

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

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

June 30, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed further in note H, on June 30, 2007, the Corporation Sole adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)".

Grant Thornton LLP

Boston, Massachusetts
March 17, 2009

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

Statements of Financial Position

June 30, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents:		
Parish operations	\$ 63,328,020	\$ 61,480,432
Revolving loan fund	77,153,632	82,233,311
Central operations	57,235,795	34,031,780
Insurance operations	6,350,076	11,242,844
Parish reconfiguration	8,261,748	7,608,758
Total cash and cash equivalents	212,329,271	196,597,125
Interest and dividends receivable	976,976	708,724
Prepaid expenses and other assets	8,151,969	3,956,004
Accounts receivable, net	2,306,581	2,149,951
Due from related organizations	1,867,086	891,540
Contributions receivable, net	7,162,705	2,762,295
Loans receivable, net (note C)	8,662,555	5,242,138
Land and buildings held for sale (note E)	1,625,745	10,349,839
Investments (note D)	93,307,213	81,946,309
Interest in net assets of a foundation (note G)	14,422,454	12,791,523
Land, buildings and equipment, net (note E)	396,442,547	340,958,379
Total assets	<u>\$ 747,255,102</u>	<u>\$ 658,353,827</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 17,378,607	\$ 13,008,846
Agency obligations	1,380,434	830,477
Reserves for losses (note J)	13,690,682	20,797,288
Due to related organizations (note L)	52,077,601	1,797,684
Deferred revenue and support	17,960,325	18,818,731
Accrued pension and other post retirement costs (note H)	114,483,100	109,614,000
Other liabilities	3,413,487	3,222,076
Note payable - related organization (note F)	5,634,713	6,070,358
Other notes payable (note F)	1,311,955	27,516,150
Total liabilities	<u>227,330,904</u>	<u>201,675,610</u>
 NET ASSETS:		
Unrestricted	462,045,367	413,287,153
Temporarily restricted (note G)	27,673,172	19,834,860
Permanently restricted (note G)	30,205,659	23,556,204
Total net assets	<u>519,924,198</u>	<u>456,678,217</u>
Total liabilities and net assets	<u>\$ 747,255,102</u>	<u>\$ 658,353,827</u>

