,493	-	-	1,493
Sacramental offerings	5,896	-	-	5,896
Other revenues	22,370	56	96	22,522
Change in interest in net assets of a foundation	-	921	231	1,152
Net assets released from restrictions (note G)	25,776	(25,776)	-	-
	<u>334,462</u>	<u>(1,950)</u>	<u>328</u>	<u>332,840</u>
Total revenues and other support				
<b>EXPENSES:</b>				
Program:				
Parish life and leadership	166,636	-	-	166,636
Catholic education	129,080	-	-	129,080
Faith formation and evangelization	7,080	-	-	7,080
Health and social services	2,744	-	-	2,744
Central and regional services	5,220	-	-	5,220
Media and public relations	1,863	-	-	1,863
Cemetery operations	4,581	-	-	4,581
Total program expenses	<u>317,204</u>	<u>-</u>	<u>-</u>	<u>317,204</u>
Management and general	18,793	-	-	18,793
Property and casualty insurance costs	3,909	-	-	3,909
Fundraising (note N)	1,800	-	-	1,800
Parish reconfiguration (note I)	1,072	-	-	1,072
Total expenses	<u>342,778</u>	<u>-</u>	<u>-</u>	<u>342,778</u>
Operating income (loss)	(8,316)	(1,950)	328	(9,938)
<b>NONOPERATING INCOME:</b>				
Contributions	-	5,959	3,120	9,079
Net realized and unrealized gain on investments	6,559	1,693	-	8,252
Gain on sale of land and buildings	7,162	-	-	7,162
Insurance and other recoveries	1,953	-	-	1,953
Settlements and related expenses	(2,400)	-	-	(2,400)
Pension-related charges other than periodic pension costs	(3,031)	-	-	(3,031)
Nonoperating income	<u>10,243</u>	<u>7,652</u>	<u>3,120</u>	<u>21,015</u>
<b>CHANGE IN NET ASSETS</b>	1,927	5,702	3,448	11,077
Net assets at beginning of year	461,761	31,283	30,823	523,867
Net asset transfers to related organizations (note N)	(2,500)	-	-	(2,500)
Net assets at end of year	<u>\$ 461,188</u>	<u>\$ 36,985</u>	<u>\$ 34,271</u>	<u>\$ 532,444</u>

The accompanying notes are an integral part of the financial statements.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,  
A CORPORATION SOLE**

Statements of Cash Flow (in thousands)

For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 32,377	\$ 11,077
Adjustments to reconcile the change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	16,856	15,906
Provision for uncollectible accounts, contributions and loans receivable	909	1,229
Interest accrued on note payable - related organization	1,503	603
Gain on sale of land and buildings	(9,284)	(7,162)
Net realized and unrealized gain on investments	(15,422)	(8,252)
Property related insurance recoveries	(612)	(347)
Contributions restricted for long term purposes	(7,410)	(9,078)
Change in interest in net assets of a foundation	(1,396)	(1,152)
Changes in operating assets and liabilities:		
Interest and dividends receivable	(1,204)	223
Prepaid expenses and other assets	(1,009)	(623)
Accounts receivable	7	(33)
Contributions receivable	2,026	2,223
Accounts payable and accrued expenses	(4,531)	3,448
Agency obligations	624	373
Reserves for losses	979	(1,427)
Due to related organizations	3,913	1,112
Deferred revenue and support	(337)	(25)
Accrued pension and other postretirement costs	(6,048)	(2,169)
Other liabilities	(645)	(160)
Net cash and cash equivalents provided by operating activities	<u>11,296</u>	<u>5,766</u>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from sale of land, buildings and equipment	9,670	7,824
Purchase of land, buildings and equipment	(35,285)	(32,177)
Property related insurance recoveries	612	347
Proceeds from sale of investments and maturity of annuities	18,706	11,309
Purchase of investments	(9,891)	(48,126)
Net repayments (advances) on loans	4,148	(648)
Net cash and cash equivalents used in investing activities	<u>(12,040)</u>	<u>(61,471)</u>
<b>FINANCING ACTIVITIES:</b>		
Repayments of advances from related organization	-	(4,909)
Proceeds from other notes payable	-	375
Repayments of other notes payable	(231)	(11)
Contributions restricted for long term purposes	7,410	9,078
Net cash and cash equivalents provided by financing activities	<u>7,179</u>	<u>4,533</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,435</b>	<b>(51,172)</b>
Cash and cash equivalents at beginning of year	90,080	143,752
Cash transfers to related organizations (note N)	(1,323)	(2,500)
Cash and cash equivalents at end of year	<u>\$ 95,192</u>	<u>\$ 90,080</u>
<b>Supplemental disclosure of cash flow information:</b>		
Purchases of land, buildings and equipment in accounts payable	\$ 3,644	\$ 4,574

The accompanying notes are an integral part of the financial statements.

## THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

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### NOTE A - NATURE OF ORGANIZATION

The Roman Catholic Archbishop of Boston, A Corporation Sole (the "Corporation Sole") is a legal entity created under Massachusetts civil law in 1897 to provide the Roman Catholic Archbishop of Boston with a means to operate within, and be governed by, the public statutes of the Commonwealth of Massachusetts. The Corporation Sole, as an entity, is distinguishable from the Roman Catholic Archbishop of Boston whose powers and responsibilities are established by Canon Law.

The accompanying financial statements of the Corporation Sole include the activities of all parishes and their controlled schools and cemeteries located within the Archdiocese of Boston (the "Archdiocese"), central ministries (the Archdiocese administrative activities and programs), endowment funds and the self-insurance program (as further described in note B.)

The Archbishop of Boston, by virtue of his office, serves as chairman of the board or president of numerous separately incorporated Catholic organizations that operate within the Archdiocese of Boston. While these organizations are considered to be related organizations of the Corporation Sole, they are not under the control of the Corporation Sole and, accordingly, their financial activities are not presented as part of the accompanying financial statements.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The financial statements of the Corporation Sole have been prepared on the accrual basis of accounting and in accordance with the reporting principles of not-for-profit accounting.

The Corporation Sole reports three classes of net assets and the changes in those net assets in the statements of financial position and statements of activities, respectively. The three classes of net assets - unrestricted, temporarily restricted and permanently restricted - are based on the existence or absence of donor-imposed restrictions. The three classifications are defined as follows:

Unrestricted net assets - Assets and contributions that are not restricted by the donor or for which restrictions have expired.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that permit the Corporation Sole to use or expend the donated assets as specified and that are satisfied by either the passage of time or by actions of the Corporation Sole.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Corporation Sole or by a third party foundation or trustee for the benefit of the Corporation Sole. Generally, the donors of these assets permit the Corporation Sole to use, all or in part, the income earned on related investments for general or specific purposes. Unexpended appreciation on permanently restricted net assets is included in temporarily restricted net assets.

The Corporation Sole reports gifts of cash and other assets as restricted support if there are donor restrictions as to purpose or time. 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 statement of activities as net assets released from restrictions.

## THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Corporation Sole reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation Sole reports expirations of donor restrictions in the period the expenditure is made. Donor-restricted gifts intended for capital projects or for the endowment are reported as nonoperating contributions and are released from temporarily restricted net assets to be presented as unrestricted support when the related expenditures are incurred.

#### **Cash Equivalents**

Financial instruments with original maturities of three months or less at the purchase date are classified as cash equivalents. Included in cash equivalents are money market funds and certificates of deposit of \$41,889 and \$45,877 at June 30, 2011 and 2010, respectively.

The Corporation Sole deposits its cash in major financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250 per institution. While at times funds deposited in banks are in excess of FDIC insured limits, the Corporation Sole reviews and monitors the strength of the financial institutions and as such has not experienced any losses as a result of the use of uninsured deposit accounts.

#### **Accounts and Loans Receivable**

Accounts receivable include amounts due for tuition and amounts due from related organizations for insurance and other central services and are reduced by an allowance for doubtful accounts. Loans receivable represent advances made to related organizations.

Loans receivable are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Generally, loans are granted for specific periods of time and contain specific provisions regarding payment terms. Loans are generally collateralized by certain assets of the related organization being granted the loan. Interest income on performing loans is accrued at rates ranging from 4.75% to 6.00% on the respective unpaid principal balance.

Loans are classified as nonperforming, and considered impaired, when they are over ninety days past due. Generally, loans are restored to performing status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

#### **Allowances for Accounts Receivable and Loan Losses**

The allowances for accounts receivable and loan losses are maintained at a level believed by management to be representative of inherent losses estimated on the basis of factors such as the risk characteristics of the borrowers, underlying collateral and current economic conditions that may affect the borrower's ability to pay. Loans and accounts receivable are written-off in whole or in part when, in management's opinion, collectability is considered remote. Subsequent recoveries, if any, are recorded as an increase to the allowance.

While management uses available information to establish the allowance for accounts receivable and loan losses, future additions or reductions to the allowances may become necessary if circumstances differ from the assumptions used in making the evaluation.

## THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Investments

Investments are carried at fair value. Changes in fair values are reflected in the statements of activities as gains or losses on investments.

