

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

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

June 30, 2013 and 2012

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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

Grant Thornton LLP
75 State Street, 13th Floor
Boston, MA 02109-1827
T 617.723.7900
F 617.723.3640
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

We have audited the accompanying combined financial statements of The Roman Catholic Archbishop of Boston, A Corporation Sole (the "Corporation Sole"), which comprise the combined statements of financial position as of June 30, 2013 and 2012, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Corporation Sole's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Corporation Sole's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
December 27, 2013

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

Combined Statements of Financial Position (in thousands)

June 30, 2013 and 2012

| ASSETS | <u>2013</u> | <u>2012</u> |
|---|-----------------------|-----------------------|
| Cash and cash equivalents: | | |
| Parish operations | \$ 71,332 | \$ 69,273 |
| Revolving loan fund | 2,133 | 2,416 |
| Central operations | 10,869 | 14,015 |
| Insurance operations | 1,430 | 3,081 |
| Parish reconfiguration | 3,256 | 2,441 |
| Total cash and cash equivalents | <u>89,020</u> | <u>91,226</u> |
| Interest and dividends receivable, net | 1,161 | 1,208 |
| Prepaid expenses and other assets | 6,634 | 5,668 |
| Accounts receivable, net | 6,020 | 4,614 |
| Contributions receivable, net (note C) | 4,151 | 2,534 |
| Loans and notes receivable, net (note C) | 20,434 | 19,777 |
| Land and buildings held for sale (note E) | 2,301 | 2,066 |
| Investments (note D) | 158,207 | 145,793 |
| Interest in net assets of a foundation (note H) | 33,847 | 14,150 |
| Land, buildings and equipment, net (note E) | <u>482,979</u> | <u>476,906</u> |
| Total assets | <u>\$ 804,754</u> | <u>\$ 763,942</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 21,445 | \$ 20,472 |
| Agency obligations | 1,752 | 1,599 |
| Reserves for losses (note J) | 9,526 | 10,810 |
| Due to related organizations (note O) | 18,524 | 6,299 |
| Deferred revenue and support | 22,675 | 21,902 |
| Accrued pension and other post-retirement benefits (note N) | 81,799 | 93,870 |
| Other liabilities (note K) | 6,294 | 3,506 |
| Notes payable - related organization (note F) | 39,628 | 43,516 |
| Other notes payable | 141 | 266 |
| Total liabilities | <u>201,784</u> | <u>202,240</u> |
| Commitments and contingencies (note L) | | |
| NET ASSETS: | | |
| Unrestricted | 522,714 | 489,519 |
| Temporarily restricted (note G) | 43,216 | 36,675 |
| Permanently restricted (note G) | 37,040 | 35,508 |
| Total net assets | <u>602,970</u> | <u>561,702</u> |
| Total liabilities and net assets | <u>\$ 804,754</u> | <u>\$ 763,942</u> |

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

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
A CORPORATION SOLE**
Combined Statement of Activities (in thousands)
For the year ended June 30, 2013
(With summarized comparative information for the year ended June 30, 2012)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2013 Total | 2012 Total |
|--|-------------------|---------------------------|---------------------------|-------------------|-------------------|
| REVENUES AND OTHER SUPPORT: | | | | | |
| Collections | \$ 118,766 | \$ 2,107 | \$ - | \$ 120,873 | \$ 114,982 |
| Collections - clergy benefits | - | 9,307 | - | 9,307 | 10,852 |
| Catholic Appeal | 12,774 | 2,105 | - | 14,879 | 13,634 |
| Contributions and bequests | 16,906 | 7,436 | 442 | 24,784 | 26,387 |
| Parish fundraiser events, net | 13,993 | - | - | 13,993 | 14,138 |
| Tuition and fees | 108,468 | - | - | 108,468 | 105,627 |
| Investment income | 3,670 | 1,130 | 1 | 4,801 | 5,070 |
| Rental income | 14,189 | - | - | 14,189 | 13,128 |
| Cemetery operations | 4,382 | - | - | 4,382 | 4,109 |
| Revenue from services provided (note O) | 4,330 | - | - | 4,330 | 4,688 |
| Insurance premium revenue | 816 | - | - | 816 | 1,438 |
| Sacramental offerings | 6,822 | - | - | 6,822 | 6,239 |
| Other revenues | 15,928 | 36 | 111 | 16,075 | 17,599 |
| Change in interest in net assets of a foundation | - | 797 | 1,004 | 1,801 | (432) |
| Net assets released from restrictions and reclassifications (note G) | 19,773 | (19,747) | (26) | - | - |
| | <u>340,817</u> | <u>3,171</u> | <u>1,532</u> | <u>345,520</u> | <u>337,459</u> |
| Total revenues and other support | | | | | |
| EXPENSES: | | | | | |
| Program: | | | | | |
| Parish life and leadership | 169,095 | - | - | 169,095 | 169,694 |
| Catholic education | 123,025 | - | - | 123,025 | 122,269 |
| Faith formation and evangelization | 6,688 | - | - | 6,688 | 6,178 |
| Health and social services | 3,160 | - | - | 3,160 | 2,875 |
| Central and regional services | 3,521 | - | - | 3,521 | 3,337 |
| Media and public relations | 608 | - | - | 608 | 533 |
| Cemetery operations | 4,520 | - | - | 4,520 | 4,243 |
| Total program expenses | <u>310,617</u> | <u>-</u> | <u>-</u> | <u>310,617</u> | <u>309,129</u> |
| Management and general | 19,425 | - | - | 19,425 | 24,185 |
| Fundraising (note O) | 2,290 | - | - | 2,290 | 2,305 |
| Parish reconfiguration (note I) | 1,149 | - | - | 1,149 | 1,225 |
| Total expenses | <u>333,481</u> | <u>-</u> | <u>-</u> | <u>333,481</u> | <u>336,844</u> |
| | | | | | |
| Operating income | 7,336 | 3,171 | 1,532 | 12,039 | 615 |
| NONOPERATING INCOME (LOSS): | | | | | |
| Contributions | - | 7,596 | - | 7,596 | 6,470 |
| Contributions to related organizations | (49) | - | - | (49) | (49) |
| Net assets released from restrictions | 5,905 | (5,905) | - | - | - |
| Net realized and unrealized gain (loss) on investments | 6,131 | 1,679 | - | 7,810 | (3,292) |
| Gain on sale of land and buildings | 11,001 | - | - | 11,001 | 5,304 |
| Gain on settlement of note payable (note F) | 3,516 | - | - | 3,516 | - |
| Insurance and other recoveries | 1,041 | - | - | 1,041 | 2,515 |
| Settlements and related expenses | (4,351) | - | - | (4,351) | (4,276) |
| Pension-related credits (charges) other than periodic pension costs | 3,282 | - | - | 3,282 | (6,218) |
| Other nonoperating expenses | (617) | - | - | (617) | - |
| Nonoperating income | <u>25,859</u> | <u>3,370</u> | <u>-</u> | <u>29,229</u> | <u>454</u> |
| | | | | | |
| CHANGE IN NET ASSETS | 33,195 | 6,541 | 1,532 | 41,268 | 1,069 |
| Net assets at beginning of year | 489,519 | 36,675 | 35,508 | 561,702 | 563,498 |
| Net asset transfers to related organizations (note O) | - | - | - | - | (2,865) |
| | | | | | |
| Net assets at end of year | <u>\$ 522,714</u> | <u>\$ 43,216</u> | <u>\$ 37,040</u> | <u>\$ 602,970</u> | <u>\$ 561,702</u> |

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

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
A CORPORATION SOLE**
Combined Statement of Activities (in thousands)
For the year ended June 30, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2012 Total |
|--|----------------|---------------------------|---------------------------|----------------|
| REVENUES AND OTHER SUPPORT: | | | | |
| Collections | \$ 112,994 | \$ 1,988 | \$ - | \$ 114,982 |
| Collections - clergy benefits | - | 10,852 | - | 10,852 |
| Catholic Appeal | 12,443 | 1,191 | - | 13,634 |
| Contributions and bequests | 22,041 | 4,196 | 150 | 26,387 |
| Parish fundraiser events, net | 14,138 | - | - | 14,138 |
| Tuition and fees | 105,627 | - | - | 105,627 |
| Investment income | 3,764 | 1,305 | 1 | 5,070 |
| Rental income | 13,128 | - | - | 13,128 |
| Cemetery operations | 4,109 | - | - | 4,109 |
| Revenue from services provided (note O) | 4,688 | - | - | 4,688 |
| Insurance premium revenue | 1,438 | - | - | 1,438 |
| Sacramental offerings | 6,239 | - | - | 6,239 |
| Other revenues | 17,694 | 37 | (132) | 17,599 |
| Change in interest in net assets of a foundation | - | (1,207) | 775 | (432) |
| Net assets released from restrictions and reclassifications (note G) | 22,823 | (22,581) | (242) | - |
| Total revenues and other support | 341,126 | (4,219) | 552 | 337,459 |
| EXPENSES: | | | | |
| Program: | | | | |
| Parish life and leadership | 169,694 | - | - | 169,694 |
| Catholic education | 122,269 | - | - | 122,269 |
| Faith formation and evangelization | 6,178 | - | - | 6,178 |
| Health and social services | 2,875 | - | - | 2,875 |
| Central and regional services | 3,337 | - | - | 3,337 |
| Media and public relations | 533 | - | - | 533 |
| Cemetery operations | 4,243 | - | - | 4,243 |
| Total program expenses | 309,129 | - | - | 309,129 |
| Management and general | 24,185 | - | - | 24,185 |
| Fundraising (note O) | 2,305 | - | - | 2,305 |
| Parish reconfiguration (note I) | 1,225 | - | - | 1,225 |
| Total expenses | 336,844 | - | - | 336,844 |
| Operating income (loss) | 4,282 | (4,219) | 552 | 615 |
| NONOPERATING INCOME (LOSS): | | | | |
| Contributions | - | 6,470 | - | 6,470 |
| Contributions to related organizations | (49) | - | - | (49) |
| Net assets released from restrictions | 6,833 | (6,833) | - | - |
| Net realized and unrealized gain (loss) on investments | (2,397) | (895) | - | (3,292) |
| Gain on sale of land and buildings | 5,304 | - | - | 5,304 |
| Insurance and other recoveries | 2,515 | - | - | 2,515 |
| Settlements and related expenses | (4,276) | - | - | (4,276) |
| Pension-related charges other than periodic pension costs | (6,218) | - | - | (6,218) |
| Nonoperating income (loss) | 1,712 | (1,258) | - | 454 |
| CHANGE IN NET ASSETS | 5,994 | (5,477) | 552 | 1,069 |
| Net assets at beginning of year | 486,390 | 42,152 | 34,956 | 563,498 |
| Net asset transfers to related organizations (note O) | (2,865) | - | - | (2,865) |
| Net assets at end of year | \$ 489,519 | \$ 36,675 | \$ 35,508 | \$ 561,702 |