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

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

Statements of Activities

For the year ended June 30, 2008

(With summarized comparative information for the year ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
REVENUES AND OTHER SUPPORT:					
Collections	\$ 118,014,221	\$ 1,702,072	\$ -	\$ 119,716,293	\$ 114,029,197
Collections - clergy benefits	-	5,448,837	-	5,448,837	5,599,088
Catholic Appeal	15,669,488	-	-	15,669,488	13,592,988
Contributions, bequests and grants	16,755,217	7,832,936	3,765,777	28,353,930	16,877,109
Parish fundraiser events	22,544,928	3,353,787	-	25,898,715	26,156,677
Tuition and fees	103,924,689	-	-	103,924,689	103,342,493
Investment income	10,282,888	1,098,516	-	11,381,404	13,331,684
Rental income	11,532,636	-	-	11,532,636	10,971,551
Cemetery operations	3,667,873	-	-	3,667,873	3,914,421
Revenue from services provided (note L)	6,080,922	-	-	6,080,922	7,236,702
Insurance revenues	1,426,044	-	-	1,426,044	414,812
Sacramental offerings	5,658,617	-	-	5,658,617	5,353,487
Other revenues	22,233,471	-	-	22,233,471	25,969,953
Revenue from and change in interest in net assets of a foundation	(580,386)	762,977	1,607,743	1,790,334	1,183,551
Net assets released from restrictions and reclassifications (note G)	7,777,350	(9,053,285)	1,275,935	-	-
Total revenues and other support	344,987,958	11,145,840	6,649,455	362,783,253	347,973,713
EXPENSES:					
Program:					
Pastoral	173,055,799	-	-	173,055,799	161,736,986
Education	132,346,449	-	-	132,346,449	127,567,437
Ministerial	3,888,534	-	-	3,888,534	3,449,459
Social	1,866,540	-	-	1,866,540	2,133,763
Central and Regional services	4,268,378	-	-	4,268,378	6,309,121
Community relations	966,669	-	-	966,669	909,270
Auxiliary services	1,663,032	-	-	1,663,032	1,744,880
Cemetery	5,015,203	-	-	5,015,203	4,788,161
Total program expenses	323,070,604	-	-	323,070,604	308,639,077
Management and general	18,801,819	-	-	18,801,819	15,543,433
Fundraising	10,566,200	-	-	10,566,200	8,144,540
Parish reconfiguration (note I)	1,377,617	-	-	1,377,617	1,785,383
Total expenses	353,816,240	-	-	353,816,240	334,112,433
Operating income	(8,828,282)	11,145,840	6,649,455	8,967,013	13,861,280
NONOPERATING INCOME (LOSS):					
Contribution	-	25,750,000	-	25,750,000	-
Net assets released from restrictions	25,750,000	(25,750,000)	-	-	-
Net realized and unrealized gain (loss) on investments	(3,276,097)	(3,307,528)	-	(6,583,625)	5,951,056
Gain on sale of administrative campus property	11,737,932	-	-	11,737,932	7,865,070
Gain on sale of other land and buildings (note I)	27,579,422	-	-	27,579,422	12,241,530
Insurance and other recoveries (note J)	2,835,628	-	-	2,835,628	9,030,650
Settlement and related expenses (note J)	(3,243,917)	-	-	(3,243,917)	(1,579,582)
Pension-related changes other than periodic pension costs	(452,000)	-	-	(452,000)	-
Nonoperating income (loss)	60,930,968	(3,307,528)	-	57,623,440	33,508,724
CHANGE IN NET ASSETS BEFORE THE IMPACT OF ADOPTION OF SFAS NO. 158					
	52,102,686	7,838,312	6,649,455	66,590,453	47,370,004
Impact of adoption of SFAS No. 158 (note H)	-	-	-	-	24,292,000
CHANGE IN NET ASSETS					
	52,102,686	7,838,312	6,649,455	66,590,453	71,662,004
Net assets at beginning of year	413,287,153	19,834,860	23,556,204	456,678,217	389,269,923
Net asset transfers to related organizations (note L)	(3,344,472)	-	-	(3,344,472)	(4,253,710)
Net assets at end of year	\$ 462,045,367	\$ 27,673,172	\$ 30,205,659	\$ 519,924,198	\$ 456,678,217

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

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

Statement of Activities

For the year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT:				
Collections	\$ 112,283,468	\$ 1,745,729	\$ -	\$ 114,029,197
Collections - clergy benefits	-	5,599,088	-	5,599,088
Catholic Appeal	13,592,988	-	-	13,592,988
Contributions, bequests and grants	13,931,154	2,404,715	541,240	16,877,109
Parish fundraiser events	26,156,677	-	-	26,156,677
Tuition and fees	103,342,493	-	-	103,342,493
Investment income	12,450,243	881,441	-	13,331,684
Rental income	10,971,551	-	-	10,971,551
Cemetery operations	3,914,421	-	-	3,914,421
Revenue from services provided (note L)	7,236,702	-	-	7,236,702
Insurance fund revenues	414,812	-	-	414,812
Sacramental offerings	5,353,487	-	-	5,353,487
Other revenues	25,948,601	17,416	3,936	25,969,953
Revenue from and change in interest in net assets of a foundation	-	(42,958)	1,226,509	1,183,551
Net assets released from restrictions and reclassifications (note G)	13,012,100	(13,012,100)	-	-
Total revenues, gains and other support	348,608,697	(2,406,669)	1,771,685	347,973,713
EXPENSES:				
Program:				
Pastoral	161,736,986	-	-	161,736,986
Education	127,567,437	-	-	127,567,437
Ministerial	3,449,459	-	-	3,449,459
Social	2,133,763	-	-	2,133,763
Central and Regional services	6,309,121	-	-	6,309,121
Community relations	909,270	-	-	909,270
Auxiliary services	1,744,880	-	-	1,744,880
Cemetery	4,788,161	-	-	4,788,161
Total program expenses	308,639,077	-	-	308,639,077
Management and general	15,543,433	-	-	15,543,433
Fundraising	8,144,540	-	-	8,144,540
Parish reconfiguration (note I)	1,785,383	-	-	1,785,383
Total expenses	334,112,433	-	-	334,112,433
Operating income (loss)	14,496,264	(2,406,669)	1,771,685	13,861,280
NONOPERATING INCOME (LOSS):				
Net realized and unrealized gain on investments	4,283,168	1,667,888	-	5,951,056
Gain on sale of administrative campus property	7,865,070	-	-	7,865,070
Gain on sale of other land and buildings (note I)	12,241,530	-	-	12,241,530
Insurance and other recoveries (note J)	9,030,650	-	-	9,030,650
Settlement and related expenses (note J)	(1,579,582)	-	-	(1,579,582)
Nonoperating income	31,840,836	1,667,888	-	33,508,724
CHANGE IN NET ASSETS BEFORE THE IMPACT OF ADOPTION OF SFAS NO. 158				
	46,337,100	(738,781)	1,771,685	47,370,004
Impact of adoption of SFAS No. 158 (note H)	24,292,000	-	-	24,292,000
CHANGE IN NET ASSETS	70,629,100	(738,781)	1,771,685	71,662,004
Net assets at beginning of year	344,675,005	21,810,399	22,784,519	389,269,923
Net asset transfers to related organizations (note L)	(2,016,952)	(1,236,758)	(1,000,000)	(4,253,710)
Net assets at end of year	\$ 413,287,153	\$ 19,834,860	\$ 23,556,204	\$ 456,678,217