Included in investments are holdings in the Common Investment Fund, Roman Catholic Archbishop of Boston (the "Common Investment Fund") and the Fixed Income Investment Fund, Roman Catholic Archbishop of Boston (the "Fixed Income Fund"). Both are related organizations established to provide common investment pools in which the Corporation Sole and other Catholic organizations may participate. The participants own units based upon a per-unit value at the time of purchase. It is the policy of the Common Investment Fund to distribute a dividend to its members on a quarterly basis of 1% of the net assets of the Fund as of the previous quarter-end. The Fixed Income Fund does not have a policy of making automatic distributions. These dividend policies are subject to change at the discretion of the Archbishop of Boston. The Common Investment Fund and the Fixed Income Fund incur service fees from the Corporation Sole for administrative and clerical services performed on their behalf (note N).

The Common Investment Fund invests all of its funds in the Collective Investment Partnership, Roman Catholic Archbishop of Boston (the "Partnership"), the underlying investments of which include equity and fixed-income securities (U.S. Government and agency securities, asset-backed securities and corporate bonds) owned either directly or indirectly through mutual funds and private investment entities.

The fair value of the Fixed Income Fund and Partnership's investments in domestic and foreign securities listed on securities exchanges is valued at the last reported sale price. For those securities whose prices are not available through independent pricing services, bid price quotations are obtained by the investment custodian from principal market makers in those securities or at fair value as determined in good faith by investment managers. Securities whose prices are not available through independent pricing services are recorded at fair value based on the net asset value per share on the valuation date as reported by the individual investment managers.

The Corporation Sole believes that these valuations are a reasonable estimate of fair value as of June 30, 2011 and 2010, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect amounts reported in the financial statements.

#### Interest in Net Assets of a Foundation

The Corporation Sole is a designated beneficiary in certain endowments and charitable gift annuities held by The Catholic Foundation of the Archdiocese of Boston, Inc. ("The Catholic Foundation"), a related organization (see note N). This beneficial interest in The Catholic Foundation is reflected on the statements of financial position as an interest in net assets of a foundation. The Corporation Sole receives quarterly distributions on these endowments to support central ministries and parish programs in addition to distributions from charitable gift annuities when the annuity obligation is satisfied. Changes to this beneficial interest for distributions, new contributions and investment activity are reflected on the statements of activities.

## THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### **Land, Buildings and Equipment**

Land and land improvements, buildings and building improvements, and furniture and equipment are carried at cost, or if donated, at fair market value at the time of donation. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, which range from five years for furniture and equipment to forty years for buildings. Expenditures for maintenance and repairs are charged to expense, whereas major betterments are capitalized.

Land and buildings held for sale are accounted for at the lower of cost or market. When buildings are classified as held for sale, depreciation is no longer recorded.

#### **Reserves for Losses**

##### **Self Insurance and Reinsurance**

The Corporation Sole is partially self-insured for various risks incidental to the normal course of its activities. Such risks include fire damage (up to \$500 annually), general liability claims (up to \$250 per occurrence), theft losses and sudden accidental occurrences to boilers and related equipment. In addition, the Corporation Sole participates with other Catholic organizations in a separate workers' compensation self-insurance group, Massachusetts Catholic Self-Insurance Group, Inc., a related organization.

The Corporation Sole also permits related organizations within the Archdiocese as well as other Catholic organizations to participate in its risk management program. A fee is assessed to these entities based on the type of risks shared among these organizations. The typical risk areas that the other organizations participate in include automobile liability, physical property damage and general liability. The Corporation Sole provides additional coverage for the peril of all fire, sudden and accidental occurrences, catastrophic umbrella liability and other miscellaneous coverage through the direct purchase of insurance. The Corporation Sole has retained carriers for its auto insurance and these carriers cover losses up to \$1,000 with additional catastrophic limits.

##### **Clergy Misconduct Claims**

The Corporation Sole estimates a reserve for settlement of reported misconduct claims and direct related litigation costs based on average historical settlement amounts. An additional reserve is accrued using the same historical settlement data for incurred but not reported claims based on an independent analysis performed by an actuary.

The reserves for losses are based on losses reported, historical experience and estimates of future trends in loss severity and frequency and other factors, which could vary as claims are ultimately settled. The ultimate settlement of losses and loss adjustment expenses may vary significantly from the estimated amounts included in the financial statements. The methods used to develop these reserves are subject to continuing review and refinement, and any necessary adjustments to these reserves are reflected in the statement of activities in the year identified.

#### **Deferred Revenue and Support**

Deferred revenue and support represents payments received and amounts billed for tuition, fees and support for program services to be provided in future periods.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Pension Benefits**

Pension obligations and other post-retirement benefits are actuarially determined and are affected by several assumptions including the discount rate and assumed annual rates of return on plan assets. Changes in discount rate and differences from actual results will affect the amounts of pension and other post-retirement expense recognized in future periods. These assumptions may also have an effect on the amount and timing of future cash contributions. The Corporation Sole recognizes the over-funded or under-funded status of defined benefit post-retirement plans in its statement of financial position, measured as the difference between the fair value of plan assets and the benefit obligation. The change in the funded status of the plan is recognized in the year in which the change occurs through nonoperating income in the statement of activities. These provisions also require plan assets and obligations to be measured as of Corporation Sole's statement of financial position date.

**Conditional Asset Retirement Obligations**

The liability for conditional asset retirement obligations represents an estimate for future obligations to perform certain retirement activities in connection with the ultimate disposition of tangible long-lived assets due to the nature of material used in their construction or operation. The timing of the performance of these retirement activities is within the control of the Corporation Sole and, due to the nature of these assets, will be performed over an extended period of time. The Corporation Sole is able to estimate its conditional asset retirement obligation for long-lived assets that are expected to undergo major renovations or have been identified for demolition through June 30, 2020. The Corporation Sole is not able to reasonably estimate its asset retirement obligation for periods after June 30, 2020 due to the uncertainty related to long-term renovation and demolition plans.

Included in other liabilities in the accompanying statements of financial position is \$2,300 and \$2,600 at June 30, 2011 and 2010, respectively, representing management's estimate of its future obligation for such long-lived asset retirement activities.

**Collections**

Collections represent contributions received by Archdiocesan parishes for general and specified purposes. These funds are raised for parish operations and other purposes such as hunger, homelessness, and other human welfare programs and are reported as revenue in the statement of activities. Collections at Archdiocesan parishes for specified beneficiary organizations are not recorded as revenues, but are reflected as agency obligations until such time as the funds are remitted to the specified organization.

**Catholic Appeal**

The Catholic Appeal represents an annual solicitation by The Catholic Foundation through direct mailings and Archdiocesan parishes in support of the central ministry activities and programs of the Archdiocese.

The funds raised from the Catholic Appeal are reflected separately from the revenue from and change in interest in net assets of a foundation on the statements of activities and from the interest in net assets of a foundation on the statements of financial position.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Contributions and Bequests**

Unconditional promises to give are reported at fair value on the date the promise is verifiably committed. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Unconditional promises to give are reported as contributions receivable. Conditional promises to give are not included as support until the conditions are substantially met.

Contributions receivable are reflected on the statements of financial position net of \$121 and \$140 of allowances for doubtful collections at June 30, 2011 and 2010, respectively.

**Parish Fundraiser Events**

Parish fundraising events are reflected on the statements of activities net of \$6,931 and \$6,408 of direct fundraising expenses for the years ended June 30, 2011 and 2010, respectively.

**Rental Income**

External parties and to a limited extent related organizations are charged rent for the use of property owned and operated by the Corporation Sole.

**Cemetery Operations**

Future care funds include only such funds for cemeteries operated by the parishes of Corporation Sole. They do not include the future care funds of cemeteries that are also within the Archdiocese of Boston but are no longer operated by a parish but rather owned and operated by The Catholic Cemetery Association of the Archdiocese of Boston, Inc., ("Cemetery Association"), a related organization.

Corporation Sole sets aside 30% of proceeds from its cemetery mausoleum sales and 10% of its cemetery plot sales into future care funds that are included in unrestricted net assets. Investment income earnings on these segregated future care assets are used for the long-term care and maintenance of Corporation Soles' mausoleums and lots.

**Revenue from Services Provided**

The Corporation Sole provides various administrative, technology and clerical services to related Catholic organizations for which it charges fees. Such services include risk and benefits management, treasury and investment management, financial management, information technology and property management services. Fees and other revenue are also generated by pastoral and ministerial workshops and retreats and tribunal services.

**Other Revenues**

Other revenue primarily represents income from various goods sold and services provided by the parishes and parish schools.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Beneficiary in Wills and Estates**

The Corporation Sole is named as a beneficiary in numerous wills and estates. The Corporation Sole deems these to be intentions to give and not unconditional promises to give. When a probate court declares an individual will is valid and the fair value of the estate can be estimated, the Corporation Sole recognizes contribution revenue and a receivable for its interest in the estate.

**Income Taxes**

The Corporation Sole is included in the annual United States Conference of Catholic Bishops Internal Revenue Service Group Ruling and is therefore exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. In fiscal year 2010, Corporation Sole adopted guidance which requires recognition of the benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Corporation Sole's management has reviewed its tax positions as of June 30, 2011 and 2010 and determined that no provision for income taxes is required in these financial statements.

It is the Corporation Sole's policy to record estimated interest and penalties (if any) as part of management and general expenses.

**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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant items presented herein affected by the use of estimates are the allowances for uncollectible loans and accounts receivable, the fair value of investments, depreciable lives of buildings and equipment, reserves for losses, the accrued pension and other post-retirement obligations, the functional allocation of expenses and the reserve for conditional asset retirement obligations. Actual results could vary from those estimates.