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

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

Combined Statements of Cash Flow (in thousands)

For the years ended June 30, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|------------------|------------------|
| OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 41,268 | \$ 1,069 |
| Adjustments to reconcile the change in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation | 19,040 | 18,026 |
| (Recovery of) provision for uncollectible accounts, contributions and loans receivable, note payable | (8,777) | 1,146 |
| Gain on sale of land and buildings | (11,001) | (5,304) |
| Gain on settlement of note payable | (3,516) | - |
| Net realized and unrealized loss (gain) on investments | (7,810) | 3,292 |
| Property related insurance recoveries | (863) | (1,775) |
| Contributions restricted for long term purposes | (7,596) | (6,470) |
| Change in interest in net assets of a foundation | (1,801) | 432 |
| Changes in operating assets and liabilities: | | |
| Interest and dividends receivable | 4,036 | (567) |
| Prepaid expenses and other assets | (875) | 3,599 |
| Accounts receivable | (1,470) | 514 |
| Contributions receivable | (1,732) | 438 |
| Accounts payable and accrued expenses | 1,103 | (5,896) |
| Agency obligations | 153 | (527) |
| Reserves for losses | (1,284) | 719 |
| Due to related organizations | 12,225 | 328 |
| Deferred revenue and support | 773 | 2,448 |
| Accrued pension and other postretirement costs | (12,071) | (1,874) |
| Other liabilities | 2,800 | 824 |
| Net cash and cash equivalents provided by operating activities | <u>22,602</u> | <u>10,422</u> |
| INVESTING ACTIVITIES: | | |
| Proceeds from sale of land, buildings and equipment | 12,654 | 7,942 |
| Purchase of land, buildings and equipment | (27,515) | (28,723) |
| Property related insurance recoveries | 863 | 1,775 |
| Proceeds from sale of investments and maturity of annuities | 3,401 | 14,131 |
| Purchase of investments | (25,901) | (17,870) |
| Net repayments on loans | 4,219 | 4,885 |
| Net cash and cash equivalents used in investing activities | <u>(32,279)</u> | <u>(17,860)</u> |
| FINANCING ACTIVITIES: | | |
| Repayments of other notes payable | (125) | (133) |
| Contributions restricted for long term purposes | 7,596 | 6,470 |
| Net cash and cash equivalents provided by financing activities | <u>7,471</u> | <u>6,337</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (2,206) | (1,101) |
| Cash and cash equivalents at beginning of year | 91,226 | 95,192 |
| Cash transfers to related organizations (note O) | - | (2,865) |
| Cash and cash equivalents at end of year | <u>\$ 89,020</u> | <u>\$ 91,226</u> |

Supplemental disclosure of cash flow information is included in note P

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, 2013 and 2012

(Dollars in thousands)

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 operations (the Archdiocese administrative activities and programs), endowment funds and the self-insurance program (as further described in note B.)

The Roman Catholic 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, management doesn't consider them to be 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 accounting and reporting principles applicable to not-for-profit entities.

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 and income on permanently restricted net assets is included in temporarily restricted net assets.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 asset is placed in service. Donor-restricted gifts intended for capital projects 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 and Cash Equivalents

Financial instruments with original maturities of three months or less at the purchase date are classified as cash equivalents.

The Corporation Sole deposits its cash in major financial institutions. Deposits in transaction accounts are 100% insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250 per institution. 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 to their estimated net realizable value through 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 specified assets of the related organization. Interest income on performing loans is accrued on the respective unpaid principal balance. Lending rates on new loans range from 4.5% to 5% as of June 30, 2013. Interest income is not accrued on nonperforming loans.

Loans are classified as nonperforming, and considered impaired, when they are over ninety days past due or when the payment of interest is deemed to be doubtful. 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.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 income.

While management uses available information to establish the allowances 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 as of each reporting date.

Fair Value Measurements

The Corporation Sole measures the fair values of certain 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. The 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 fair value of the Corporation Sole's investments is discussed in Note M. 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 reported 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 at 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, 2013 and 2012. Redemptions from the Fixed Income Fund are available on a daily basis and on a quarterly basis from the Common Investment Fund.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements - Continued

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 three 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, 2013 and 2012. These assets are classified as Level 3 because the 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.

Conditional Asset Retirement Obligations

Conditional asset retirement obligations are recorded at fair value 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 Corporation Sole's financial statements.

Investments

Investments are carried at fair value. Changes in fair values are reflected in the statements of activities as unrealized 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 its net assets 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 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 (note O).

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments - Continued

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 owned either directly or indirectly through mutual funds and private investment entities.

The fair value of the Fixed Income Fund’s and the 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, 2013 and 2012, 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, currency exchange 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 Community Fund of the Archdiocese of Boston, Inc. (formerly The Catholic Foundation of the Archdiocese of Boston, Inc., “The Catholic Foundation”), a related organization (see note O). The Catholic Foundation was renamed The Catholic Community Fund of the Archdiocese of Boston, Inc. (“The Catholic Community Fund”) in July 2011. The beneficial interest in The Catholic Community Fund 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 in the statements of activities.

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.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 of Boston as well as other Catholic organizations to participate in its risk management program. A premium 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 its historical settlement experience. 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 amount 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 but unpaid for tuition, fees, support for program services to be provided in future periods and other revenues received but not earned in the current fiscal year.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

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 used to present value expected future benefit payments and the 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 (loss) in the statement of activities. These provisions also require plan assets and obligations to be measured as of the 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, 2023. The Corporation Sole is not able to reasonably estimate its asset retirement obligation for periods after June 30, 2023 due to the uncertainty related to long-term renovation and demolition plans.

Included in other liabilities in the accompanying statements of financial position is \$2,900 and \$2,800 at June 30, 2013 and 2012, 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.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Catholic Appeal

The Catholic Appeal represents an annual solicitation by Boston Catholic Development Services, Inc. ("BCDS"), on behalf of Corporation Sole, through both direct mailings and Archdiocesan parishes in support of the central ministry activities and programs of the Archdiocese of Boston. BCDS was formed in July 2011 to aid, support and enhance all fundraising and development activities within the Archdiocese of Boston. The organization assumed the fundraising duties that were previously the responsibility of The Catholic Community Fund (formerly The Catholic Foundation).

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

The funds raised from the Catholic Appeal are reported on a fiscal year basis, which differs from the actual Catholic Appeal year (March through February). Consequently, the results reported include overlapping Catholic Appeal years.

Contributions

Unconditional promises to give are recognized as support 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 recognized as support until the conditions are substantially met.

Contributions receivable are reflected in the statements of financial position net of \$252 and \$228 of allowances for doubtful collections at June 30, 2013 and 2012, respectively.

Parish Fundraiser Events

Parish fundraising events are reflected in the statements of activities net of \$6,597 and \$6,485 of direct fundraising expenses for the years ended June 30, 2013 and 2012, respectively.

Tuition and Fees

Tuition and fee revenues are reported net of the discount attributable to reduction in amounts charged to students.

Tuition and fees are recognized as revenue in the period to which they relate. Student deposits and tuition paid in advance are included in deferred revenue and support in the accompanying statements of financial position.

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. Rental income is recognized on a straight-line basis.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cemetery Operations

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

Corporation Sole's policy is to set 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 earnings on the related segregated future care assets are used for the long-term care and maintenance of the Corporation Sole's 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. Such revenue is recognized when services are provided. Fees and other revenue are also generated by pastoral and ministerial workshops, retreats and tribunal services.

Other Revenues

Other revenue primarily represents income from various goods sold and services provided by the parishes and parish schools. Such revenues are recognized when the goods are sold or as services are provided.

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. The Corporation Sole follows 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, 2013 and 2012 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.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Costs have been allocated among the programs and supporting services based on an estimate of the relative effort expended for the related functions.

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.

Subsequent Events

In connection with the preparation of these financial statements, the Corporation Sole has evaluated events and transactions through December 27, 2013, which is the date these financial statements were available for issuance (see note Q.)

NOTE C – CONTRIBUTIONS, LOANS AND NOTES RECEIVABLE

Contributions receivable consisted of the following at June 30, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|-----------------|-----------------|
| Due within one year | \$ 4,403 | \$ 2,761 |
| Less: | | |
| Allowance for uncollectible pledges | <u>(252)</u> | <u>(227)</u> |
| | <u>\$ 4,151</u> | <u>\$ 2,534</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE C – LOANS AND NOTES RECEIVABLE - Continued

Loans and Notes Receivable

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

| | <u>2013</u> | <u>2012</u> |
|----------------------------|------------------|------------------|
| Loans and notes receivable | \$ 22,055 | \$ 26,273 |
| Allowance for loan losses | <u>(1,621)</u> | <u>(6,496)</u> |
| Net loans receivable, net | <u>\$ 20,434</u> | <u>\$ 19,777</u> |

Accrued interest on loans receivable is included in interest and dividends receivable on the statements of financial position.

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

| | <u>2013</u> | <u>2012</u> |
|---|-----------------|-----------------|
| Balance at beginning of year | \$ 6,496 | \$ 4,541 |
| Write-offs, reversals and recoveries, net | (4,900) | (1,173) |
| Provision for loan losses | <u>25</u> | <u>3,128</u> |
| Balance at end of year | <u>\$ 1,621</u> | <u>\$ 6,496</u> |

At June 30, 2013 and 2012, the following loan amounts were past due:

| | <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> |
|------|---------------------------|----------------------------|--------------------------|-----------------------|
| 2013 | \$ - | \$ 313 | \$ 1,914 | \$ 2,227 |
| 2012 | 43 | - | 2,317 | 2,360 |

Loans to The Fund for Catholic Schools, Inc.