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

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

Statements of Cash Flows

For the years ended June 30, 2008 and 2007

	2008	2007
OPERATING ACTIVITIES:		
Change in net assets	\$ 66,590,453	\$ 71,662,004
Adjustments to reconcile the change in net assets to net cash and cash equivalents provided by operating activities:		
Net realized and unrealized loss (gain) on investments	6,583,625	(5,951,056)
Property related insurance recoveries	(1,027,215)	(7,519,237)
Depreciation	13,595,508	12,788,353
Adjustment to initially apply SFAS No. 158	-	(24,292,000)
Interest accrued on note payable - related organization	(435,645)	738,464
Gain on sale of administrative campus property	(11,737,932)	(7,865,070)
Gain on sale of other land and buildings	(27,579,422)	(12,241,530)
Provision for uncollectible accounts, contributions and loans receivable	18,627	242,178
Contributions restricted for long term purposes	(29,515,777)	(541,240)
Change in interest in net assets of a foundation	(1,630,931)	(305,255)
Changes in operating assets and liabilities:		
Cash limited as to use	-	1,069,425
Interest and dividends receivable	(268,252)	(120,314)
Prepaid expenses and other assets	(4,195,965)	(1,633,808)
Accounts receivable, net	(380,460)	(637,575)
Due from related organizations	(975,546)	-
Contributions receivable	(4,901,853)	(664,148)
Accounts payable and accrued expenses	1,253,658	2,293,105
Agency obligations	549,958	346,165
Reserves for losses	(7,106,605)	(2,673,107)
Due to related organizations	4,838,500	114,505
Deferred revenue and support	(858,406)	719,083
Accrued pension and other postretirement costs	4,869,100	878,000
Other liabilities	191,409	(145,342)
Net cash and cash equivalents provided by operating activities	<u>7,876,829</u>	<u>26,261,600</u>
INVESTING ACTIVITIES:		
Proceeds from sale of land, buildings and equipment	49,126,129	22,511,811
Property related insurance recoveries	1,027,215	7,519,237
Purchase of land, buildings and equipment	(67,248,840)	(36,160,398)
Proceeds from sale of investments and maturity of annuities	9,207,766	12,324,254
Purchase of investments	(27,152,296)	(23,437,120)
Net advances on loans	(2,713,770)	(1,060,583)
Net cash and cash equivalents used in investing activities	<u>(37,753,796)</u>	<u>(18,302,799)</u>
FINANCING ACTIVITIES:		
Advances from related organization	45,441,417	-
Repayments of other notes payable	(26,204,195)	(1,299,739)
Contributions restricted for long term purposes	29,515,777	541,240
Net cash and cash equivalents provided by (used in) financing activities	<u>48,752,999</u>	<u>(758,499)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,876,032	7,200,302
Cash and cash equivalents at beginning of year	196,597,125	192,292,620
Cash transfers to related organizations (note L)	(3,143,886)	(2,895,797)
Cash and cash equivalents at end of year	<u>\$ 212,329,271</u>	<u>\$ 196,597,125</u>

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, 2008 and 2007

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 located within the Archdiocese of Boston, the central operations (the corporate administrative activities and programs of the Corporation Sole), endowment and self-insurance.