**Reclassifications**

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Recent Accounting Pronouncements**

In April 2009, the Financial Accounting Standards Board (“FASB”) issued guidance on accounting for acquisitions by not-for-profit entities and for mergers of not-for-profit entities. Under this guidance, a not-for-profit entity must account for an acquisition using the acquisition method, with additional guidance unique to not-for-profit entities. The acquisition method requires the acquirer to measure and recognize the identifiable assets acquired, liabilities assumed, and any noncontrolling ownership interests in the acquiree at acquisition-date fair values, with some exceptions. Not-for-profit organizations that operate like a business by, for example, charging fees to cover costs, will recognize goodwill as an asset. A not-for-profit acquirer that does not operate like a business will recognize the amount that otherwise would be recognized as a goodwill asset as a separate charge in its statement of activities as of the acquisition date if the acquirer expects that the acquiree’s operations as part of the combined entity will be predominantly supported by contributions and returns on investments. This guidance is effective for acquisitions on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. The Corporation Sole has adopted this guidance and will apply it to any mergers and acquisitions in the future.

In January 2010, the FASB issued guidance that clarifies existing disclosures and requires new disclosures about fair value measurements. The clarifications and the requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2 and significant transfers into and out of Level 3 of the fair value hierarchy are effective for the fiscal year ending June 30, 2010. The new requirement that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation is effective for fiscal year 2011. The adoption of the amended guidance did not have a material impact on the fair value determination of the applicable investments, however, it did require additional disclosures. The disclosures required by the guidance are included in Note L – Fair Value Measurements.

In July 2010, the FASB issued guidance to enhance disclosures about the credit quality of a creditor’s financing receivables and the adequacy of its allowance for credit losses. The amended guidance is effective for period-end balances beginning with the first annual reporting period ending on or after December 15, 2010. The disclosure required by the guidance is included in Note C – Loans Receivable.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE C - LOANS RECEIVABLE**

Loans receivable consisted of the following at June 30 and are due from various Archdiocesan related organizations (primarily The Fund for Catholic Schools, Inc.):

	<u>2011</u>	<u>2010</u>
Performing loans	\$ 26,720	\$ 30,689
Nonperforming loans	<u>2,641</u>	<u>2,855</u>
	29,361	33,544
Allowance for loan losses	<u>(4,541)</u>	<u>(4,493)</u>
Net loans receivable	<u>\$ 24,820</u>	<u>\$ 29,051</u>

Accrued interest on loans receivable is included in interest and dividends receivable on the statements of financial position and is net of an allowance for doubtful collections of \$3,075 and \$2,324 at June 30, 2011 and 2010, respectively.

Changes in the allowance for loan losses were as follows for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 4,493	\$ 4,498
Additional provision (credit) for loan losses, net	<u>48</u>	<u>(5)</u>
Balance at end of year	<u>\$ 4,541</u>	<u>\$ 4,493</u>

At June 30, 2011 and 2010, the following loan amounts were past due:

<u>June 30,</u>	<u>1-60 days past due</u>	<u>60-90 days past due</u>	<u>90+ days past due</u>	<u>Total past due</u>
2011	181	-	2,641	\$2,822
2010	30	-	2,855	\$2,885

**The Fund for Catholic Schools, Inc.**

The Archbishop of Boston, working in coordination with a group of donors, established The Fund for Catholic Schools, Inc., to raise contributions for improvements to Catholic elementary schools in Brockton, Dorchester, Gloucester and South Boston. At June 30, 2011, the Corporation Sole has \$21,185 of loans advanced to The Fund for Catholic Schools, Inc. for construction and reorganization costs. These loans have a fixed interest rate of 4.75%. The Fund for Catholic Schools, Inc. has pledges that are expected to be collected over the next 5 years that will be used to substantially paydown the loans to the Corporation Sole.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**  
Notes to Financial Statements - Continued  
June 30, 2011 and 2010  
(Dollars in thousands)

**NOTE D - INVESTMENTS**

Investments consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Common Investment Fund	\$ 106,536	\$ 86,351
Fixed Income Fund	27,008	39,544
Short-term investments	11,719	12,762
Other investments	<u>83</u>	<u>82</u>
Total investments	<u>\$ 145,346</u>	<u>\$ 138,739</u>

See note L for additional information regarding the determination of the fair value of investments.

**NOTE E - LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 63,087	\$ 63,598
Buildings and improvements	1,177,850	1,142,383
Furniture and equipment	71,330	69,834
Construction in progress	<u>907</u>	<u>5,001</u>
	1,313,174	1,280,816
Less accumulated depreciation	<u>(846,959)</u>	<u>(835,494)</u>
Land, buildings and equipment, net	<u>\$ 466,215</u>	<u>\$ 445,322</u>

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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**NOTE E - LAND, BUILDINGS AND EQUIPMENT – Continued**

Land and buildings held for sale totaling \$2,141 and \$1,345 at June 30, 2011 and 2010, respectively, are carried at cost, net of accumulated depreciation, which is less than estimated net realizable value.

The Corporation Sole leases certain of its properties primarily to unrelated third parties. Properties under lease include buildings leased to several related Catholic high schools for \$1 dollar per year for a term of 50 years. At June 30, 2011, scheduled receipts for the next five years and thereafter under non-cancelable long-term rental agreements are as follows:

<u>Year ending</u> <u>June 30,</u>	
2012	\$ 9,533
2013	7,619
2014	5,604
2015	4,385
2016	3,698
Thereafter	21,085

**NOTE F - NOTES PAYABLE**

**Note Payable - Related Organization**

In April 2005, the Corporation Sole entered into a \$4,880 note payable to St. John's Seminary (the "Seminary"), a related organization. The loan principal, together with interest accrued from the date of the note, was scheduled to be repaid on January 1, 2011. The Corporation Sole and the Seminary are in the process of finalizing an agreement to satisfy the retirement of this note. (see note O) For the period from July 1, 2005 through June 30, 2011, interest on the note is accrued at a rate equivalent to the annual average total return of the Common Investment Fund, which was 19.24% and 12.17% for the years ended June 30, 2011 and 2010, respectively. Accrued interest on this loan plus late fees amounted to \$2,228 and \$725 at June 30, 2011 and 2010, respectively, and is included in the balance of this loan as presented in the accompanying statements of financial position.

In October 2008, the Corporation Sole entered into a 10-year promissory note with the Seminary for \$36,408 owed to the Seminary from the August 2007 joint sale of property. This note is non-interest bearing and subordinated to all other liabilities, obligations and indebtedness of the Corporation Sole. This promissory note becomes due and payable in one lump sum payment on August 23, 2017.

The estimated fair value of the \$36,408 Seminary promissory note as of June 30, 2011 and 2010 is \$23,918 and \$22,301, respectively. This fair value is based on estimates using market interest rates available for similar debt with equivalent maturities and risk factors.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**  
Notes to Financial Statements - Continued  
June 30, 2011 and 2010  
(Dollars in thousands)

**NOTE F - NOTES PAYABLE - Continued**

**Other Notes Payable**

Other notes payable consist of secured amounts due to third party lenders with the following terms at June 30:

<u>Type - Security</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2011</u>	<u>2010</u>
Mortgage note - Parish	5.75%	September 19, 2023	\$ 149	\$ 235
Mortgage note - Parish	5.75%	November 1, 2023	-	20
Mortgage note - School	0.00%	May 31, 2013	250	375
Total other notes payable			<u>\$ 399</u>	<u>\$ 630</u>

Scheduled principal payments on other notes payable as of June 30, 2011 are as follows:

<u>Year Ending June 30</u>	
2012	\$ 134
2013	134
2014	10
2015	10
2016	11
Thereafter	100
	<u>\$ 399</u>

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE G - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2011</u>	<u>2010</u>
Buildings and equipment	\$ 9,756	\$ 7,108
Special collections	245	294
Parish life and leadership	12,917	12,212
Catholic education	5,029	4,353
Faith formation and evangelization	3,920	1,763
Health and social services	589	621
Central administration	<u>9,696</u>	<u>10,634</u>
Total	<u>\$ 42,152</u>	<u>\$ 36,985</u>

Net assets released from restrictions were expended for the following purposes for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Buildings and equipment	\$ 4,288	\$ 227
Special collections	1,684	1,881
Parish life and leadership	12,014	15,266
Catholic education	1,039	621
Faith formation and evangelization	792	598
Health and social services	198	150
Media and public relations	-	8
Central administration	<u>5,740</u>	<u>7,025</u>
Total	<u>\$ 25,755</u>	<u>\$ 25,776</u>

Permanently restricted net assets, as described in note B, consist of the following at June 30. Income earned on these funds is available for the purposes described below:

	<u>2011</u>	<u>2010</u>
Parish life and leadership	\$ 7,834	\$ 8,079
Catholic education	3,540	3,044
Faith formation and evangelization	15,864	15,447
Health and social services	200	200
Central administration	<u>7,518</u>	<u>7,501</u>
Total	<u>\$ 34,956</u>	<u>\$ 34,271</u>

## THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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### NOTE H - ENDOWMENTS

The Corporation Sole's endowment consists of 163 individual funds established for the support of various programs and central ministries. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### **Interpretation of Relevant Law**

On July 2, 2009, the Commonwealth of Massachusetts signed into law a Massachusetts version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA" or the "Act"). The Act applies to institutional funds existing on or established after June 30, 2009. The Act is codified as Chapter 180A of the Massachusetts General Laws. It replaces the prior statute, which had dealt with the same subject for approximately 35 years, known as the Massachusetts Uniform Management of Institutional Funds Act (UMIFA). Among other provisions, the new law provides greater flexibility to not-for-profit organizations to spend funds when the fair value is less than the original value of the donor's gift commonly referred to as "underwater" funds.