The Roman Catholic Archbishop of Boston, working in coordination with a group of donors, established The Fund for Catholic Schools, Inc. ("The Fund"), to raise contributions for improvements to Catholic elementary schools within the Archdiocese of Boston. Initial borrowings by The Fund related to construction and reorganization costs totaled \$28,000. At June 30, 2013 and 2012, respectively, the Corporation Sole had \$13,468 and \$17,879 of outstanding loans to The Fund for Catholic Schools, Inc. These loans have no stated maturity date. During fiscal year 2013, the Corporation Sole resolved to forgive the outstanding and fully reserved interest balance of \$4,472. The interest rate was also modified at that time to a fixed rate of 0%. Additionally, during the fiscal year, a written pledge of \$5,000 was made to The Fund by Corporation Sole. The Fund has pledges that are expected to be collected over the next 5 years that will be used to pay down the remaining outstanding loans to the Corporation Sole.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
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Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE C – LOANS AND NOTES RECEIVABLE - Continued

Notes Receivable

In September 2011, the Corporation Sole entered into a \$1,800 note receivable with the St. Thomas Syro-Malabar Catholic Church located in Boston, which is affiliated with the St. Thomas Syro-Malabar Catholic Diocese of Chicago, in conjunction with the sale of the former St. Jeremiah parish property in Framingham. This note is non-interest bearing and payable in installments of \$180 due every five years, with the first payment becoming due on June 30, 2016.

Corporation Sole accounted for this transaction as an installment sale. The deferred revenue associated with this transaction is \$1,429 and \$1,205 at June 30, 2013 and 2012, respectively.

NOTE D - INVESTMENTS

Investments consisted of the following at June 30:

| | <u>2013</u> | <u>2012</u> |
|------------------------|-------------------|-------------------|
| Common Investment Fund | \$ 96,496 | \$ 100,901 |
| Fixed Income Fund | 47,776 | 32,193 |
| Short-term investments | 13,910 | 12,654 |
| Other investments | <u>25</u> | <u>45</u> |
| Total investments | <u>\$ 158,207</u> | <u>\$ 145,793</u> |

NOTE E - LAND, BUILDINGS AND EQUIPMENT

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

| | <u>2013</u> | <u>2012</u> |
|------------------------------------|-------------------|-------------------|
| Land and land improvements | \$ 62,538 | \$ 62,903 |
| Buildings and improvements | 1,190,137 | 1,183,737 |
| Furniture and equipment | 76,001 | 75,068 |
| Construction in progress | <u>3,859</u> | <u>2,383</u> |
| | 1,332,535 | 1,324,091 |
| Less accumulated depreciation | <u>(849,556)</u> | <u>(847,185)</u> |
| Land, buildings and equipment, net | <u>\$ 482,979</u> | <u>\$ 476,906</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE E - LAND, BUILDINGS AND EQUIPMENT – Continued

Land and buildings held for sale totaling \$2,301 and \$2,066 at June 30, 2013 and 2012, respectively, are carried at cost, net of accumulated depreciation at the date the property was classified as held for sale, 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, 2013, scheduled receipts for the next five years and thereafter under non-cancelable long-term rental agreements are as follows:

| <u>Year ending June 30,</u> | |
|---------------------------------|----------|
| 2014 | \$ 8,364 |
| 2015 | 6,775 |
| 2016 | 5,986 |
| 2017 | 4,686 |
| 2018 | 4,442 |
| Thereafter | 15,604 |

NOTE F - NOTES PAYABLE AND LINE OF CREDIT

Notes 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. During fiscal 2012, the Corporation Sole and the Seminary entered into a Memorandum of Understanding ("MOU") which outlined terms addressing the retirement of this note. In accordance with the terms of the MOU, the Corporation Sole ceased accruing interest on the note as of June 30, 2011. Accrued interest plus late fees amounted to \$2,228 at June 30, 2012 and was included in the balance of this loan as presented in the accompanying statements of financial position. This amount was settled at June 30, 2013.

In accordance with the terms of the MOU, in exchange for complete discharge of the loan obligation, the Corporation Sole agreed to canonically transfer all of its rights, title and interest in Our Lady of Presentation Church, Rectory and parking lots and the St. Gabriel rectory and school to the Seminary. The properties have a collective appraised value of approximately \$6,070 and a book value of \$566.

During the year ended June 30, 2013, Corporation Sole transferred the Our Lady of Presentation property with an appraised value of \$2,850 to the Seminary to discharge a portion of the note. In accordance with the MOU, the Seminary agreed to forgive the remaining note balance of \$1,038, which is included in gain on settlement of note payable in the statement of activities. A gain of \$2,478 was also recognized on the note retirement corresponding to the difference between the appraised value of the transferred property and the net book value of the transferred property. This is also included in gain on settlement of note payable. A note payable of \$3,220 remains at June 30, 2013. This represents the appraised value of the St. Gabriel property. The final property transfer is expected to take place in fiscal year 2014.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE F - NOTES PAYABLE AND LINE OF CREDIT - Continued

In October 2008, the Corporation Sole entered into a 10-year promissory note with the Seminary for \$36,408 in connection with 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, 2013 and 2012 is \$27,511 and \$25,651, respectively. This fair value is based on estimates using market interest rates available for similar debt with equivalent maturities and risk factors.

Line of Credit

In June, 2013, the Corporation Sole entered into an unsecured line of credit agreement with a bank, which allows for borrowings up to \$2,500 at the bank's prime rate minus 1.3%. The rate was 1.95% at June 30, 2013. There were no outstanding borrowings at June 30, 2013. The line of credit is subject to an annual review beginning on November 30, 2014 and continuing on the same date each year thereafter. Upon the annual review, the bank at its sole discretion may agree to extend the term of the line of credit or demand payment.

There were no borrowings on the line of credit during the year ended June 30, 2013.

NOTE G - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

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

| | <u>2013</u> | <u>2012</u> |
|------------------------------------|------------------|------------------|
| Buildings and equipment | \$ 10,291 | \$ 9,407 |
| Special collections | 73 | 44 |
| Parish life and leadership | 11,884 | 9,017 |
| Catholic education | 4,443 | 5,364 |
| Faith formation and evangelization | 5,989 | 5,663 |
| Health and social services | 560 | 553 |
| Central ministries | <u>9,976</u> | <u>6,627</u> |
| Total | <u>\$ 43,216</u> | <u>\$ 36,675</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

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

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

| | <u>2013</u> | <u>2012</u> |
|------------------------------------|------------------|------------------|
| Buildings and equipment | \$ 5,905 | \$ 6,833 |
| Special collections | 2,046 | 2,192 |
| Parish life and leadership | 15,384 | 15,383 |
| Catholic education | 586 | 511 |
| Faith formation and evangelization | 654 | 1,215 |
| Health and social services | 111 | 114 |
| Central ministries | <u>966</u> | <u>3,166</u> |
| Total | <u>\$ 25,652</u> | <u>\$ 29,414</u> |

Permanently restricted net assets consist of the following at June 30. Income earned on these funds is reported within temporarily restricted net assets and is available for the purposes described below:

| | <u>2013</u> | <u>2012</u> |
|------------------------------------|------------------|------------------|
| Parish life and leadership | \$ 9,734 | \$ 8,631 |
| Catholic education | 3,303 | 2,960 |
| Faith formation and evangelization | 15,842 | 15,732 |
| Health and social services | 175 | 200 |
| Central ministries | <u>7,986</u> | <u>7,985</u> |
| Total | <u>\$ 37,040</u> | <u>\$ 35,508</u> |

NOTE H - ENDOWMENTS

The Corporation Sole's endowment consists of 171 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

In accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), 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 ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE H – ENDOWMENTS – Continued

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 \$107 and \$126 as of June 30, 2013 and 2012, 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.

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 Roman Catholic Archbishop of Boston’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 Roman Catholic 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 (including unspent appreciation) 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.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE H – ENDOWMENTS - Continued

Endowment Assignment

On April 1, 2013, endowments totaling \$18,345 that were held by the Endowments fund of the Corporation Sole were assigned to The Catholic Community Fund. These funds were derived from the “Promise for Tomorrow” Campaign organized and managed by The Catholic Foundation. As a result of this assignment, the Corporation Sole’s Beneficial Interest in The Catholic Community Fund increased by \$18,345 and net assets of the Endowments fund of Corporation Sole decreased by the same amount.

Also on April 1, 2013, the remaining endowments of \$1,817 held by the Endowments fund of the Corporation Sole were internally transferred to Central Operations. Those endowments are managed under an agency agreement with The Catholic Community Fund.

Endowment net asset composition as of June 30, 2013 and 2012 is as follows:

| <u>June 30, 2013</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|------------------|
| Donor restricted endowments: | | | | |
| Endowments | \$ (107) * | \$ 2,906 | \$ 8,744 | \$ 11,543 |
| Beneficial interest in The Catholic Community Fund | - | 5,414 | 25,368 | 30,782 |
| Beneficial interest in perpetual trusts | - | - | 2,928 | 2,928 |
| | <u>\$ (107)</u> | <u>\$ 8,320</u> | <u>\$ 37,040</u> | <u>\$ 45,253</u> |
| | | | | |
| <u>June 30, 2012</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor restricted endowments: | | | | |
| Endowments | \$ (126) * | \$ 5,134 | \$ 22,909 | \$ 27,917 |
| Beneficial interest in The Catholic Community Fund | - | 1,786 | 9,782 | 11,568 |
| Beneficial interest in perpetual trusts | - | - | 2,817 | 2,817 |
| | <u>\$ (126)</u> | <u>\$ 6,920</u> | <u>\$ 35,508</u> | <u>\$ 42,302</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, 2013 and 2012

(Dollars in thousands)

NOTE H - ENDOWMENTS - Continued

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

| June 30, 2013 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| Endowment net assets, beginning of year | \$ (126) | \$ 6,920 | \$ 35,508 | \$ 42,302 |
| Contributions and bequests | - | - | 442 | 442 |
| Change in interest in net assets of a foundation | - | 40 | 1,004 | 1,044 |
| Change in beneficial interest in perpetual trusts | - | - | 111 | 111 |
| Investment return: | | | | |
| Investment income | - | 1,201 | 1 | 1,202 |
| Net appreciation | 20 | 1,707 | - | 1,727 |
| Total investment return | 20 | 2,908 | 1 | 2,929 |
| Appropriation of endowment assets for operations (draw) | (1) | (1,549) | - | (1,550) |
| Other changes: | | | | |
| Net asset reclassification | - | 1 | (26) | (25) |
| Endowment net assets, end of year | <u>\$ (107)</u> | <u>\$ 8,320</u> | <u>\$ 37,040</u> | <u>\$ 45,253</u> |
| | | | | |
| June 30, 2012 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ (87) | \$ 9,189 | \$ 34,956 | \$ 44,058 |
| Contributions and bequests | - | - | 150 | 150 |
| Change in interest in net assets of a foundation | - | (690) | 775 | 85 |
| Change in beneficial interest in perpetual trusts | - | - | (132) | (132) |
| Investment return: | | | | |
| Investment income | - | 1,025 | 1 | 1,026 |
| Net depreciation | (39) | (1,118) | - | (1,157) |
| Total investment return | (39) | (93) | 1 | (131) |
| Appropriation of endowment assets for operations (draw) | - | (992) | - | (992) |
| Other changes: | | | | |
| Net asset reclassification | - | - | (242) | (242) |
| Prior year reclassification | - | (494) | - | (494) |
| Endowment net assets, end of year | <u>\$ (126)</u> | <u>\$ 6,920</u> | <u>\$ 35,508</u> | <u>\$ 42,302</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

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. Seventy-six 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-eight suppressed parishes have been sold through June 30, 2013. Gains of \$2,159 and \$947 were recognized during the years ended June 30, 2013 and 2012, 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. Assets held for sale are recorded at the lower of cost or fair market value less estimated costs to sell.