The Archbishop of Boston, by virtue of his office, serves as chairman of the board 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, either explicit or implicit. 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. 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, 2008 and 2007

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.

Cash Equivalents

Financial instruments with original maturities of three months or less at purchase are classified as cash equivalents. Included in cash equivalents are investments in money market mutual funds and certificates of deposits of \$140.9 million and \$128.5 million at June 30, 2008 and 2007, respectively.

The Corporation Sole deposits its cash in major financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution through December 31, 2009 and \$100,000 thereafter with respect to interest bearing accounts. Unlimited deposit insurance coverage is available through December 31, 2009 for non-interest bearing accounts at institutions participating in the FDIC's temporary liquidity guarantee program. While at times, funds deposited in banks are in excess of FDIC insured limits, the Corporation Sole 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 collections. Loans receivable represent advances made to related organizations, principally Archdiocesan high schools and other Catholic 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 for monthly payments. Loans are collateralized by certain assets of the related organization being granted the loan. Interest income on performing loans is accrued at rates ranging from 5.5% to 10% 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 collectibility of the total contractual principal and interest is no longer in doubt.

Allowances for Loan Losses

The allowance for loan losses is 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 borrower, underlying collateral and current economic conditions that may affect the borrower's ability to pay. Loans are written-off in whole or in part when, in management's opinion, collectibility is considered remote. Subsequent recoveries, if any, are credited back to the allowance for loan losses.

While management uses available information to establish the allowance for loan losses, future additions or reductions to the allowance 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, 2008 and 2007

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 separate related organizations established to provide a common investment pool 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 to its members on a quarterly basis 1% of the net assets of the Fund as of the previous quarter-end. The policy of the Fixed Income Fund is to distribute all net investment income to its members on a quarterly basis on the last day of the same quarter. This dividend policy is subject to change at the discretion of the Trustee, the Roman Catholic 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.

The Common Investment Fund invests nearly all of its funds in the Collective Investment Partnership, Roman Catholic Archbishop of Boston (the "Partnership"), the underlying investments of which are primarily 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 Partnership's investments in actively traded securities is determined by State Street Corporation which obtains bid price quotations from independent pricing services on most domestic securities. Investments in traded foreign securities are valued at the mean between bid and asked prices. For those securities whose prices are not available through independent pricing services, bid price quotations are obtained by State Street Corporation from principal market makers in those securities or at fair value as determined in good faith by its management. Investment holdings of private investment entities that are not actively traded are valued by the managers of these entities.

Also included in investments are mutual funds held under split-interest agreements. The funds were received as part of charitable gift annuities with the Corporation Sole having sole investment authority and are invested in balanced mutual funds (equity and fixed-income) at June 30, 2008 and 2007.

Interest in Net Assets of a Foundation

The Corporation Sole is a designated beneficiary in certain pledges and assets held by The Catholic Foundation of the Archdiocese of Boston, Inc. ("The Catholic Foundation"), a separate related organization (see Note L).

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.

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 \$500,000 annually), general liability claims (up to \$250,000 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 to participate in its risk management program. A fee is assessed to these entities based on the type of risks shared among the related organizations. The typical risk areas that the other organizations of the Archdiocese participate in include automobile liability, physical property damage and general liability. The Corporation Sole also 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 additional carriers for its auto insurance and these carriers cover losses up to \$1 million with additional catastrophic limits.