The Corporation Sole has continued to follow its policy of preserving the corpus of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation Sole classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, if any, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until they are appropriated for expenditure in a manner consistent with the donor's intentions and the Corporation Sole's spending policy.

#### **Funds with Deficiencies**

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below their "historic dollar value". Deficiencies of this nature are accounted for and reported by a charge to unrestricted net assets and corresponding increase to temporarily restricted net assets. The aggregate balance of the funds that fell below corpus amounted to \$87 and \$183 as of June 30, 2011 and 2010, respectively.

#### **Endowment Investment Policy**

The Corporation Sole has adopted an investment policy which attempts to provide a predictable stream of investment returns thereby making funds available annually to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation Sole must hold in perpetuity or for donor-specified periods. Under the Corporation Sole's Investment Policy and spending policy, both of which are approved by the Roman Catholic Archbishop of Boston, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the approved quarterly spending rate over a long period of time. Actual returns in any given year will vary and actual spending may exceed the quarterly dividend distributions.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE H - ENDOWMENTS - Continued**

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Corporation Sole relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The majority of endowment investments are invested in the Common Investment Fund, which in-turn invests in the Collective Investment Partnership. The Investment Committee of the Archbishop's Finance Council is responsible for selecting the investment managers of the Collective Investment Partnership. The Investment Committee's investment rationale is to include an array of different strategies and investment managers for the Collective Investment Partnership's portfolio to reduce overall volatility while providing investment returns above industry benchmarks.

***Spending Policy***

It is the policy of the Archbishop of Boston to appropriate for distribution on a quarterly basis 1% of the net assets of the endowment as of the previous quarter-end. In establishing this policy, the Corporation Sole considered the long-term expected return on its endowments. Accordingly, over the long term, the Corporation Sole expects the impact of the current spending policy to allow its endowments to grow at a nominal rate. This is consistent with the Corporation Sole's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. Actual distributions from the endowments may exceed the quarterly dividend.

Endowment net asset composition as of June 30, 2011 and 2010 is as follows:

<u>June 30, 2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowments:				
Endowments	\$ (87) *	\$ 6,714	\$ 23,000	\$ 29,627
Beneficial interest in The Catholic Foundation	-	2,475	9,007	11,482
Beneficial interest in perpetual trusts	-	-	2,949	2,949
	<u>\$ (87)</u>	<u>\$ 9,189</u>	<u>\$ 34,956</u>	<u>\$ 44,058</u>
<u>June 30, 2010</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowments:				
Endowments	\$ (183) *	\$ 2,999	\$ 22,751	\$ 25,567
Beneficial interest in The Catholic Foundation	-	1,677	8,988	10,665
Beneficial interest in perpetual trusts	-	-	2,532	2,532
	<u>\$ (183)</u>	<u>\$ 4,676</u>	<u>\$ 34,271</u>	<u>\$ 38,764</u>

\* The deficit in unrestricted net assets represents the amounts by which the fair values of certain donor-restricted assets were below the amounts required to be retained permanently.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE H - ENDOWMENTS - Continued**

Changes in endowment net assets for the years ended June 30, 2011 and 2010 are as follows:

<u>June 30, 2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (183)	\$ 4,676	\$ 34,271	\$ 38,764
Contributions and bequests	-	-	615	615
Change in interest in net assets of a foundation	-	799	19	818
Change in beneficial interest in perpetual trusts	-	-	422	422
Investment return:				
Investment income	-	1,580	1	1,581
Net appreciation	96	2,862	-	2,958
Total investment return	96	4,442	1	4,539
Appropriation of endowment assets for operations (draw)	-	(1,100)	-	(1,100)
Other changes:				
Net asset reclassification	-	372	(372)	-
Endowment net assets, end of year	<u>\$ (87)</u>	<u>\$ 9,189</u>	<u>\$ 34,956</u>	<u>\$ 44,058</u>
<u>June 30, 2010</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (30)	\$ 2,788	\$ 30,823	\$ 33,581
Contributions and bequests	-	-	3,120	3,120
Change in interest in net assets of a foundation	-	551	231	782
Change in beneficial interest in perpetual trusts	-	-	96	96
Investment return:				
Investment income	-	857	1	858
Net appreciation (depreciation)	(153)	1,663	-	1,510
Total investment return	(153)	2,520	1	2,368
Appropriation of endowment assets for operations (draw)	-	(1,183)	-	(1,183)
Endowment net assets, end of year	<u>\$ (183)</u>	<u>\$ 4,676</u>	<u>\$ 34,271</u>	<u>\$ 38,764</u>

## **THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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### **NOTE I - PARISH RECONFIGURATION**

In May 2004, the Corporation Sole entered into a reconfiguration plan that included the suppression of certain parishes within the Archdiocese of Boston. This plan was in response to significant changes occurring within the Archdiocese of Boston, including changing demographics, a decline in the number of clergy, and the impact of deferred maintenance on parish properties. Sixty-four parishes have been closed and consolidated with adjoining parishes.

The Corporation Sole accounts for all financial activities of Archdiocesan parishes as a separate reporting unit in its financial statements. The Corporation Sole accounts for all closed reconfiguration parishes in Central Operations, another reporting unit of the Corporation Sole. At the time a parish was closed, the unrestricted net assets of the parish were transferred to Central Operations at their net book value.

The land and buildings associated with thirty-five suppressed parishes have been sold through June 30, 2011. Gains of \$141 and \$2,463 were recognized during the years ended June 30, 2011 and 2010, respectively, for reconfiguration sales. These gains are included in the accompanying statements of activities as part of the gain on sale of land and buildings.

The costs of maintaining the suppressed parish properties are included in the accompanying statements of activities as parish reconfiguration expenses.

### **NOTE J - RESERVES FOR LOSSES**

The Corporation Sole has substantially exhausted its insurance coverage for clergy misconduct claims and is now self-insured for this risk of loss. The ultimate cost to defend or settle these claims is subject to uncertainty and the estimated liability is subject to change. The nature and the magnitude of the potential effects of these claims could have a material impact on Corporation Sole's financial condition and cash flows.

At June 30, 2011 and 2010, the Corporation Sole's reserve for estimated future settlements was \$4,543 and \$4,573, respectively, which is included in the reserves for losses in the accompanying statements of financial position. During the years ended June 30, 2011 and 2010, the Corporation Sole entered into settlement agreements with 23 and 30 individuals who had brought sexual misconduct claims at a cost of \$1,695 and \$2,085, respectively.

The Corporation Sole and related organizations are partially self-insured for various risks incidental to the normal course of its activities. Such risks include fire damage (up to \$500 annually), general liability claims (up to \$250 per occurrence), theft losses and sudden accidental occurrences to boilers and related equipment. At June 30, 2011 and 2010, the Corporation Sole's reserve for these self-insurance losses was \$5,394 and \$4,384, respectively, which is included in the reserves for losses in the accompanying statements of financial position.

## THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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### NOTE K - COMMITMENTS AND CONTINGENCIES

#### Construction

The Corporation Sole has commitments to fund construction and other contracted costs in the amount of \$13,175 and \$21,265 at June 30, 2011 and 2010, respectively.

#### Other Legal Proceedings

The Corporation Sole is involved in various legal proceedings arising out of and incidental to its activities other than claims of sexual misconduct discussed in Note J. In management's opinion, the ultimate liability which may arise from these proceedings is not expected to have a material effect on the Corporation Sole's net assets, changes in net assets and cash flows.

#### Guaranty

On October 22, 2010, Cardinal Spellman High School, Inc., a related organization, entered into a \$3,200 loan agreement with a bank for leasehold improvements to a building owned by the Corporation Sole. Performance on this loan agreement is guaranteed by Corporation Sole. Corporation Sole's guaranty is limited to the aforementioned land and building which it owns and leases to Cardinal Spellman High School, Inc. The estimated value is well in excess of the loan amount.

### NOTE L - FAIR VALUE MEASUREMENTS

Corporation Sole measures the fair values of assets and liabilities at an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value hierarchy is used to prioritize the inputs to valuation techniques used to measure fair value. Corporation Sole classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets and liabilities), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

## THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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### NOTE L - FAIR VALUE MEASUREMENTS - Continued

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

#### **Contributions Receivable**

Contributions receivable are valued at fair value on a non-recurring basis. Any multi-year pledges received are recorded at the present value of future cash flows with a discount rate adjusted for any market conditions to arrive at fair value, and as such are considered Level 3 inputs.

#### **Alternative Investments**

Alternative investments consist of investments in the Common Investment Fund and the Fixed Income Fund. The fair value of these investments is determined using the net asset value (NAV) per share. The investments, which are redeemable near year-end at NAV per share, are classified within Level 2 of the fair value hierarchy.

There are no unfunded commitments or redemption restrictions related to these investments at June 30, 2011 and 2010. Redemptions from the Fixed Income Fund are available on a daily basis and on a quarterly basis from the Common Investment Fund.

#### **Short-Term and Other Investments**

Short-term and other investments consist of certificates of deposit and mutual funds. Mutual funds are valued based on quoted prices in active markets and are classified within Level 1 of the fair value hierarchy. Certificates of deposit are valued based on quoted prices in active markets of similar instruments and are classified within Level 2 of the fair value hierarchy.