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, 2013 and 2012, the Corporation Sole's reserve for estimated future settlements was \$4,700 and \$4,200, respectively, which is included in the reserves for losses in the accompanying statements of financial position. During the years ended June 30, 2013 and 2012, the Corporation Sole entered into settlement agreements with 17 and 31 individuals, respectively, who had brought sexual misconduct claims requiring aggregate payments of \$1,123 and \$1,971, 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, general liability claims, theft losses and sudden accidental occurrences to boilers and related equipment. At June 30, 2013 and 2012, the Corporation Sole's reserve for these self-insurance losses was \$4,826 and \$6,610, 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, 2013 and 2012

(Dollars in thousands)

NOTE K – OTHER LIABILITIES

On July 18, 2012, the Corporation Sole entered into a purchase and sale agreement relating to the sale of a chapel property in exchange for \$11,000 in cash and the construction of a replacement chapel property. The \$11,000 is to be paid in three installments of \$3,000 due in October 2012, July 2014 and July 2016 and a final installment of \$2,000 due at closing. Corporation Sole received the first installment of \$3,000 in October, 2012. This amount is included in other liabilities in the statement of financial position as of June 30, 2013. This payment is considered refundable to the purchaser subject to certain conditions if the agreement is terminated prior to closing. Closing is to occur the earlier of December 12, 2017 or within eighteen months notice from the purchaser. The purchaser has not given such notice as of June 30, 2013.

NOTE L - COMMITMENTS AND CONTINGENCIES

Construction

The Corporation Sole has commitments to fund future construction and other contracted costs in the amount of \$8,160 and \$8,606 at June 30, 2013 and 2012, 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.

Guarantees

On October 7, 2009, Matignon High School, Inc. ("Matignon"), a related organization, entered into a \$4,025 loan agreement with a bank for leasehold improvements to a building owned by the Corporation Sole and a \$200 line of credit for working capital purposes. Performance on these loan agreements is guaranteed by the Corporation Sole under a non-recourse guarantee agreement amended on June 27, 2011 and is secured by a mortgage on the Matignon real property owned by Corporation Sole. On June 27, 2011, the school entered into an additional \$1,050 loan with the bank, also guaranteed by the Corporation Sole. Performance on this loan agreement is guaranteed by Corporation Sole on a full recourse guarantee and also secured by a mortgage on the Matignon real property owned by Corporation Sole. The outstanding balances on the line of credit and loans totaled \$5,271 and \$5,187 at June 30, 2013 and 2012, respectively. The estimated fair value of the land and buildings exceeds the loan amount. Matignon is current on its debt payments. As such, the outstanding loan balances have not been recorded as a liability by Corporation Sole.

On February 11, 2010, Cathedral High School, Inc. ("Cathedral"), a related organization, entered into a \$12,000 loan agreement with a bank for leasehold improvements to a building owned by the Corporation Sole. Performance on this loan agreement is guaranteed by the Corporation Sole. The guaranty is secured by a mortgage on the Cathedral real property owned by Corporation Sole and is limited to the aforementioned land and building which it owns and leases to Cathedral. The outstanding balance on the loan was \$1,863 and \$1,877 at June 30, 2013 and 2012, respectively. The estimated fair value of the land and building exceeds the loan amount. Cathedral is current on its debt payments. As such, the outstanding loan balance has not been recorded as a liability by Corporation Sole.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE L - COMMITMENTS AND CONTINGENCIES – Continued

Guarantees - Continued

On October 22, 2010, Cardinal Spellman High School, Inc. (“Cardinal Spellman”), 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 the Corporation Sole. The guarantee is secured by a mortgage on the Cardinal Spellman real property owned by Corporation Sole and is limited to the aforementioned land and building which it owns and leases to Cardinal Spellman. The outstanding balance on the loan was \$2,999 and \$3,000 at June 30, 2013 and 2012, respectively. The estimated fair value of the land and building exceeds the loan amount. Cardinal Spellman is current on its debt payments. As such, the outstanding loan balance has not been recorded as a liability by Corporation Sole.

NOTE M - FAIR VALUE MEASUREMENTS

The Corporation Sole’s financial assets that are accounted for at fair value on a recurring basis as of June 30, 2013 and 2012, 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> | Balance as of June 30, 2013 |
|---|-----------------|-------------------|-----------------|--|
| Investment in Common Investment Fund | \$ - | \$ 96,496 | \$ - | \$ 96,496 |
| Investment in Fixed Income Fund | - | 47,776 | - | 47,776 |
| Short-term and other investments | 5,408 | 8,527 | - | 13,935 |
| Beneficial interest in perpetual trusts | - | - | 3,019 | 3,019 |
| Total | <u>\$ 5,408</u> | <u>\$ 152,799</u> | <u>\$ 3,019</u> | <u>\$ 161,226</u> |

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | Balance as of June 30, 2012 |
|---|-----------------|-------------------|-----------------|--|
| Investment in Common Investment Fund | \$ - | \$ 100,901 | \$ - | \$ 100,901 |
| Investment in Fixed Income Fund | - | 32,193 | - | 32,193 |
| Short-term and other investments | 5,272 | 7,427 | - | 12,699 |
| Beneficial interest in perpetual trusts | - | - | 2,817 | 2,817 |
| Total | <u>\$ 5,272</u> | <u>\$ 140,521</u> | <u>\$ 2,817</u> | <u>\$ 148,610</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE M - 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, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|------------------------------|-----------------|-----------------|
| Balance at beginning of year | \$ 2,817 | \$ 4,607 |
| Transfers (Distributions) | 85 | (1,793) |
| Unrealized appreciation | <u>117</u> | <u>3</u> |
| Balance at end of year | <u>\$ 3,019</u> | <u>\$ 2,817</u> |

Corporation Sole recognizes transfers between fair value hierarchy levels at the measurement date. There were no transfers between levels within the fair value during the year.

NOTE N - BENEFIT PLANS

Lay Employee Pension Plan

The Corporation Sole is a participant with other related Archdiocesan organizations in a pension plan covering substantially all lay employees, the Roman Catholic Archdiocese of Boston Pension Plan (the "Pension Plan"), that has been characterized for financial accounting purposes as a multiemployer pension plan, a noncontributory benefit plan established by the Corporation Sole. The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating entity stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.
- If an entity petitions to stop participating in the multiemployer plan, the entity may be required to pay the plan a withdrawal liability based on the funded status of the plan.

These aspects of multiemployer plan participation are consistent with the manner of administration of the Pension Plan. These aspects are not required by law but are part of the Pension Plan's administrative practices. Neither the financial accounting treatment of the Pension Plan, nor its administrative practices, nor this footnote shall be deemed a representation that the Pension Plan is subject to any laws that require the multiemployer attributes that are set forth above.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS - Continued

Lay Employee Pension Plan - Continued

The Pension Plan is designed to provide retirement benefits for eligible lay employees of Corporation Sole and participating related Archdiocesan organizations. Effective December 31, 2011, per a vote of the Pension Plan Trustees, the Pension Plan was amended to freeze the accrual of additional benefits. Under the provision of the amendment, employees hired after December 1, 2010, are not eligible to become participants in the Pension Plan. Employees with five or more years of service as of December 31, 2011 remain 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.

The Corporation Sole's retirement plan expense is equal to the required annual contributions to the Pension Plan, which is calculated based upon actuarially determined methods. Amounts charged to pension costs for the years ended June 30, 2013 and 2012 totaled \$4,903 and \$5,975, respectively, and are included in the accompanying combined statements of activities. Required annual contributions represent greater than five percent of total net contributions to the Pension Plan.

The following table discloses the name and funded status of the Pension Plan as of June 30, 2013 (the date of the latest actuarial valuation), inclusive of the fair value of plan assets as of June 30, 2013:

| <u>Legal Name and Plan Number</u> | <u>Plan EIN</u> | <u>Actuarial Present Value of Accumulated Plan Benefits</u> | <u>Fair Value of Plan Assets</u> | <u>Total Net Contributions</u> | <u>Funded Status</u> |
|--|-----------------|---|--|------------------------------------|--------------------------|
| Roman Catholic Archdiocese of Boston Pension Plan, Number 001 | 04-2777359 | \$ 256,195 | \$ 213,670 | 7,899 | Greater than 80% |

The Corporation Sole reserves the right to discontinue contributions at any time and terminate the Pension Plan. In the event of termination and discontinuance, the assets of the Pension Plan remaining after paying all administrative expenses of the Pension Plan will be allocated in accordance with the terms of the Roman Catholic Archdiocese of Boston Pension Plan for the purpose of paying benefits provided under the Pension Plan.

The accumulated benefit obligation net of the plan assets of the Pension Plan are not reflected in the accompanying statements of financial position.

Lay Employee 401(k) Plan

On January 1, 2012, the Corporation Sole created a new 401(k) defined contribution plan (the "Plan"). The Corporation Sole participates with other related Archdiocesan organizations in this new plan, which is administered by TIAA-CREF. Eligible employees may elect to make retirement savings contributions to the Plan, which were matched by the Corporation Sole up to 2% of employee compensation for the period ended June 30, 2013 and 2012. Employee benefit costs associated with this Plan amounted to \$2,127 and \$733 for the years ended June 30, 2013 and 2012, respectively.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
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Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS - Continued

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 60% 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 \$18,101 and \$17,650 for the years ended June 30, 2013 and 2012, respectively.

At June 30, 2013, the audited financial statements of the Health Plan reflected \$2,836 in health and dental benefit obligations and \$18,230 in net assets available for benefits. At June 30, 2012, the audited financial statements of the Health Plan reflected approximately \$2,948 in health and dental benefit obligations and \$20,115 in net assets available for benefits.