The reserve for insurance losses is based on losses reported, historical experience and estimates of future trends in loss severity and frequency and other factors, which could vary as losses are ultimately settled. In addition, the Corporation Sole retains an actuary to perform an independent analysis of loss trends. Although the Corporation Sole's management believes that these estimates are reasonable in the circumstances, there is an absence of a significant amount of experience as to whether actual incurred losses and loss adjustment expenses will conform to the assumptions inherent in the determination of the liability. Accordingly, 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.

Clergy Misconduct Claims

The Corporation Sole estimates a reserve for settlement of reported misconduct claims and related litigation costs using 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.

Deferred Revenue and Support

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

Other Liabilities

Other liabilities represent amounts held on deposit for the benefit of other institutions, parish obligations, annuity obligations of split-interest agreements and miscellaneous other liabilities not classified elsewhere herein.

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. The Corporation Sole is not able to reasonably estimate its asset retirement obligation for numerous other long-lived assets as the range of time over which it may settle the obligation is unknown or cannot be estimated.

Included in other liabilities in the accompanying statements of financial position is \$3.1 million at June 30, 2008 and 2007, 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 administrative activities and programs of the Archdiocese.

Contributions, Bequests and Grants

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. The present value discount on these contributions is computed using a risk free interest rate applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. Unconditional promises to give are reported as contributions receivable. Conditional promises to give are not included as support until the conditions are substantially met.

Rental Income

External parties and certain related organizations are charged rent for the use of property owned and operated by the Corporation Sole.

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, tribunal services and newspaper publications.

Other Revenues

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

Future Care Funds

Under Massachusetts law, the Corporation Sole sets aside 30% of all proceeds from parish cemetery mausoleum sales into a future care fund included in permanently restricted net assets. With respect to parish cemetery plot sales, the Corporation Sole's recommended guideline is for each parish to deposit 10% of all proceeds into a future care fund included in unrestricted net assets. This guideline is voluntary and each parish establishes its own policy.

Future care funds include only such funds for cemeteries operated under the Corporation Sole and do not include the future care funds of cemeteries within the geographic territory of the Archdiocese of Boston that are owned and operated by The Catholic Cemetery Association of the Archdiocese of Boston, Inc., ("Cemetery Association"), a separate related organization.

Split-Interest Agreements

Contribution revenue derived from charitable gift annuities is determined by comparing the fair value of the assets associated with the instrument to the present value of the amounts expected to be paid to beneficiaries under the arrangement. This process requires the use of life expectancy and other assumptions in determining the amount to record. When the Corporation Sole has control over the assets associated with the gift annuity, such assets and the liability associated with obligations under the instrument are recorded on a gross basis. If third parties control the assets associated with the gift annuity, only the net amount expected to be received is recorded.

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.

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Corporation Sole is included in the United States Conference of Catholic Bishops Group Ruling and is therefore exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in these financial statements.

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 current year presentations.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair values, establishes a framework for measuring fair value, and expands the disclosure requirements about fair value measurements. In February 2008, the FASB issued Staff Position No. FAS 157-2 that defers the effective date of applying the provisions of SFAS No. 157 to the fair value measurement of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FASB Staff Position 157-3, *Determining Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FSP 157-3"). This FSP clarifies the application of SFAS No. 157 in a market that is not active and is effective immediately. The Corporation Sole is required to adopt the provisions of SFAS No. 157 that pertain to financial assets and liabilities for the year ending June 30, 2009 and is currently evaluating the effect SFAS No. 157 will have on its financial position and changes in net assets.

In August 2008, the FASB issued Staff Position 117-1 (FSP 117-1), *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for organizations located in states that adopted as law Uniform Prudent Management Institutional Funds Act (the "UPMIFA Act") (Massachusetts has currently not adopted the Act) and requires extensive new disclosures about an organization's donor-restricted and board-designated endowment funds. Massachusetts law, enacted before FSP 117-1, already requires substantially the same net asset classification and, accordingly, the Corporation Sole does not anticipate a significant change to its financial position or changes in net assets if Massachusetts adopts the UPMIFA Act.