#### **Beneficial Interest in Perpetual Trusts**

The Corporation Sole is the beneficiary of two perpetual trusts maintained by third party trustees. These beneficial interests are included in prepaid expense and other assets in the statements of financial position at June 30, 2011 and 2010. These assets are classified as Level 3 because Corporation Sole's share in the trusts does not have an active market. The Corporation Sole records the fair value of the trusts on a recurring basis based on the Corporation Sole's share of the underlying investment portfolio that consists of actively traded equities, bonds and money market funds. The trusts are managed by financial institutions and investment managers who provide statements on a regular basis presenting the market value of the portfolio holdings.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE L - FAIR VALUE MEASUREMENTS - Continued**

**Conditional Asset Retirement Obligations**

Conditional asset retirement obligations are recorded at fair value on a non-recurring basis based on the present value of future obligations using a discount rate adjusted for any market conditions. Because fair value is based on significant unobservable inputs, it is considered to be valued with Level 3 inputs.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporate Sole believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date and that difference may be material to the Corporate Sole's financial statements.

**Fair Value of Financial Assets**

The Corporation Sole's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2011 and 2010, by level within the fair value hierarchy, are presented in the table below. Financial assets and liabilities measured at fair value on a non-recurring basis are excluded from the tables.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance as of June 30, 2011</u>
Investment in Common Investment Fund	\$ -	\$ 106,536	\$ -	\$ 106,536
Investment in Fixed Income Fund	-	27,008	-	27,008
Short-term and other investments	1,298	10,504	-	11,802
Beneficial interest in perpetual trusts	-	-	4,607	4,607
<b>Total</b>	<u>\$ 1,298</u>	<u>\$ 144,048</u>	<u>\$ 4,607</u>	<u>\$ 149,953</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance as of June 30, 2010</u>
Investment in Common Investment Fund	\$ -	\$ 86,351	\$ -	\$ 86,351
Investment in Fixed Income Fund	-	39,544	-	39,544
Short-term and other investments	3,092	9,752	-	12,844
Beneficial interest in perpetual trusts	-	-	3,912	3,912
<b>Total</b>	<u>\$ 3,092</u>	<u>\$ 135,647</u>	<u>\$ 3,912</u>	<u>\$ 142,651</u>

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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**NOTE L - FAIR VALUE MEASUREMENTS – Continued**

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 3,912	\$ 3,646
Distributions	(121)	(98)
Unrealized appreciation	<u>816</u>	<u>364</u>
Balance at end of year	<u>\$ 4,607</u>	<u>\$ 3,912</u>

**NOTE M - BENEFIT PLANS**

**Lay Employee Pension Plan**

The Corporation Sole participates with other related Archdiocesan organizations in a noncontributory, defined benefit multi-employer pension plan covering substantially all lay employees known as the the Roman Catholic Archdiocese of Boston Pension Plan (the “Pension Plan”). The Corporation Sole’s employees represent approximately 60% of all lay employees covered under the Pension Plan. The Pension Plan is not subject to the Employee Retirement Income Security Act of 1974 (“ERISA”). Pension expense allocated to the Corporation Sole is based on payroll cost and amounted to \$7,395 and \$7,216 for the years ended June 30, 2011 and 2010, respectively.

Accumulated plan benefits information for Corporation Sole, as provided by actuaries, has not been distinguished from the benefits of the other organizations participating in the Pension Plan and, accordingly, such information is not presented herein. At June 30, 2011, the audited financial statements of the Pension Plan reflected \$284,476 in net assets available for benefits and \$328,907 in accumulated plan benefits. At June 30, 2010, the audited financial statements of the Pension Plan reflected \$264,847 in net assets available for benefits and \$338,975 in accumulated plan benefits.

On July 29, 2010 the Pension Plan trustees voted to amend the Pension Plan to implement a freeze on accruing benefits effective December 31, 2011 and are planning to provide an employer match to employee contributions into a new defined contribution plan (see note O).

**Lay Employee Health and Dental Benefit Plan**

The Corporation Sole participates with other related Archdiocesan organizations in a health and dental plan covering substantially all lay employees known as the Roman Catholic Archdiocese of Boston Health Benefit Plan (the “Health Plan”). The Corporation Sole’s employees represent approximately 71% of all lay employees covered under the Health Plan. The Health Plan agreement provides that the participating employers make monthly contributions to the Health Plan of a specified amount for each class of employee. The Corporation Sole’s contributions to the Health Plan amounted to \$19,469 and \$16,860 for the years ended June 30, 2011 and 2010, respectively.

## THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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### NOTE M - BENEFIT PLANS - Continued

#### Lay Employee Health and Dental Benefit Plan - continued

At June 30, 2011, the audited financial statements of the Health Plan reflected \$2,143 in health and dental benefit obligations and \$8,846 in net assets available for benefits. At June 30, 2010, the audited financial statements of the Health Plan reflected approximately \$1,962 in health and dental benefit obligations and \$10,296 in net assets available for benefits. During the fiscal year ended June 30, 2010, Caritas Christi, a related organization, withdrew from participating in the Health Plan. The Health Plan trustees voted to transfer \$9,250 to Caritas Christi representing an estimate of their allocation of net assets available for benefits. This transfer occurred during fiscal 2010.

#### Clergy Health and Retirement Plans

##### Archdiocese of Boston Clergy Funds

The Corporation Sole sponsors a single-employer, noncontributory, defined benefit retirement and disability plan covering priests incardinated in the Roman Catholic Archdiocese of Boston. Benefits for priests who are in good standing within the norms of canon law ("Eligible Priests") are provided through the Archdiocese of Boston Clergy Funds (the "Clergy Funds"), which include those funds that provide for the health, welfare, disability, and retirement of Eligible Priests. The Clergy Funds include the Clergy Benefit Funding Trust (the "Funding Trust"), the Clergy Retirement Trust (the "Retirement Trust"), and the Clergy Medical/Hospitalization Trust (the "Medical Trust"). The Clergy Funds are not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Benefits for priests who are on administrative leave and who are in canonical process as a result of accusations of misconduct with a minor are paid directly by Corporation Sole.

The Clergy Funds also offer other post-retirement benefits, including health, dental and subsistence benefits which are expected to be paid to or on behalf of currently retired clergy and active clergy after retirement. This obligation is unfunded.

The Clergy Funds primary source of funding benefits is from contributions, principally from special collections from parishes in the Archdiocese of Boston, and health assessments to parishes and other Catholic organizations within the Archdiocese of Boston. The collections are initially held in the Funding Trust. Funds are transferred to the Medical Trust and the Retirement Trust at the discretion of the Trustees.

Effective July 1, 2010, the Clergy Funds Board of Trustees adopted new trust agreements for the Funding Trust, Medical Trust and Retirement Trust. These new trust agreements continue the provision of the existing plans and trust with added clarification of benefits and provisions, including the clarification that the use of funds is only to support benefits to Eligible Priests.

##### Reserve for Health Insurance Claims

Reserve for health insurance claims consist of medical and dental claims payable for benefits provided to Eligible Priests. Obligations for health claims incurred by Eligible Priests but not reported are estimated by management based on historical experience.

At June 30, 2011 and 2010, the audited financial statements of the Clergy Funds reflected \$574 and \$644, respectively, of health and dental benefit obligations.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE M - BENEFIT PLANS - Continued**

**Non-Incardinated Priests**

The Corporation Sole sponsors a noncontributory pension benefit plan covering ordained priests who were not incardinated in the Roman Catholic Archdiocese of Boston, but who have been duly assigned by the Roman Catholic Archbishop of Boston for service within the Archdiocese for a minimum period of at least ten years and who are in good standing within the norms of canon law. Benefits are provided through The Benefit Trust for Non-Incardinated Priests Duly Assigned for Service in the Archdiocese of Boston (the "Non-Incardinated Trust"). The Non-Incardinated Trust is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Effective July 1, 2010, the accrual of benefits under the Non-Incardinated Trust were frozen and the net obligation is included in Corporation Sole's statements of financial position.

A transfer of \$1,075 was made to the Non-Incardinated Trust from the Funding Trust during the year ended June 30, 2010, to assist in funding the Trust's obligations. No future transfers from the Funding Trust to the Non-Incardinated Trust are expected.