Clergy Health and Retirement Plans

Archdiocese of Boston Clergy Funds

Benefits for priests who are in good standing within the norms of Canon Law ("Eligible Priests") are provided benefits through the Archdiocese of Boston Clergy Funds (the "Clergy Funds"), which represents collectively all trusts, as they may exist from time to time, that provide for the health, welfare, disability, and retirement of Eligible Priests. The Clergy Funds include the Archdiocese of Boston Clergy Benefit Funding Trust (the "Funding Trust"), the Archdiocese of Boston Clergy Retirement Trust (the "Retirement Trust"), and the Archdiocese of Boston 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).

The Archbishop of Boston, by virtue of his office, is responsible for providing for health, welfare, disability and retirement for Eligible Priests. He appoints the Board of Trustees of the Clergy Funds, but does not serve as a Trustee.

The Board of Trustees assists the Archbishop of Boston in his responsibilities to Eligible Priests by administering the Clergy Funds. The Trustees are authorized and empowered to manage the assets of and benefits provided by the Clergy Funds as deemed necessary.

The Archbishop of Boston has elected to fulfill his obligation to Eligible Priests by offering a single-employer, noncontributory, defined benefit retirement and disability plan through the Corporation Sole. 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 and the obligation is reflected in the administrative leave obligation.

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 ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
A CORPORATION SOLE**

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS – Continued

Archdiocese of Boston Clergy Funds - Continued

The Clergy Funds primary source of funding benefits is 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.

Reserve for Health Insurance Claims

At June 30, 2013 and 2012, the audited financial statements of the Clergy Funds reflected \$487 and \$568, respectively, of health and dental benefit obligations.

The reserve for health insurance claims consists 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.

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. Any non-incardinated priest receiving a pension or entitled to receive a pension from the Roman Catholic Archdiocese of Boston will be paid under the terms of the Non-Incardinated Trust documents dated April 14, 1992 and frozen, effective July 1, 2010. Non-incardinated priests that begin service in the Roman Catholic Archdiocese of Boston after July 1, 2010 or did not have a minimum of ten years service in the Roman Catholic Archdiocese of Boston at that time shall not be entitled to a pension for the years he is present or assigned. Rather, his own superior must make suitable provision for his pension under the terms of the frozen plan.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS - Continued

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, 2013 | | | | | |
|---|----------------------------------|-----------------|-----------------|------------------|-----------------|-------------------|
| | Pension Benefits | | | Other Benefits | | Total |
| | Clergy Funds | Non- | | Clergy Funds | Admin Leave | |
| Incardinated Trust | | Admin Leave | | | | |
| Change in benefit obligation: | | | | | | |
| Benefit obligation at beginning of year | \$ 77,973 | \$ 992 | \$ 5,829 | \$ 41,852 | \$ 2,957 | \$ 129,603 |
| Service cost | 1,193 | 39 | - | 1,032 | - | 2,264 |
| Interest cost | 3,416 | 44 | 247 | 2,012 | 136 | 5,855 |
| Plan amendment | (2,000) | - | - | - | - | (2,000) |
| Actuarial (gain) loss | (2,374) | 389 | 712 | (6,999) | 12 | (8,260) |
| Benefits and other expenses paid | (4,295) | (135) | (1,054) | (1,417) | (313) | (7,214) |
| Benefit obligation at end of year | \$ <u>73,913</u> | \$ <u>1,329</u> | \$ <u>5,734</u> | \$ <u>36,480</u> | \$ <u>2,792</u> | \$ <u>120,248</u> |

| | For the year ended June 30, 2012 | | | | | |
|---|----------------------------------|----------------|-----------------|------------------|-----------------|-------------------|
| | Pension Benefits | | | Other Benefits | | Total |
| | Clergy Funds | Non- | | Clergy Funds | Admin Leave | |
| Incardinated Trust | | Admin Leave | | | | |
| Change in benefit obligation: | | | | | | |
| Benefit obligation at beginning of year | \$ 75,709 | \$ 960 | \$ 5,962 | \$ 44,363 | \$ 2,821 | \$ 129,815 |
| Service cost | 1,010 | 35 | - | 1,003 | - | 2,048 |
| Interest cost | 3,889 | 50 | 296 | 2,513 | 153 | 6,901 |
| Actuarial (gain) loss | 3,721 | 53 | 776 | (4,318) | 390 | 622 |
| Benefits and other expenses paid | (6,356) | (106) | (1,205) | (1,709) | (407) | (9,783) |
| Benefit obligation at end of year | \$ <u>77,973</u> | \$ <u>992</u> | \$ <u>5,829</u> | \$ <u>41,852</u> | \$ <u>2,957</u> | \$ <u>129,603</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS – Continued

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

| | Pension Benefits | | Other Benefits | |
|---|-------------------------|-------------|-----------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 4.90% | 4.50% | 5.25% | 4.80% |
| 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 | 7.50% | 8.00% |
| Rate to which the cost trend rate is assumed to decline (ultimate trend rate) | N/A | N/A | 4.50% | 4.50% |
| Year that the rate reaches the ultimate trend rate | N/A | N/A | 2021 | 2021 |

Plan Assets

| | For the year ended June 30, 2013 | | | | | Total |
|---|---|-------------------------------|--------------------|-----------------------|--------------------|------------------|
| | Pension Benefits | | | Other Benefits | | |
| | Clergy Funds | Non-Incardinated Trust | Admin Leave | Clergy Funds | Admin Leave | |
| Change in Plan assets: | | | | | | |
| Fair value of Plan assets at beginning of year | \$ 35,447 | \$ 858 | \$ - | \$ - | \$ - | \$ 36,305 |
| Actual return on Plan assets, net of administrative expense | (823) | (6) | - | - | - | (829) |
| Employer contributions | 7,891 | - | 1,054 | 1,416 | 313 | 10,674 |
| Benefits and other expenses paid | (4,296) | (135) | (1,054) | (1,416) | (313) | (7,214) |
| Fair value of Plan assets at end of year | <u>\$ 38,219</u> | <u>\$ 717</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 38,936</u> |

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
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Notes to Financial Statements - Continued

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(Dollars in thousands)

NOTE N - BENEFIT PLANS – Continued

| | For the year ended June 30, 2012 | | | | | |
|---|----------------------------------|----------------------|----------------|----------------|--------------|------------------|
| | Pension Benefits | | | Other Benefits | | Total |
| | Clergy Funds | Non-Incarnated Trust | Admin Leave | Clergy Funds | Admin Leave | |
| Change in Plan assets: | | | | | | |
| Fair value of Plan assets at beginning of year | \$ 33,686 | \$ 969 | \$ - | \$ - | \$ - | \$ 34,655 |
| Actual return on Plan assets, net of administrative expense | (1,026) | (5) | - | - | - | (1,031) |
| Employer contributions | 9,143 | - | 1,205 | 1,709 | 407 | 12,464 |
| Benefits and other expenses paid | <u>(6,356)</u> | <u>(106)</u> | <u>(1,205)</u> | <u>(1,709)</u> | <u>(407)</u> | <u>(9,783)</u> |
| Fair value of Plan assets at end of year | <u>\$ 35,447</u> | <u>\$ 858</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,305</u> |

The asset allocation for the Clergy Funds at the end of 2013 and 2012, and the target allocation for 2013, by asset category, are as follows:

| | Target | Actual | |
|---------------------------|-------------|-----------------------------------|-----------------------------------|
| | 2013 | % of Plan Assets at Year End 2013 | % of Plan Assets at Year End 2012 |
| Equity securities | 0.0% | 0.0% | 0.0% |
| Debt securities | 52.3% | 39.2% | 28.5% |
| Real estate* | 27.4% | 27.4% | 29.6% |
| Cash and cash equivalents | 20.3% | 33.4% | 41.9% |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS - Continued

The Clergy Funds short term bond mutual fund of \$9,875 and \$10,094 is classified as level 1 in the fair value hierarchy at June 30, 2013 and 2012, respectively. The Clergy Funds target retirement mutual fund of \$5,088 is classified as level 1 in the fair value hierarchy at June 30, 2013. This is the first year of the retirement mutual fund investment. The Clergy Funds certificates of deposit of \$6,003 at June 30, 2012 were classified as level 2 in the fair value hierarchy. 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 2013 was 100% in cash and cash equivalents and the actual allocation at June 30, 2013 was 100% in cash and cash equivalents. Certificates of deposit of \$703 as of June 30, 2013 are accounted for as a level 2 in the fair value hierarchy at June 30, 2013.

Reconciliation of Funded Status

| | As of June 30, 2013 | | | | | |
|----------------------------|----------------------------|------------------------------|------------------------|-------------------------|------------------------|--------------------|
| | Pension Benefits | | | Other Benefits | | |
| | <u>Clergy Funds</u> | <u>Non- Incardinated</u> | <u>Admin Leave</u> | <u>Clergy Funds</u> | <u>Admin Leave</u> | <u>Total</u> |
| Fair value of plan assets | \$ 38,219 | \$ 717 | \$ - | \$ - | \$ - | \$ 38,936 |
| Benefit obligation | <u>(73,913)</u> | <u>(1,329)</u> | <u>(5,734)</u> | <u>(36,967)</u> | <u>(2,792)</u> | <u>(120,735)</u> |
| Funded status - obligation | <u>\$ (35,694)</u> | <u>\$ (612)</u> | <u>\$ (5,734)</u> | <u>\$ (36,967)</u> | <u>\$ (2,792)</u> | <u>\$ (81,799)</u> |

| | As of June 30, 2012 | | | | | |
|----------------------------|----------------------------|------------------------------|------------------------|-------------------------|------------------------|--------------------|
| | Pension Benefits | | | Other Benefits | | |
| | <u>Clergy Funds</u> | <u>Non- Incardinated</u> | <u>Admin Leave</u> | <u>Clergy Funds</u> | <u>Admin Leave</u> | <u>Total</u> |
| Fair value of plan assets | \$ 35,447 | \$ 858 | \$ - | \$ - | \$ - | \$ 36,305 |
| Benefit obligation | <u>(77,973)</u> | <u>(992)</u> | <u>(5,829)</u> | <u>(42,420)</u> | <u>(2,957)</u> | <u>(130,171)</u> |
| Funded status - obligation | <u>\$ (42,526)</u> | <u>\$ (134)</u> | <u>\$ (5,829)</u> | <u>\$ (42,420)</u> | <u>\$ (2,957)</u> | <u>\$ (93,866)</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS – Continued