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE C - LOANS RECEIVABLE

Loans receivable consisted of the following at June 30 and are due from various Archdiocesan related organizations (primarily Archdiocesan Central High Schools, Inc.) (\$000's):

	<u>2008</u>	<u>2007</u>
Performing loans receivable	\$ 9,151	\$ 5,953
Nonperforming loans	<u>68,695</u>	<u>69,178</u>
	77,846	75,131
Allowance for loan losses	<u>(69,183)</u>	<u>(69,889)</u>
Net loans receivable	<u>\$ 8,663</u>	<u>\$ 5,242</u>

Changes in the allowance for loan losses were as follows for the years ended June 30 (\$000's):

	<u>2008</u>	<u>2007</u>
Write-off balance at beginning of year	\$ 69,889	\$ 69,724
Write-off of uncollectible loans	(483)	(57)
Additional provision (credit) for loan losses	<u>(223)</u>	<u>222</u>
Balance at end of year	<u>\$ 69,183</u>	<u>\$ 69,889</u>

Nonperforming Loans

In prior years, the Corporation Sole issued non-interest bearing demand loans to the Archdiocesan Central High Schools, Inc. (ACHS), a related organization, to fund its operations. These loans are collateralized by the real estate of ACHS. Through June 30, 2004, ACHS' Board of Trustees governed eight Catholic high schools located within the geographic boundaries of the Archdiocese of Boston. On July 1, 2004, ACHS transferred the governance and the personal property relating to the operations of each of these schools to eight newly formed related legal entities, one for each school with each having its own board of trustees. ACHS continues to own the real estate being used by the high schools and has entered into leases that expired on June 30, 2008 at a nominal annual rental with each of the newly formed legal entities. The Corporation Sole is currently in the process of finalizing the renewal of these leases which will provide for nominal annual rents.

No payments have been made on these loans for several years and the Corporation Sole has not demanded repayment. As a result, these loans were fully reserved in prior years as their ultimate collection was judged to be remote.

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE D - INVESTMENTS

Investments consisted of the following at June 30 (\$000's):

	<u>2008</u>	<u>2007</u>
Common Investment Fund	\$ 77,396	\$ 64,205
Fixed Income Fund	2,936	3,601
Short-term investments (primarily certificates of deposit)	12,859	14,001
Assets held under split-interest agreements (mutual funds)	<u>116</u>	<u>139</u>
Total investments	<u>\$ 93,307</u>	<u>\$ 81,946</u>

NOTE E - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at June 30 (\$000's):

	<u>2008</u>	<u>2007</u>
Land and land improvements	\$ 62,568	\$ 53,121
Buildings and improvements	1,051,948	1,005,793
Furniture and equipment	67,466	78,266
Construction in progress	-	6,760
	<u>1,181,982</u>	<u>1,143,940</u>
Less accumulated depreciation	<u>(785,539)</u>	<u>(802,982)</u>
Land, buildings and equipment, net	<u>\$ 396,443</u>	<u>\$ 340,958</u>

Land and buildings held for sale totaling \$1.6 and \$10.3 million at June 30, 2008 and 2007, respectively, are carried at cost, net of accumulated depreciation, which is less than estimated net realizable value.

In November 2007, the Corporation Sole purchased a 100% membership interest in a limited liability corporation whose sole assets were land and a 150,000 square foot building located in Braintree, Massachusetts. The \$25.8 million purchase price was established by an independent appraisal of the property which allocated \$10.1 million to the value of the land and \$15.7 million to the value of the building. Subsequently, the limited liability corporation was dissolved and the assets were transferred to the Corporation Sole. A temporarily restricted donor gift funded the entire purchase price. Through June 30, 2008 the Corporation Sole invested \$4.3 million in building improvements and \$3.4 million in furniture and equipment for the use of this building as the Pastoral Center for the Archdiocese.

In connection with the sale of the Archdiocese's administrative campus in July 2007 (see note L), the Corporation Sole disposed of furniture and equipment with a cost of \$16.5 million, recognizing a loss of \$16,000 for the remaining net book value of those assets.