The assets and obligations of Corporation Sole's clergy retirement and other post-retirement benefits were as follows as of June 30:

**Benefit Obligations**

	For the year ended June 30, 2011					
	Pension Benefits			Other Benefits		Total
	Clergy Funds	Non-Incardinated Trust	Admin Leave	Clergy Funds	Admin Leave	
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 81,715	\$ 952	\$ 6,408	\$ 44,288	\$ 2,847	\$ 136,210
Service cost	1,016	33	-	910	-	1,959
Interest cost	4,261	50	324	2,560	159	7,354
Actuarial (gain) loss	(4,376)	7	472	(2,040)	273	(5,664)
Benefits and other expenses paid	<u>(6,907)</u>	<u>(82)</u>	<u>(1,242)</u>	<u>(1,355)</u>	<u>(458)</u>	<u>(10,044)</u>
Benefit obligation at end of year	\$ <u>75,709</u>	\$ <u>960</u>	\$ <u>5,962</u>	\$ <u>44,363</u>	\$ <u>2,821</u>	\$ <u>129,815</u>

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**  
Notes to Financial Statements - Continued  
June 30, 2011 and 2010  
(Dollars in thousands)

**NOTE M - BENEFIT PLANS - Continued**

	<b>For the year ended June 30, 2010</b>					
	<b>Pension Benefits</b>			<b>Other Benefits</b>		<b>Total</b>
	<b>Clergy Funds</b>	<b>Non-</b>		<b>Clergy Funds</b>	<b>Admin Leave</b>	
<b>Incardinated Trust</b>		<b>Admin Leave</b>				
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 83,045	\$ 933	\$ 6,528	\$ 41,828	\$ 2,473	\$ 134,807
Service cost	893	29	-	770	-	1,692
Interest cost	4,942	56	364	2,679	145	8,186
Actuarial loss	676	3	854	278	694	2,505
Benefits and other expenses paid	<u>(7,841)</u>	<u>(69)</u>	<u>(1,338)</u>	<u>(1,267)</u>	<u>(465)</u>	<u>(10,980)</u>
Benefit obligation at end of year	\$ <u>81,715</u>	\$ <u>952</u>	\$ <u>6,408</u>	\$ <u>44,288</u>	\$ <u>2,847</u>	\$ <u>136,210</u>

The weighted average assumptions used to determine all benefit obligations were as follows:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Discount rate	5.30%	5.40%	5.65%	5.80%
Rate of compensation increase	N/A	N/A	N/A	N/A
Health care cost trend rate assumed for next year	N/A	N/A	8.50%	8.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	N/A	N/A	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	N/A	N/A	2020	2016

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE M - BENEFIT PLANS - Continued**

**Plan Assets**

	For the year ended June 30, 2011					Total
	Pension Benefits			Other Benefits		
	Clergy Funds	Non-Incarnated Trust	Admin Leave	Clergy Funds	Admin Leave	
Change in Plan assets:						
Fair value of Plan assets at beginning of year	\$ 34,111	\$ 1,081	\$ -	\$ -	\$ -	\$ 35,192
Actual return on Plan assets, net of administration expense	(1,515)	(30)	-	-	-	(1,545)
Employer contributions	7,990	-	1,242	1,355	458	11,045
Benefits and other expenses paid	(6,900)	(82)	(1,242)	(1,355)	(458)	(10,037)
Other contributions						-
Fair value of Plan assets at end of year	<u>\$ 33,686</u>	<u>\$ 969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,655</u>

	For the year ended June 30, 2010					Total
	Pension Benefits			Other Benefits		
	Clergy Funds	Non-Incarnated Trust	Admin Leave	Clergy Funds	Admin Leave	
Change in Plan assets:						
Fair value of Plan assets at beginning of year	\$ 29,913	\$ 95	\$ -	\$ -	\$ -	\$ 30,008
Actual return on Plan assets, net of administration expense	(1,503)	(20)	-	-	-	(1,523)
Employer contributions	6,944	-	1,338	1,267	464	10,013
Benefits and other expenses paid	(7,584)	(69)	(1,338)	(1,267)	(464)	(10,722)
Other contributions	6,341	1,075	-	-	-	7,416
Fair value of Plan assets at end of year	<u>\$ 34,111</u>	<u>\$ 1,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,192</u>

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE M - BENEFIT PLANS - Continued**

The asset allocation for the Clergy Funds at the end of 2010 and 2011, and the target allocation for 2011, by asset category, are as follows:

	<b>Target 2011</b>	<b>Actual % of Plan Assets at Year End</b>	
		<b>2011</b>	<b>2010</b>
Equity securities	0.0%	0.0%	0.9%
Debt securities	0.0%	0.0%	0.9%
Other investments	0.0%	0.0%	0.7%
Real estate*	31.3%	31.3%	31.6%
Cash and cash equivalents	68.7%	68.7%	65.9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Real estate is valued at book value and is leased to a related party.

The investment policy and strategy is to provide for growth of capital with a moderate level of volatility by investing assets based on the target allocations stated above. The Clergy Funds will reallocate its investments periodically to meet the above target allocations. The Clergy Funds also reviews its investment policy periodically to determine if the policy or allocations should be changed.

The Clergy Funds short term investments of \$8,252 and \$8,274 are accounted for as a level 2 in the fair value hierarchy at June 30, 2011 and June 30, 2010, respectively.

Other assets and liabilities included in plan assets that are not measured at fair value include cash and cash equivalents, real estate and deferred lease income.

The target asset allocation for the Non-Incardinated Trust for fiscal year 2011 was 100% in cash and cash equivalents and the actual allocation at June 30, 2011 was 100% in cash and cash equivalents. Cash equivalents of \$978 as of June 30, 2011 are valued based on quoted prices in active markets.

**Reconciliation of Funded Status**

	<b>As of June 30, 2011</b>					
	<b>Pension Benefits</b>			<b>Other Benefits</b>		
	<b>Clergy Funds</b>	<b>Non- Incardinated</b>	<b>Admin Leave</b>	<b>Clergy Funds</b>	<b>Admin Leave</b>	<b>Total</b>
Fair value of plan assets	\$ 33,686	\$ 969	\$ -	\$ -	\$ -	\$ 34,655
Benefit obligation	<u>(75,709)</u>	<u>(959)</u>	<u>(5,962)</u>	<u>(44,937)</u>	<u>(2,822)</u>	<u>(130,389)</u>
Funded status - (obligation) asset	<u>\$ (42,023)</u>	<u>\$ 10</u>	<u>\$ (5,962)</u>	<u>\$ (44,937)</u>	<u>\$ (2,822)</u>	<u>\$ (95,734)</u>

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE M - BENEFIT PLANS - Continued**

	As of June 30, 2010					
	Pension Benefits			Other Benefits		Total
	Clergy Funds	Non-Incarnated	Admin Leave	Clergy Funds	Admin Leave	
Fair value of plan assets	\$ 34,111	\$ 1,081	\$ -	\$ -	\$ -	\$ 35,192
Benefit obligation	(81,715)	(952)	(6,408)	(44,932)	(2,847)	(136,854)
Funded status - (obligation) asset	\$ (47,604)	\$ 129	\$ (6,408)	\$ (44,932)	\$ (2,847)	\$ (101,662)

**Components of Net Periodic Pension Cost**

	For the year ended June 30, 2011					
	Pension Benefits			Other Benefits		Total
	Clergy Funds	Non-Incarnated Trust	Admin Leave	Clergy Funds	Admin Leave	
Service cost for benefits earned during the period	\$ 1,016	\$ 33	\$ -	\$ 910	\$ -	\$ 1,959
Interest cost on projected benefit obligation	4,261	50	324	2,560	159	7,354
Expected return on Plan assets	(1,969)	(67)	-	-	-	(2,036)
Net amortization and deferral	(1,802)	-	17	(649)	31	(2,403)
Net periodic pension cost	\$ 1,506	\$ 16	\$ 341	\$ 2,821	\$ 190	\$ 4,874

	For the year ended June 30, 2010					
	Pension Benefits			Other Benefits		Total
	Clergy Funds	Non-Incarnated Trust	Admin Leave	Clergy Funds	Admin Leave	
Service cost for benefits earned during the period	\$ 893	\$ 29	\$ -	\$ 770	\$ -	\$ 1,692
Interest cost on projected benefit obligation	4,942	56	364	2,679	145	8,186
Expected return on Plan assets	(2,127)	(5)	-	-	-	(2,132)
Net amortization and deferral	(2,167)	-	-	(702)	-	(2,869)
Net periodic pension cost	\$ 1,541	\$ 80	\$ 364	\$ 2,747	\$ 145	\$ 4,877

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**  
Notes to Financial Statements - Continued  
June 30, 2011 and 2010  
(Dollars in thousands)

**NOTE M - BENEFIT PLANS - Continued**

**Accumulated Amounts Charged (Credited) to Unrestricted Net Assets**

	<b>As of June 30, 2011</b>					
	<b>Pension Benefits</b>			<b>Other Benefits</b>		<b>Total</b>
	<b>Clergy Funds</b>	<b>Non-Incarnated Trust</b>	<b>Admin Leave</b>	<b>Clergy Funds</b>	<b>Admin Leave</b>	
Net actuarial loss (gain)	\$ (16,167)	\$ 131	\$ 1,310	\$ (9,694)	\$ 936	\$ (23,484)
Prior service cost (credit)	(15,133)	-	-	(4,073)	-	(19,206)
<b>Total</b>	<b>\$ (31,300)</b>	<b>\$ 131</b>	<b>\$ 1,310</b>	<b>\$ (13,767)</b>	<b>\$ 936</b>	<b>\$ (42,690)</b>

	<b>As of June 30, 2010</b>					
	<b>Pension Benefits</b>			<b>Other Benefits</b>		<b>Total</b>
	<b>Clergy Funds</b>	<b>Non-Incarnated Trust</b>	<b>Admin Leave</b>	<b>Clergy Funds</b>	<b>Admin Leave</b>	
Net actuarial loss (gain)	\$ (15,830)	\$ 28	\$ 854	\$ (7,873)	\$ 694	\$ (22,127)
Prior service cost (credit)	(16,380)	-	-	(4,502)	-	(20,882)
<b>Total</b>	<b>\$ (32,210)</b>	<b>\$ 28</b>	<b>\$ 854</b>	<b>\$ (12,375)</b>	<b>\$ 694</b>	<b>\$ (43,009)</b>

During the year ending June 30, 2012, \$1,247 of the accumulated amounts credited to non-operating income will be amortized into operating expenses.