Components of Net Periodic Pension Cost

| | For the year ended June 30, 2013 | | | | | |
|--|---|--|------------------------|-------------------------|------------------------|-----------------|
| | Pension Benefits | | | Other Benefits | | Total |
| | Clergy Funds | Non- Incardinated Trust | Admin Leave | Clergy Funds | Admin Leave | |
| Service cost for benefits earned during the period | \$ 1,193 | \$ 39 | \$ - | \$ 1,032 | \$ - | \$ 2,264 |
| Interest cost on projected benefit obligation | 3,416 | 44 | 247 | 2,012 | 136 | 5,855 |
| Expected return on Plan assets | (2,093) | (8) | - | - | - | (2,101) |
| Net amortization and deferral | <u>(3,321)</u> | <u>77</u> | <u>121</u> | <u>(1,088)</u> | <u>82</u> | <u>(4,129)</u> |
| Net periodic pension cost | \$ <u>(805)</u> | \$ <u>152</u> | \$ <u>368</u> | \$ <u>1,956</u> | \$ <u>218</u> | \$ <u>1,889</u> |

| | For the year ended June 30, 2012 | | | | | |
|--|---|--|------------------------|-------------------------|------------------------|-----------------|
| | Pension Benefits | | | Other Benefits | | Total |
| | Clergy Funds | Non- Incardinated Trust | Admin Leave | Clergy Funds | Admin Leave | |
| Service cost for benefits earned during the period | \$ 1,010 | \$ 35 | \$ - | \$ 1,003 | \$ - | \$ 2,048 |
| Interest cost on projected benefit obligation | 3,889 | 50 | 296 | 2,513 | 153 | 6,901 |
| Expected return on Plan assets | (1,976) | (59) | - | - | - | (2,035) |
| Net amortization and deferral | <u>(1,838)</u> | <u>12</u> | <u>55</u> | <u>(816)</u> | <u>50</u> | <u>(2,537)</u> |
| Net periodic pension cost | \$ <u>1,085</u> | \$ <u>38</u> | \$ <u>351</u> | \$ <u>2,700</u> | \$ <u>203</u> | \$ <u>4,377</u> |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS - Continued

Accumulated Amounts Charged (Credited) to Unrestricted Net Assets

| | As of June 30, 2013 | | | | | |
|-----------------------------|---------------------|-------------------------------|-----------------|--------------------|-----------------|--------------------|
| | Pension Benefits | | | Other Benefits | | |
| | Clergy Funds | Non- Incardinated Trust | Admin Leave | Clergy Funds | Admin Leave | Total |
| Net actuarial loss (gain) | \$ (8,238) | \$ 563 | \$ 2,622 | \$ (19,965) | \$ 1,204 | \$ (23,814) |
| Prior service cost (credit) | (12,639) | - | - | (3,215) | - | (15,854) |
| Total | \$ (20,877) | \$ 563 | \$ 2,622 | \$ (23,180) | \$ 1,204 | \$ (39,668) |

| | As of June 30, 2012 | | | | | |
|-----------------------------|---------------------|-------------------------------|-----------------|--------------------|-----------------|--------------------|
| | Pension Benefits | | | Other Benefits | | |
| | Clergy Funds | Non- Incardinated Trust | Admin Leave | Clergy Funds | Admin Leave | Total |
| Net actuarial loss (gain) | \$ (8,853) | \$ 237 | \$ 2,031 | \$ (13,625) | \$ 1,274 | \$ (18,936) |
| Prior service cost (credit) | (13,886) | - | - | (3,644) | - | (17,530) |
| Total | \$ (22,739) | \$ 237 | \$ 2,031 | \$ (17,269) | \$ 1,274 | \$ (36,466) |

During the year ending June 30, 2014, \$3,247 of the accumulated amounts credited to non-operating income will be amortized into operating expenses.

The weighted average assumptions used to determine the Clergy Funds benefit plan costs were as follows:

| | Pension Benefits | | Other Benefits | |
|---|------------------|-------|----------------|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 4.50% | 5.30% | 4.80% | 4.80% |
| Rate of compensation increase | N/A | N/A | N/A | N/A |
| 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 | 7.5% | 8.0% |
| Rate to which the cost trend rate is assumed to decline (ultimate trend rate) | N/A | N/A | 4.5% | 4.5% |
| Year that the rate reaches the ultimate trend rate | N/A | N/A | 2021 | 2021 |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE N - BENEFIT PLANS - Continued

The weighted average assumptions used to determine the Administrative Leave and Non-Incardinated Trusts benefit plans costs were as follows:

| | Pension Benefits | | Other Benefits | |
|---|-------------------------|-------------|-----------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 4.50% | 5.30% | 4.80% | 5.65% |
| Rate of compensation increase | N/A | N/A | N/A | N/A |
| Expected return on plan assets | 1.00% | 6.50% | N/A | N/A |
| Health care cost trend rate assumed for next year | N/A | N/A | 7.5% | 8.0% |
| Rate to which the cost trend rate is assumed to decline (ultimate trend rate) | N/A | N/A | 4.5% | 4.5% |
| Year that the rate reaches the ultimate trend rate | N/A | N/A | 2021 | 2021 |

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:

| | Other Benefits One Percentage Point Increase | | Other Benefits One Percentage Point Decrease | |
|-------------------------------------|---|-------------|---|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Effect on service and interest cost | \$ 477 | \$ 551 | \$ (352) | \$ (439) |
| Effect on benefit obligation | 4,889 | 5,884 | (4,045) | (4,844) |

To determine the expected long-term rate of return on plan assets, 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

| Years ending June 30 | Clergy Funds Pension Benefits | Clergy Funds Other Benefits | Non- Incardinated Pension Benefits | Admin Leave Pension Benefits | Admin Leave Other Benefits | Total |
|---------------------------------|--|--|---|---|---|--------------|
| 2014 | \$ 6,422 | \$ 1,503 | \$ 146 | \$ 666 | \$ 231 | \$ 8,968 |
| 2015 | 6,522 | 1,679 | 143 | 635 | 225 | 9,204 |
| 2016 | 6,462 | 1,821 | 136 | 603 | 225 | 9,247 |
| 2017 | 6,376 | 1,945 | 127 | 571 | 231 | 9,250 |
| 2018 | 6,231 | 2,052 | 118 | 538 | 224 | 9,163 |
| 2019 - 2023 | 28,834 | 11,348 | 514 | 2,196 | 1,073 | 43,965 |

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE O - RELATED PARTY TRANSACTIONS

Revenue from Service Provided

The Corporation Sole provides administrative, accounting, technology and clerical services to related Catholic organizations. Fees charged for providing these services were \$4,330 and \$4,688 during the years ended June 30, 2013 and 2012, respectively. The revenue from these services is included in revenue from services provided in the accompanying statements of activities.

Boston Catholic Development Services

The Corporation Sole utilizes BCDS to provide all centralized fundraising services, including the annual Catholic Appeal, planned giving and other fundraising activities. Amounts paid for these services amounted to \$2,290 and \$2,305 for the years ended June 30, 2013 and 2012, respectively.

Net Assets Transferred To Related Organizations

During the year ended June 30, 2012, \$2,865 of cash was transferred to various related organizations. These were reflected as net asset transfers in the statement of activities, as follows:

On August 5, 2011, \$1,196 was transferred to Quincy Catholic Academy (QCA), a related organization, to support the operational and capital needs of QCA.

On August 29, 2011, \$350 was paid to a construction contractor on behalf of Pope John Paul II Academy (PJPII), a related organization, to assist PJPII with final payments to that contractor.

On January 11, 2012, \$614 was transferred to the Roman Catholic Archdiocese of Boston Pension Plan on behalf of the Catholic Charitable Bureau of the Archdiocese of Boston, Inc., a related organization.

On June 14, 2012, \$165 was paid to a construction contractor on behalf of Trinity Catholic Academy Brockton, Inc. (TCA), a related organization, to assist TCA with payments to that contractor.

During the year ended June 30, 2012, \$540 was transferred to iCatholic Media, Inc., a related organization, to assist in sustaining the work of the Digital Media Group.

Endowment Assignment

On April 1, 2013, endowments totaling \$18,345 that were held by the Endowments fund of the Corporation Sole were assigned to The Catholic Community Fund (as previously discussed in note H). As a result of this assignment, the Corporation Sole's Beneficial Interest in The Catholic Community Fund increased by \$18,345 and net assets of the Endowments fund of Corporation Sole decreased by the same amount. Also on April 1, 2013, the remaining endowments of \$1,817 held by the Endowments fund of the Corporation Sole were internally transferred to Central Operations and managed under an agency agreement with the Catholic Community Fund.

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

Notes to Financial Statements - Continued

June 30, 2013 and 2012

(Dollars in thousands)

NOTE O – RELATED PARTY TRANSACTIONS - Continued

Pledge to Fund for Catholic Schools, Inc.

On April 29, 2013, a written pledge of \$5,000 was made to The Fund for Catholic Schools, Inc. by Corporation Sole. The pledge is recorded as a liability and included in due to related organizations.

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, 2013 and 2012, this foundation awarded \$3,250 and \$2,769 in inner city scholarships and support to elementary schools that are operated by the Corporation Sole's parishes.

NOTE P – SUPPLEMENTAL CASH FLOW INFORMATION

Noncash items within the cash flow include:

| | <u>2013</u> | <u>2012</u> |
|--|-----------------|-----------------|
| Purchases of land, buildings and equipment in accounts payable | \$ 142 | \$ 2,559 |
| St. Thomas Syro-Malabar note payable received through property sale (note C) | - | 1,800 |
| Settlement of St. John's Seminary note through property transfer (note F) | 2,850 | - |
| Pledge to The Fund for Catholic Schools, Inc. (note C) | 5,000 | - |
| | <u>\$ 7,992</u> | <u>\$ 4,359</u> |

NOTE Q – SUBSEQUENT EVENTS

On September 20, 2013, Archbishop Williams High School, Inc., a related organization, entered into a \$6,500 loan agreement with a bank. From the loan proceeds, \$3,800 was used to pay off prior indebtedness, including \$3,246 on a loan balance due to the Corporation Sole. The remaining proceeds are to be used for leasehold improvements to a building owned by the Corporation Sole. Performance on this loan agreement is secured by a mortgage granted by Corporation Sole in the aforementioned land and building, which it owns and leases to Archbishop Williams High School, Inc. The estimated fair value of the land and building exceeds the loan amount.