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE E - LAND, BUILDINGS AND EQUIPMENT - Continued

The Corporation Sole leases certain of its properties to unrelated third parties. At June 30, 2008, scheduled receipts under non-cancelable long-term rental agreements are as follows (\$000's):

Year ending <u>June 30,</u>	
2009	\$ 8,872
2010	7,003
2011	5,079
2012	4,369
2013	3,295

NOTE F - NOTES PAYABLE

Note Payable - Related Organization

In April 2005, the Corporation Sole entered into a \$4.9 million note payable to St. John's Seminary, a related organization. The loan principal, together with interest accrued from the date of the note, is to be repaid on January 1, 2011. For the period from July 1, 2005 through January 1, 2011, interest compounds on the note at a rate equivalent to the annual average total return of the Common Investment Fund, which was (6.60)% and 14.00% for the years ended June 30, 2008 and 2007, respectively. Accrued interest on this loan amounted to \$754,713 and \$1,190,358 at June 30, 2008 and 2007, respectively, and is included in the balance of this loan as presented in the accompanying statements of financial position.

Other Notes Payable

Other notes payable consist of secured amounts due to third party lenders with the following terms at June 30 (\$000's):

<u>Type - Security</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2008</u>	<u>2007</u>
Mortgage note - Central Operations	5.54%	November 1, 2022	\$ -	\$ 26,156
Mortgage note - Parish	5.75%	September 19, 2023	255	265
Mortgage note - Parish	5.75%	November 1, 2023	22	23
Mortgage note - Parish	6.37%	October 16, 2010	1,035	1,066
Auto loan - Parish	4.99%	June 16, 2008	-	6
Total other notes payable			<u>\$ 1,312</u>	<u>\$ 27,516</u>

The mortgage note - Central Operations was repaid in August 2007 from the proceeds of the sale of most of the remaining property comprising the administrative campus in Brighton (see Note L). The remaining notes are collateralized by the respective parish properties for which the proceeds were used.

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

NOTE F - NOTES PAYABLE - Continued

Scheduled principal payments on the mortgage notes as of June 30, 2008 are as follows (\$000's):

Year Ending <u>June 30</u>	
2009	\$ 45
2010	48
2011	979
2012	14
2013	15
Thereafter	<u>211</u>
	<u>\$ 1,312</u>

Interest expense and amounts paid on notes payable was \$0.3 million and \$1.6 million for the years ended June 30, 2008 and 2007, respectively.

NOTE G - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at June 30 (\$000's):

	<u>2008</u>	<u>2007</u>
Interest in net assets of a foundation - program restricted	\$ 3,527	\$ 4,031
Interest in net assets of a foundation - time restricted	914	580
Buildings and equipment	1,735	1,817
Special collections	2,641	262
Pastoral	11,178	3,894
Education	2,108	1,866
Ministerial	603	1,663
Social	1,347	565
Cemetery future care	79	593
Religious women's retirement	940	923
Other programs	<u>2,601</u>	<u>3,641</u>
Total	<u>\$ 27,673</u>	<u>\$ 19,835</u>

THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON, A CORPORATION SOLE

Notes to Financial Statements - Continued

June 30, 2008 and 2007

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

Net assets released from restrictions and reclassifications were expended for the following purposes for the years ended June 30 (\$000's):

	<u>2008</u>	<u>2007</u>
Land and buildings	\$ 25,757	\$ 8
Clergy retirement benefits	5,449	5,599
Special collections	2,539	938
Pastoral	557	532
Education	228	148
Ministerial	175	424
Other programs and reclassifications	<u>(1,178)</u>	<u>5,363</u>
Total	<u>\$ 33,527</u>	<u>\$ 13,012</u>

Permanently restricted net assets were restricted as follows at June 30 (\$000's):

	<u>2008</u>	<u>2007</u>
Interest in net assets of a foundation	\$ 9,981	\$ 8,181
Pastoral	11,744	6,992
Education	5,587	5,522
Ministerial	2,568	2,535
Social	200	200
Cemetery future care	<u>126</u>	<u>126</u>
Total	<u>\$ 30,206</u>	<u>\$ 23,556</u>

NOTE H - 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, the Roman Catholic Archdiocese of Boston Pension Plan (the "Pension Plan"). The Corporation Sole's employees represent approximately 75% 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 \$7.6 million and \$7.1 million for the years ended June 30, 2008 and 2007, respectively.