The weighted average assumptions used to determine all benefit plan costs were as follows:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Discount rate	5.30%	5.40%	5.65%	5.80%
Rate of compensation increase	-	-	-	-
Expected return on plan assets	6.50%	6.50%	N/A	N/A
Health care cost trend rate assumed for next year	N/A	N/A	8.5%	8.0%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	N/A	N/A	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	N/A	N/A	2020	2016

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

**NOTE M - BENEFIT PLANS - Continued**

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects on the Clergy Funds:

	<b>Other Benefits One Percentage Point Increase</b>		<b>Other Benefits One Percentage Point Decrease</b>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Effect on service and interest cost	\$ 610	\$ 578	\$ (489)	\$ (465)
Effect on benefit obligation	6,007	5,882	(4,964)	(4,866)

To determine the expected long-term rate of return, the Clergy Funds considered the historical returns of the major market indicators relating to the target asset allocation, as well as the current economic and financial market conditions.

**Expected Benefit Payments**

<u>Years ending June 30</u>	<u>Clergy Funds Pension Benefits</u>	<u>Clergy Funds Other Benefits</u>	<u>Non- Incardinated Pension Benefits</u>	<u>Admin Leave Pension Benefits</u>	<u>Admin Leave Other Benefits</u>	<u>Total</u>
2012	\$ 6,691	\$ 1,786	\$ 109	\$ 753	\$ 221	\$ 9,560
2013	6,608	2,010	103	696	228	9,645
2014	6,564	2,210	97	659	232	9,762
2015	6,475	2,403	90	623	234	9,825
2016	6,350	2,584	87	587	231	9,839
2017 - 2021	29,611	15,254	346	2,384	1,075	48,670

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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**NOTE N - RELATED PARTY TRANSACTIONS**

**Revenue from Service Provided**

The Corporation Sole provides administrative, accounting, technology and clerical services to related Catholic organizations. Reimbursement of the costs of providing these services was \$4,425 and \$3,937 during the years ended June 30, 2011 and 2010, respectively. The revenue from these services is included in revenue from services provided in the accompanying statements of activities.

**Catholic Foundation**

The Corporation Sole utilizes The Catholic Foundation to provide all centralized fundraising services including the annual Catholic Appeal, Planned Giving and other fundraising activities. Amounts paid to The Catholic Foundation for these services amounted to \$1,996 and \$1,800 for the years ended June 30, 2011 and 2010, respectively.

**Net Assets Transfer From (To) Related Organizations**

On November 16, 2010, the Corporation Sole transferred the governance and related operating assets and liabilities (excluding land and buildings held by Corporation Sole) of the elementary school at St. Rita's Parish in Lowell to a newly formed related organization, Ste. Jeanne d'Arc School of Lowell, Massachusetts. This \$1,323 transfer is reflected as a net asset transfer in the statement of activities for the year ended June 30, 2011.

During the year ended June 30, 2010, \$2,500 was transferred to Pope John Paul II Catholic Academy, a related organization, to assist them with their final payments to construction contractors. This transfer is reflected as a net asset transfer to a related organization in the statement of activities for the year ended June 30, 2010.

**Cristo Rey Boston High School, Inc.**

During fiscal 2011, Cristo Rey Boston High School, an unconsolidated related entity, transferred its operations from North Cambridge Catholic, which was owned by Corporation Sole, to St. Williams High School in Dorchester, owned by Blessed Mother Teresa of Calcutta parish. The excess of the selling price of the North Cambridge Catholic building over the purchase price of the St. Williams building was \$2,254. The receipt of these funds by Cristo Rey is presented as a contribution to related organization within nonoperating income in the statement of activities.

**Catholic Schools Foundation**

The Catholic Schools Foundation, Inc., a related organization, provides support to Catholic schools located in the Archdiocese of Boston. During the years ended June 30, 2011 and 2010, this foundation awarded \$2,262 and \$2,946 in inner city scholarships to elementary schools that are operated by the Corporation Sole's parishes.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2011 and 2010

(Dollars in thousands)

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**NOTE O - SUBSEQUENT EVENTS**

On July 29, 2010, the trustees of the Pension Plan voted to amend the Plan to implement a freeze on accruing benefits effective December 31, 2011. Employees with five or more years of service will remain fully vested. Employees with at least one year of service as of December 31, 2011, will be allowed to continue to add years of service towards vesting after the freeze date. A new Archdiocese of Boston 401(k) Retirement Savings Plan will be launched effective January 1, 2012.

St. John's Seminary holds a notes receivable due from Corporation Sole with a principal balance of \$4,880 and accumulated interest and late fees of \$2,228 for a total of \$7,108. The Corporation Sole and the Seminary are in the process of finalizing an agreement to address the retirement of this note.

In connection with the preparation of these financial statements, the Corporation Sole has evaluated events and transactions through January 13, 2012, which is the date these financial statements were available for issuance.

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**SUPPLEMENTAL COMBINING INFORMATION**

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**Report of Independent Certified Public Accountants  
on Supplemental Information**

His Eminence  
Cardinal Sean Patrick O'Malley, O.F.M. Cap.  
The Roman Catholic Archbishop of Boston

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of The Roman Catholic Archbishop of Boston, A Corporation Sole ("the Corporation Sole") as of and for the years ended June 30, 2011 and 2010. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Grant Thornton LLP*

Boston, Massachusetts  
January 13, 2012

**Audit • Tax • Advisory**

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**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,  
A CORPORATION SOLE**

Combining Statements of Financial Position (in thousands)

June 30, 2011

(With summarized information as of June 30, 2010)

	Parishes	Central Operations	Self-Insurance	Endowments	Eliminations	2011 Total	2010 Total
<b>ASSETS</b>							
Cash and cash equivalents:							
Parish operations	\$ 64,041	\$ -	\$ -	\$ -	\$ -	\$ 64,041	\$ 62,705
Revolving loan fund	8,062	-	-	-	-	8,062	637
Central operations	-	15,491	-	151	-	15,642	19,400
Insurance operations	-	-	3,242	-	-	3,242	2,439
Parish reconfiguration	-	4,205	-	-	-	4,205	4,899
Deposits with the Corporation Sole-Revolving Loan Fund	-	6,473	-	-	(6,473)	-	-
Total cash and cash equivalents	72,103	26,169	3,242	151	(6,473)	95,192	90,080
Interest and dividends receivable	1,226	119	17	197	-	1,559	1,095
Prepaid expenses and other assets	1,139	6,849	1,125	-	-	9,113	8,104
Accounts receivable, net	4,812	381	5	-	(106)	5,092	5,211
Contributions receivable, net	1,384	1,694	-	-	-	3,078	5,085
Loans receivable, net	24,816	22	4	-	(22)	24,820	29,051
Land and buildings held for sale	940	1,201	-	-	-	2,141	1,345
Investments	111,251	12,379	2,120	19,596	-	145,346	138,739
Interest in net assets of a foundation	1,864	12,716	-	-	-	14,580	13,184
Land, buildings and equipment, net	418,889	47,326	-	-	-	466,215	445,323
Total assets	\$ 638,424	\$ 108,856	\$ 6,513	\$ 19,944	\$ (6,601)	\$ 767,136	\$ 737,217
<b>LIABILITIES AND NET ASSETS</b>							
LIABILITIES:							
Accounts payable and accrued expenses	\$ 18,730	\$ 5,034	\$ 321	\$ -	\$ (277)	\$ 23,808	\$ 24,695
Agency obligations	866	1,260	-	-	-	2,126	1,502
Reserves for losses	-	4,543	5,394	-	-	9,937	8,958
Due to related organizations	13,021	(1,277)	92	356	(6,221)	5,971	2,064
Deferred revenue and support	19,238	216	-	-	-	19,454	19,791
Accrued pension and other post retirement costs	86,959	8,785	-	-	-	95,744	101,792
Other liabilities	2,494	188	-	-	-	2,682	3,327
Note payable - related organization	2,005	43,517	-	-	(2,005)	43,517	42,014
Other notes payable	399	-	-	-	-	399	630
Total liabilities	143,712	62,266	5,807	356	(8,503)	203,638	204,773
NET ASSETS:							
Unrestricted	462,337	21,416	706	29	1,902	486,390	461,188
Temporarily restricted	23,302	14,714	-	4,136	-	42,152	36,985
Permanently restricted	9,073	10,460	-	15,423	-	34,956	34,271
Total net assets	494,712	46,590	706	19,588	1,902	563,498	532,444
Total liabilities and net assets	\$ 638,424	\$ 108,856	\$ 6,513	\$ 19,944	\$ (6,601)	\$ 767,136	\$ 737,217

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,  
A CORPORATION SOLE**  
Combining Statements of Activities - Unrestricted (in thousands)  
For the year ended June 30, 2011  
(With summarized information for the year ended June 30, 2010)