SUPPLEMENTAL COMBINING INFORMATION



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

Grant Thornton LLP
75 State Street, 13th Floor
Boston, MA 02109-1827
T 617.723.7900
F 617.723.3640
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the American Institute of Certified Public Accountants the combined financial statements of The Roman Catholic Archbishop of Boston, A Corporation Sole ("the Corporation Sole") as of and for the years ended June 30, 2013 and 2012, and our report dated December 27, 2013 expressed an unqualified opinion on those combined financial statements. Our audits were performed for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with US GAAS. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Grant Thornton LLP

Boston, Massachusetts
December 27, 2013

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

Combining Statement of Financial Position (in thousands)

June 30, 2013

(With summarized information as of June 30, 2012)

| | Parishes | Central Operations | Self-Insurance | Eliminations | 2013 Total | 2012 Total |
|--|------------|-----------------------|----------------|--------------|---------------|---------------|
| ASSETS | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Parish operations | \$ 71,332 | \$ - | \$ - | \$ - | \$ 71,332 | \$ 69,273 |
| Revolving loan fund | 2,133 | - | - | - | 2,133 | 2,416 |
| Central operations | - | 10,869 | - | - | 10,869 | 14,015 |
| Insurance operations | - | - | 1,430 | - | 1,430 | 3,081 |
| Parish reconfiguration | - | 3,256 | - | - | 3,256 | 2,441 |
| Deposits with the Revolving Loan Fund | - | 4,823 | - | (4,823) | - | - |
| Total cash and cash equivalents | 73,465 | 18,948 | 1,430 | (4,823) | 89,020 | 91,226 |
| Interest and dividends receivable | 1,000 | 148 | 13 | - | 1,161 | 1,208 |
| Prepaid expenses and other assets | 2,137 | 3,158 | 1,339 | - | 6,634 | 5,668 |
| Accounts receivable, net | 4,735 | 1,279 | 88 | (82) | 6,020 | 4,614 |
| Contributions receivable, net | 1,738 | 2,413 | - | - | 4,151 | 2,534 |
| Loans and notes receivable, net | 18,631 | 1,802 | 3 | (2) | 20,434 | 19,777 |
| Land and buildings held for sale | 1,386 | 915 | - | - | 2,301 | 2,066 |
| Investments | 141,941 | 15,012 | 1,254 | - | 158,207 | 145,793 |
| Interest in net assets of a foundation | 3,291 | 30,556 | - | - | 33,847 | 14,150 |
| Land, buildings and equipment, net | 440,165 | 42,814 | - | - | 482,979 | 476,906 |
| Total assets | \$ 688,489 | \$ 117,045 | \$ 4,127 | \$ (4,907) | \$ 804,754 | \$ 763,942 |
| LIABILITIES AND NET ASSETS | | | | | | |
| LIABILITIES: | | | | | | |
| Accounts payable and accrued expenses | \$ 16,194 | \$ 4,987 | \$ 567 | \$ (303) | \$ 21,445 | \$ 20,472 |
| Agency obligations | 1,098 | 654 | - | - | 1,752 | 1,599 |
| Reserves for losses | - | 4,700 | 4,826 | - | 9,526 | 10,810 |
| Due to related organizations | 19,619 | 2,752 | 814 | (4,661) | 18,524 | 6,299 |
| Deferred revenue and support | 20,095 | 2,580 | - | - | 22,675 | 21,902 |
| Accrued pension and other post retirement benefits | 73,273 | 8,526 | - | - | 81,799 | 93,870 |
| Other liabilities | 3,081 | 3,213 | - | - | 6,294 | 3,506 |
| Note payable - related organization | - | 39,628 | - | - | 39,628 | 43,516 |
| Other notes payable | 141 | - | - | - | 141 | 266 |
| Total liabilities | 133,501 | 67,040 | 6,207 | (4,964) | 201,784 | 202,240 |
| NET ASSETS: | | | | | | |
| Unrestricted | 518,826 | 5,911 | (2,080) | 57 | 522,714 | 489,519 |
| Temporarily restricted | 25,426 | 17,790 | - | - | 43,216 | 36,675 |
| Permanently restricted | 10,736 | 26,304 | - | - | 37,040 | 35,508 |
| Total net assets | 554,988 | 50,005 | (2,080) | 57 | 602,970 | 561,702 |
| Total liabilities and net assets | \$ 688,489 | \$ 117,045 | \$ 4,127 | \$ (4,907) | \$ 804,754 | \$ 763,942 |

See accompanying report on supplemental information.

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

Combining Statement of Activities (in thousands)

For the year ended June 30, 2013

(With summarized information for the year ended June 30, 2012)

| | Parishes | Central Operations | Self-Insurance | Endowments | Eliminations | 2013 Total | 2012 Total |
|--|-------------------|-----------------------|-------------------|--------------|-----------------|-------------------|-------------------|
| REVENUES AND OTHER SUPPORT: | | | | | | | |
| Collections | \$ 118,710 | \$ 2,257 | \$ - | \$ - | \$ (94) | \$ 120,873 | \$ 114,982 |
| Collections - clergy benefits | 9,307 | - | - | - | - | 9,307 | 10,852 |
| Catholic Appeal | - | 14,879 | - | - | - | 14,879 | 13,634 |
| Contributions and bequests | 22,450 | 3,580 | - | - | (1,246) | 24,784 | 26,387 |
| Parish fundraiser events, net | 13,993 | - | - | - | - | 13,993 | 14,138 |
| Tuition and fees | 108,115 | 353 | - | - | - | 108,468 | 105,627 |
| Investment income | 3,463 | 1,378 | 65 | 565 | (670) | 4,801 | 5,070 |
| Rental income | 14,031 | 158 | - | - | - | 14,189 | 13,128 |
| Cemetery operations | 4,382 | - | - | - | - | 4,382 | 4,109 |
| Revenue from services provided | - | 9,200 | - | - | (4,870) | 4,330 | 4,688 |
| Insurance premium revenue | - | - | 4,159 | - | (3,343) | 816 | 1,438 |
| Sacramental offerings | 6,822 | - | - | - | - | 6,822 | 6,239 |
| Other revenues | 16,746 | 502 | - | - | (1,173) | 16,075 | 17,599 |
| Revenue from and change in interest in net assets of a foundation | 1,194 | 607 | - | - | - | 1,801 | (432) |
| Net assets released from restrictions and reclassifications | - | - | - | - | - | - | - |
| Total revenues and other support | <u>319,213</u> | <u>32,914</u> | <u>4,224</u> | <u>565</u> | <u>(11,396)</u> | <u>345,520</u> | <u>337,459</u> |
| EXPENSES: | | | | | | | |
| Program: | | | | | | | |
| Parish life and leadership | 173,847 | 2,444 | - | 92 | (7,288) | 169,095 | 169,694 |
| Catholic education | 121,550 | 1,759 | - | 36 | (320) | 123,025 | 122,269 |
| Faith formation and evangelization | - | 6,510 | - | 609 | (431) | 6,688 | 6,178 |
| Health and social services | 2,155 | 958 | - | 47 | - | 3,160 | 2,875 |
| Central and regional services | - | 3,655 | - | - | (134) | 3,521 | 3,337 |
| Media and public relations | - | 608 | - | - | - | 608 | 533 |
| Cemetery operations | 4,518 | - | - | 2 | - | 4,520 | 4,243 |
| Total program expenses | <u>302,070</u> | <u>15,934</u> | <u>-</u> | <u>786</u> | <u>(8,173)</u> | <u>310,617</u> | <u>309,129</u> |
| Management and general | (3,628) | 22,539 | 4,687 | - | (4,173) | 19,425 | 24,185 |
| Fundraising | - | 2,290 | - | - | - | 2,290 | 2,305 |
| Parish reconfiguration | - | 1,254 | - | - | (105) | 1,149 | 1,225 |
| Total expenses | <u>298,442</u> | <u>42,017</u> | <u>4,687</u> | <u>786</u> | <u>(12,451)</u> | <u>333,481</u> | <u>336,844</u> |
| Operating income (loss) | 20,771 | (9,103) | (463) | (221) | 1,055 | 12,039 | 615 |
| NONOPERATING INCOME (LOSS): | | | | | | | |
| Contributions | 7,596 | - | - | - | - | 7,596 | 6,470 |
| Contributions to related organizations | - | (49) | - | - | - | (49) | (49) |
| Net assets released from restrictions | - | - | - | - | - | - | - |
| Net realized and unrealized gain (loss) on investments | 4,998 | 828 | 271 | 1,713 | - | 7,810 | (3,292) |
| Gain on sale of other land and buildings | 8,332 | 2,669 | - | - | - | 11,001 | 5,304 |
| Gain on settlement of note payable | - | 3,516 | - | - | - | 3,516 | - |
| Insurance and other recoveries | 1,109 | - | 1,041 | - | (1,109) | 1,041 | 2,515 |
| Settlements and related expenses | - | (1,864) | (2,570) | - | 83 | (4,351) | (4,276) |
| Pension-related credits (charges) other than periodic pension costs | 3,803 | (521) | - | - | - | 3,282 | (6,218) |
| Other nonoperating expenses | - | (617) | - | - | - | (617) | - |
| Nonoperating income (loss) | <u>25,838</u> | <u>3,962</u> | <u>(1,258)</u> | <u>1,713</u> | <u>(1,026)</u> | <u>29,229</u> | <u>454</u> |
| CHANGE IN NET ASSETS | 46,609 | (5,141) | (1,721) | 1,492 | 29 | 41,268 | 1,069 |
| Net assets at beginning of year | 508,379 | 34,984 | (359) | 18,670 | 28 | 561,702 | 563,498 |
| Net asset transfers | - | 20,162 | - | (20,162) | - | - | (2,865) |
| Net assets at end of year | <u>\$ 554,988</u> | <u>\$ 50,005</u> | <u>\$ (2,080)</u> | <u>\$ -</u> | <u>\$ 57</u> | <u>\$ 602,970</u> | <u>\$ 561,702</u> |

See accompanying report on supplemental information.