	Parishes	Central Operations	Self-Insurance	Endowments	Eliminations	2011 Total	2010 Total
<b>REVENUES AND OTHER SUPPORT:</b>							
Collections	\$ 112,967	\$ 1,346	\$ -	\$ -	\$ (269)	\$ 114,044	\$ 109,365
Catholic Appeal	-	11,490	-	-	-	11,490	8,879
Contributions and bequests	18,791	2,982	-	-	-	21,773	16,233
Parish fundraiser events	15,477	-	-	-	-	15,477	14,840
Tuition and fees	102,482	351	-	-	(34)	102,799	106,117
Investment income	3,243	1,218	65	-	(802)	3,724	2,732
Rental income	14,171	285	-	-	-	14,456	12,317
Cemetery operations	4,196	-	-	-	-	4,196	4,064
Revenue from services provided	-	8,915	-	-	(4,490)	4,425	4,380
Insurance revenues	-	-	5,889	-	(4,071)	1,818	1,493
Sacramental offerings	6,118	-	-	-	-	6,118	5,896
Other revenues	23,582	341	-	-	(2,674)	21,249	22,370
Change in interest in net assets of a foundation	-	-	-	-	-	-	-
Net assets released from restrictions	16,362	8,682	-	711	-	25,755	25,776
Total revenues and other support	<u>317,389</u>	<u>35,610</u>	<u>5,954</u>	<u>711</u>	<u>(12,340)</u>	<u>347,324</u>	<u>334,462</u>
<b>EXPENSES:</b>							
Program:							
Parish life and leadership	175,253	2,521	-	84	(7,549)	170,309	166,636
Catholic education	120,323	1,781	-	34	(281)	121,857	129,080
Faith formation and evangelization	-	7,374	-	561	(331)	7,604	7,080
Health and social services	1,932	625	-	31	-	2,588	2,744
Central and regional services	-	4,077	-	-	(114)	3,963	5,220
Media and public relations	-	519	-	-	-	519	1,863
Cemetery operations	4,272	-	-	1	-	4,273	4,581
Total program expenses	<u>301,780</u>	<u>16,897</u>	<u>-</u>	<u>711</u>	<u>(8,275)</u>	<u>311,113</u>	<u>317,204</u>
Management and general	1,488	19,171	1,615	-	(3,807)	18,467	18,793
Property and casualty insurance costs	-	-	6,594	-	(1,535)	5,059	3,909
Fundraising	-	1,996	-	-	-	1,996	1,800
Parish reconfiguration	-	1,721	-	-	(168)	1,553	1,072
Total expenses	<u>303,268</u>	<u>39,785</u>	<u>8,209</u>	<u>711</u>	<u>(13,785)</u>	<u>338,188</u>	<u>342,778</u>
Operating income (loss)	14,121	(4,175)	(2,255)	-	1,445	9,136	(8,316)
<b>NONOPERATING INCOME (LOSS):</b>							
Contributions to related organizations (note N)	-	(2,254)	-	-	-	(2,254)	-
Net assets released from restrictions	875	-	-	-	-	875	-
Net realized and unrealized gain on investments	10,158	1,490	372	-	-	12,020	6,559
Gain on sale of land and buildings	5,785	3,499	-	-	-	9,284	7,162
Insurance and other recoveries	1,509	-	1,952	-	(1,535)	1,926	1,953
Settlements and related expenses	-	(1,836)	(2,600)	-	86	(4,350)	(2,400)
Pension-related credits (charges) other than periodic pension costs	586	(698)	-	-	-	(112)	(3,031)
Nonoperating income (loss)	<u>18,913</u>	<u>201</u>	<u>(276)</u>	<u>-</u>	<u>(1,449)</u>	<u>17,389</u>	<u>10,243</u>
<b>CHANGE IN NET ASSETS</b>	33,034	(3,974)	(2,531)	-	(4)	26,525	1,927
Net assets at beginning of year	426,273	29,743	3,237	29	1,906	461,188	461,761
Net asset transfers from (to) related organizations	3,030	(4,353)	-	-	-	(1,323)	(2,500)
Net assets at end of year	<u>\$ 462,337</u>	<u>\$ 21,416</u>	<u>\$ 706</u>	<u>\$ 29</u>	<u>\$ 1,902</u>	<u>\$ 486,390</u>	<u>\$ 461,188</u>

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,  
A CORPORATION SOLE**

Combining Statements of Activities - Temporarily Restricted (in thousands)

For the year ended June 30, 2011

(With summarized information for the year ended June 30, 2010)

	<u>Parishes</u>	<u>Central Operations</u>	<u>Self-Insurance</u>	<u>Endowments</u>	<u>Eliminations</u>	<u>2011 Total</u>	<u>2010 Total</u>
<b>REVENUES AND OTHER SUPPORT:</b>							
Collections	\$ -	1,635	-	-	-	\$ 1,635	\$ 1,773
Collections - clergy benefits	9,344	-	-	-	-	9,344	8,401
Catholic Appeal	-	1,054	-	-	-	1,054	5,096
Contributions and bequests	4,133	2,110	-	-	-	6,243	6,417
Parish fundraiser events	-	-	-	-	-	-	-
Tuition and fees	-	-	-	-	-	-	-
Investment income	690	109	-	744	-	1,543	1,162
Rental income	-	-	-	-	-	-	-
Cemetery operations	-	-	-	-	-	-	-
Revenue from services provided	-	-	-	-	-	-	-
Insurance revenues	-	-	-	-	-	-	-
Sacramental offerings	-	-	-	-	-	-	-
Other revenues	-	29	-	-	-	29	56
Change in interest in net assets of a foundation	165	1,215	-	-	-	1,380	921
Net assets released from restrictions	(16,362)	(8,682)	-	(711)	-	(25,755)	(25,776)
Total revenues and other support	<u>(2,030)</u>	<u>(2,530)</u>	<u>-</u>	<u>33</u>	<u>-</u>	<u>(4,527)</u>	<u>(1,950)</u>
Operating income (loss)	(2,030)	(2,530)	-	33	-	(4,527)	(1,950)
<b>NONOPERATING INCOME (LOSS):</b>							
Contributions	6,516	279	-	-	-	6,795	5,959
Net assets released from restrictions and reclassifications	(503)	-	-	-	-	(503)	-
Net realized and unrealized gain on investments	861	-	-	2,541	-	3,402	1,693
Gain on sale of land and buildings	-	-	-	-	-	-	-
Insurance and other recoveries	-	-	-	-	-	-	-
Settlements and related expenses	-	-	-	-	-	-	-
Pension-related credits (charges) other than periodic pension costs	-	-	-	-	-	-	-
Nonoperating income (loss)	<u>6,874</u>	<u>279</u>	<u>-</u>	<u>2,541</u>	<u>-</u>	<u>9,694</u>	<u>7,652</u>
<b>CHANGE IN NET ASSETS</b>	4,844	(2,251)	-	2,574	-	5,167	5,702
Net assets at beginning of year	18,458	16,965	-	1,562	-	36,985	31,283
Net asset transfers from related organizations	-	-	-	-	-	-	-
Net assets at end of year	<u>\$ 23,302</u>	<u>\$ 14,714</u>	<u>\$ -</u>	<u>\$ 4,136</u>	<u>\$ -</u>	<u>\$ 42,152</u>	<u>\$ 36,985</u>

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,  
A CORPORATION SOLE**  
Combining Statements of Activities - Permanently Restricted (in thousands)  
For the year ended June 30, 2011  
(With summarized information for the year ended June 30, 2010)

	<u>Parishes</u>	<u>Central Operations</u>	<u>Self-Insurance</u>	<u>Endowments</u>	<u>Eliminations</u>	<u>2011 Total</u>	<u>2010 Total</u>
<b>REVENUES AND OTHER SUPPORT:</b>							
Collections	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collections - clergy benefits	-	-	-	-	-	-	-
Catholic Appeal	-	-	-	-	-	-	-
Contributions and bequests	-	-	-	-	-	-	-
Parish fundraiser events	-	-	-	-	-	-	-
Tuition and fees	-	-	-	-	-	-	-
Investment income	1	-	-	-	-	1	1
Rental income	-	-	-	-	-	-	-
Cemetery operations	-	-	-	-	-	-	-
Revenue from services provided	-	-	-	-	-	-	-
Insurance revenues	-	-	-	-	-	-	-
Sacramental offerings	-	-	-	-	-	-	-
Other revenues	5	417	-	-	-	422	96
Change in interest in net assets of a foundation	9	10	-	-	-	19	231
Net assets released from restrictions	-	-	-	-	-	-	-
Total revenues and other support	<u>15</u>	<u>427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>442</u>	<u>328</u>
Operating income (loss)	15	427	-	-	-	442	328
<b>NONOPERATING INCOME:</b>							
Contributions	615	-	-	-	-	615	3,120
Net assets released from restrictions and reclassifications	(372)	-	-	-	-	(372)	-
Net realized and unrealized gain on investments	-	-	-	-	-	-	-
Gain on sale of land and buildings	-	-	-	-	-	-	-
Insurance and other recoveries	-	-	-	-	-	-	-
Settlements and related expenses	-	-	-	-	-	-	-
Pension-related credits (charges) other than periodic pension costs	-	-	-	-	-	-	-
Nonoperating income	<u>243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>243</u>	<u>3,120</u>
<b>CHANGE IN NET ASSETS</b>	<b>258</b>	<b>427</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>685</b>	<b>3,448</b>
Net assets at beginning of year	8,815	10,033	-	15,423	-	34,271	30,823
Net asset transfers from related organizations	-	-	-	-	-	-	-
Net assets at end of year	<u>\$ 9,073</u>	<u>\$ 10,460</u>	<u>\$ -</u>	<u>\$ 15,423</u>	<u>\$ -</u>	<u>\$ 34,956</u>	<u>\$ 34,271</u>