Note: This schedule does not include net asset classifications. See pages 47 - 49.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
A CORPORATION SOLE**
Combining Statement of Activities - Unrestricted (in thousands)
For the year ended June 30, 2013
(With summarized information for the year ended June 30, 2012)

| | Parishes | Central Operations | Self-Insurance | Endowments | Eliminations | 2013 Total | 2012 Total |
|---|-------------------|-----------------------|-------------------|-------------|-----------------|-------------------|-------------------|
| REVENUES AND OTHER SUPPORT: | | | | | | | |
| Collections | \$ 118,710 | \$ 150 | \$ - | \$ - | \$ (94) | \$ 118,766 | \$ 112,994 |
| Catholic Appeal | - | 12,774 | - | - | - | 12,774 | 12,443 |
| Contributions and bequests | 14,877 | 3,275 | - | - | (1,246) | 16,906 | 22,041 |
| Parish fundraiser events, net | 13,993 | - | - | - | - | 13,993 | 14,138 |
| Tuition and fees | 108,115 | 353 | - | - | - | 108,468 | 105,627 |
| Investment income | 3,003 | 1,272 | 65 | - | (670) | 3,670 | 3,764 |
| Rental income | 14,031 | 158 | - | - | - | 14,189 | 13,128 |
| Cemetery operations | 4,382 | - | - | - | - | 4,382 | 4,109 |
| Revenue from services provided | - | 9,200 | - | - | (4,870) | 4,330 | 4,688 |
| Insurance premium revenue | - | - | 4,159 | - | (3,343) | 816 | 1,438 |
| Sacramental offerings | 6,822 | - | - | - | - | 6,822 | 6,239 |
| Other revenues | 16,726 | 375 | - | - | (1,173) | 15,928 | 17,694 |
| Change in interest in net assets of a foundation | - | - | - | - | - | - | - |
| Net assets released from restrictions and reclassifications | 15,765 | 3,223 | - | 785 | - | 19,773 | 22,823 |
| Total revenues and other support | <u>316,424</u> | <u>30,780</u> | <u>4,224</u> | <u>785</u> | <u>(11,396)</u> | <u>340,817</u> | <u>341,126</u> |
| EXPENSES: | | | | | | | |
| Program: | | | | | | | |
| Parish life and leadership | 173,847 | 2,444 | - | 92 | (7,288) | 169,095 | 169,694 |
| Catholic education | 121,550 | 1,759 | - | 36 | (320) | 123,025 | 122,269 |
| Faith formation and evangelization | - | 6,510 | - | 609 | (431) | 6,688 | 6,178 |
| Health and social services | 2,155 | 958 | - | 47 | - | 3,160 | 2,875 |
| Central and regional services | - | 3,655 | - | - | (134) | 3,521 | 3,337 |
| Media and public relations | - | 608 | - | - | - | 608 | 533 |
| Cemetery operations | 4,518 | - | - | 2 | - | 4,520 | 4,243 |
| Total program expenses | <u>302,070</u> | <u>15,934</u> | <u>-</u> | <u>786</u> | <u>(8,173)</u> | <u>310,617</u> | <u>309,129</u> |
| Management and general | (3,628) | 22,539 | 4,687 | - | (4,173) | 19,425 | 24,185 |
| Fundraising | - | 2,290 | - | - | - | 2,290 | 2,305 |
| Parish reconfiguration | - | 1,254 | - | - | (105) | 1,149 | 1,225 |
| Total expenses | <u>298,442</u> | <u>42,017</u> | <u>4,687</u> | <u>786</u> | <u>(12,451)</u> | <u>333,481</u> | <u>336,844</u> |
| Operating income (loss) | 17,982 | (11,237) | (463) | (1) | 1,055 | 7,336 | 4,282 |
| NONOPERATING INCOME (LOSS): | | | | | | | |
| Contributions to related organizations | - | (49) | - | - | - | (49) | (49) |
| Net assets released from restrictions | 5,905 | - | - | - | - | 5,905 | 6,833 |
| Net realized and unrealized gain (loss) on investments | 4,998 | 862 | 271 | - | - | 6,131 | (2,397) |
| Gain on sale of land and buildings | 8,332 | 2,669 | - | - | - | 11,001 | 5,304 |
| Gain on settlement of note payable | - | 3,516 | - | - | - | 3,516 | - |
| Insurance and other recoveries | 1,109 | - | 1,041 | - | (1,109) | 1,041 | 2,515 |
| Settlements and related expenses | - | (1,864) | (2,570) | - | 83 | (4,351) | (4,276) |
| Pension-related credits (charges) other than periodic pension costs | 3,803 | (521) | - | - | - | 3,282 | (6,218) |
| Other nonoperating expenses | - | (617) | - | - | - | (617) | - |
| Nonoperating income (loss) | <u>24,147</u> | <u>3,996</u> | <u>(1,258)</u> | <u>-</u> | <u>(1,026)</u> | <u>25,859</u> | <u>1,712</u> |
| CHANGE IN NET ASSETS | 42,129 | (7,241) | (1,721) | (1) | 29 | 33,195 | 5,994 |
| Net assets at beginning of year | 476,697 | 13,124 | (359) | 29 | 28 | 489,519 | 486,390 |
| Net asset transfers | - | 28 | - | (28) | - | - | (2,865) |
| Net assets at end of year | <u>\$ 518,826</u> | <u>\$ 5,911</u> | <u>\$ (2,080)</u> | <u>\$ -</u> | <u>\$ 57</u> | <u>\$ 522,714</u> | <u>\$ 489,519</u> |

See accompanying report on supplemental information.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
A CORPORATION SOLE**
Combining Statement of Activities - Temporarily Restricted (in thousands)
For the year ended June 30, 2013
(With summarized information for the year ended June 30, 2012)

| | <u>Parishes</u> | <u>Central Operations</u> | <u>Self-Insurance</u> | <u>Endowments</u> | <u>Eliminations</u> | <u>2013 Total</u> | <u>2012 Total</u> |
|---|------------------|-------------------------------|-----------------------|-------------------|---------------------|-----------------------|-----------------------|
| REVENUES AND OTHER SUPPORT: | | | | | | | |
| Collections | \$ - | \$ 2,107 | \$ - | \$ - | \$ - | \$ 2,107 | \$ 1,988 |
| Collections - clergy benefits | 9,307 | - | - | - | - | 9,307 | 10,852 |
| Catholic Appeal | - | 2,105 | - | - | - | 2,105 | 1,191 |
| Contributions and bequests | 7,131 | 305 | - | - | - | 7,436 | 4,196 |
| Parish fundraiser events, net | - | - | - | - | - | - | - |
| Tuition and fees | - | - | - | - | - | - | - |
| Investment income | 459 | 106 | - | 565 | - | 1,130 | 1,305 |
| Rental income | - | - | - | - | - | - | - |
| Cemetery operations | - | - | - | - | - | - | - |
| Revenue from services provided | - | - | - | - | - | - | - |
| Insurance premium revenue | - | - | - | - | - | - | - |
| Sacramental offerings | - | - | - | - | - | - | - |
| Other revenues | 20 | 16 | - | - | - | 36 | 37 |
| Change in interest in net assets of a foundation | 191 | 606 | - | - | - | 797 | (1,207) |
| Net assets released from restrictions and reclassifications | (15,764) | (3,198) | - | (785) | - | (19,747) | (22,581) |
| Total revenues and other support | <u>1,344</u> | <u>2,047</u> | <u>-</u> | <u>(220)</u> | <u>-</u> | <u>3,171</u> | <u>(4,219)</u> |
| Operating income (loss) | 1,344 | 2,047 | - | (220) | - | 3,171 | (4,219) |
| NONOPERATING INCOME (LOSS): | | | | | | | |
| Contributions | 7,596 | - | - | - | - | 7,596 | 6,470 |
| Net assets released from restrictions and reclassifications | (5,905) | - | - | - | - | (5,905) | (6,833) |
| Net realized and unrealized gain (loss) on investments | - | (34) | - | 1,713 | - | 1,679 | (895) |
| 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>1,691</u> | <u>(34)</u> | <u>-</u> | <u>1,713</u> | <u>-</u> | <u>3,370</u> | <u>(1,258)</u> |
| CHANGE IN NET ASSETS | 3,035 | 2,013 | - | 1,493 | - | 6,541 | (5,477) |
| Net assets at beginning of year | 22,391 | 11,066 | - | 3,218 | - | 36,675 | 42,152 |
| Net asset transfers | - | 4,711 | - | (4,711) | - | - | - |
| Net assets at end of year | <u>\$ 25,426</u> | <u>\$ 17,790</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 43,216</u> | <u>\$ 36,675</u> |

See accompanying report on supplemental information.

**THE ROMAN CATHOLIC ARCHBISHOP OF BOSTON,
A CORPORATION SOLE**
Combining Statement of Activities - Permanently Restricted (in thousands)
For the year ended June 30, 2013
(With summarized information for the year ended June 30, 2012)

| | Parishes | Central Operations | Self-Insurance | Endowments | Eliminations | 2013 Total | 2012 Total |
|---|------------------|-----------------------|----------------|-----------------|--------------|------------------|------------------|
| REVENUES AND OTHER SUPPORT: | | | | | | | |
| Collections | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | - |
| Collections - clergy benefits | - | - | - | - | - | - | - |
| Catholic Appeal | - | - | - | - | - | - | - |
| Contributions and bequests | 442 | - | - | - | - | 442 | 150 |
| Parish fundraiser events, net | - | - | - | - | - | - | - |
| Tuition and fees | - | - | - | - | - | - | - |
| Investment income | 1 | - | - | - | - | 1 | 1 |
| Rental income | - | - | - | - | - | - | - |
| Cemetery operations | - | - | - | - | - | - | - |
| Revenue from services provided | - | - | - | - | - | - | - |
| Insurance premium revenue | - | - | - | - | - | - | - |
| Sacramental offerings | - | - | - | - | - | - | - |
| Other revenues | - | 111 | - | - | - | 111 | (132) |
| Change in interest in net assets of a foundation | 1,003 | 1 | - | - | - | 1,004 | 775 |
| Net assets released from restrictions and reclassifications | (1) | (25) | - | - | - | (26) | (242) |
| Total revenues and other support | <u>1,445</u> | <u>87</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,532</u> | <u>552</u> |
| Operating income | 1,445 | 87 | - | - | - | 1,532 | 552 |
| NONOPERATING INCOME: | | | | | | | |
| Contributions | - | - | - | - | - | - | - |
| Net assets released from restrictions and reclassifications | - | - | - | - | - | - | - |
| 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>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| CHANGE IN NET ASSETS | 1,445 | 87 | - | - | - | 1,532 | 552 |
| Net assets at beginning of year | 9,291 | 10,794 | - | 15,423 | - | 35,508 | 34,956 |
| Net asset transfers | <u>-</u> | <u>15,423</u> | <u>-</u> | <u>(15,423)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net assets at end of year | <u>\$ 10,736</u> | <u>\$ 26,304</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 37,040</u> | <u>\$ 35,508</u> |

See accompanying report on supplemental information.