

**Audited
Financial Statements**

**Archdiocese of Boston
Clergy Retirement/
Disability Plan**

June 30, 2006

Archdiocese of Boston Clergy Retirement/Disability Plan

Audited Financial Statements

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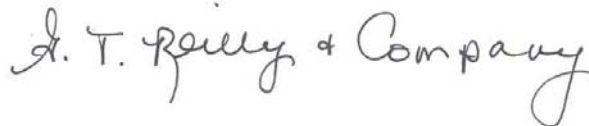
INDEPENDENT AUDITORS' REPORT

To the Trustee
Archdiocese of Boston Clergy Retirement/Disability Plan

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits and benefit obligations of the Archdiocese of Boston Clergy Retirement/Disability Plan as of June 30, 2006 and 2005, and the related statements of changes in net assets available for benefits and of accumulated plan benefits and benefit obligations for each of the three years in the period ended June 30, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Archdiocese of Boston Clergy Retirement/Disability Plan as of June 30, 2006 and 2005, and the changes in its financial status for each of the three years in the period ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.



G. T. Reilly & Company

Milton, Massachusetts
October 5, 2006

Archdiocese of Boston Clergy Retirement/Disability Plan

Statements of Net Assets Available for Benefits

June 30

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Investments, at fair value (Note 3)		
RCAB Collective		
Investment Partnership	\$43,151,704	\$49,266,279
Cash and cash equivalents	1,256,611	2,269,070
Property leased to Regina Cleri, Incorporated, net (Notes 4 & 7)	15,392,293	14,888,465
Prepaid expenses	<u>252,473</u>	<u>0</u>
TOTAL ASSETS	<u>60,053,081</u>	<u>66,423,814</u>
<u>Liabilities</u>		
Accounts payable and accrued expenses	46,423	364,131
Deferred lease income (Note 7)	<u>4,497,390</u>	<u>4,702,865</u>
TOTAL LIABILITIES	<u>4,543,813</u>	<u>5,066,996</u>
<u>Net Assets</u>		
Net assets available for benefits	<u>\$55,509,268</u>	<u>\$61,356,818</u>

Archdiocese of Boston Clergy Retirement/Disability Plan

Statements of Changes in Net Assets Available for Benefits

Year Ended June 30

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ADDITIONS			
Investment Income (Note 3):			
Interest (Note 7)	\$ 61,730	\$ 31,832	\$ 98,378
Net realized & unrealized gains on investments	3,885,425	3,343,251	3,536,759
Interest, fees & other remuneration, Corporation			
Sole loan (Note 7)	0	0	4,445,726
Gain on sale of property (Note 4)	<u>0</u>	<u>0</u>	<u>758,073</u>
	<u>3,947,155</u>	<u>3,375,083</u>	<u>8,838,936</u>
Other Income:			
Gifts, bequests and contributions	1,425,698	6,000	325,603
Collections from parishes	58,112	4,914,104	5,063,794
Rental income (Note 7)	500,000	500,000	500,000
Miscellaneous	<u>0</u>	<u>0</u>	<u>2,050</u>
	<u>1,983,810</u>	<u>5,420,104</u>	<u>5,891,447</u>
TOTAL ADDITIONS	<u>5,930,965</u>	<u>8,795,187</u>	<u>14,730,383</u>
DEDUCTIONS			
Health insurance	1,763,125	1,719,250	1,625,594
Room and board	5,052,769	5,416,133	4,787,341
Retirement benefits	3,783,668	3,673,288	3,439,010
Disability benefits	284,673	230,433	260,480
Support to Benefit Trust for Non-Incardinated Priests Duly			
Assigned for Service in the Archdiocese of Boston	0	0	75,000
Support to Regina Cleri Incorporated	0	0	46,821
Professional and service fees (Note 7)	327,927	339,895	177,762
Interest expense (Note 7)	294,525	307,391	319,112
Depreciation expense (Note 4)	263,781	265,968	282,546
Miscellaneous	<u>8,047</u>	<u>7,923</u>	<u>8,845</u>
TOTAL DEDUCTIONS	<u>11,778,515</u>	<u>11,960,281</u>	<u>11,022,511</u>
NET (DECREASE) INCREASE	(5,847,550)	(3,165,094)	3,707,872
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	<u>61,356,818</u>	<u>64,521,912</u>	<u>60,814,040</u>
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	<u>\$55,509,268</u>	<u>\$61,356,818</u>	<u>\$64,521,912</u>

Archdiocese of Boston Clergy Retirement/Disability Plan

Statements of Accumulated Plan Benefits and Benefit Obligations

Year Ended June 30

	<u>2006</u>	<u>2005</u>
ACTUARIAL PRESENT VALUE OF ACCUMULATED PENSION PLAN BENEFITS (Note 2)		
Retired and disabled participants currently receiving pension payments	\$ 67,491,802	\$ 69,061,362
Other participants	<u>53,801,644</u>	<u>64,392,727</u>
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED PENSION PLAN BENEFITS	<u>121,293,446</u>	<u>133,454,089</u>
ACTUARIAL PRESENT VALUE OF OTHER POST-RETIREMENT BENEFIT OBLIGATIONS (Note 2)		
Retired and disabled participants currently receiving health, dental and subsistence benefits	22,926,342	22,715,796
Other participants	<u>21,545,601</u>	<u>16,392,565</u>
TOTAL ACTUARIAL PRESENT VALUE OF OTHER POST-RETIREMENT BENEFIT OBLIGATIONS	<u>44,471,943</u>	<u>39,108,361</u>
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED PENSION PLAN BENEFITS AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS	<u>\$165,765,389</u>	<u>\$172,562,450</u>

Archdiocese of Boston Clergy Retirement/Disability Plan

Statements of Changes in Accumulated Plan Benefits and Benefit Obligations

Year Ended June 30

	<u>2006</u>	<u>2005</u>	<u>2004</u>
CHANGES IN ACCUMULATED PENSION PLAN BENEFITS			
ACTUARIAL PRESENT VALUE OF ACCUMULATED PENSION PLAN BENEFITS AT BEGINNING OF YEAR	<u>\$133,454,089</u>	<u>\$128,215,541</u>	<u>\$127,762,204</u>
INCREASE (DECREASE) DURING THE YEAR ATTRIBUTABLE TO:			
Benefits accumulated	(11,513,795)	5,743,324	414,842
Increase for interest due to the decrease in the discount period (Note 2)	8,474,262	8,775,739	8,647,147
Benefits paid	(9,121,110)	(9,319,854)	(8,608,652)
Changes in assumptions (Note 1)	<u>0</u>	<u>39,339</u>	<u>0</u>
Net increase (decrease)	<u>(12,160,643)</u>	<u>5,238,548</u>	<u>453,337</u>
ACTUARIAL PRESENT VALUE OF ACCUMULATED PENSION PLAN BENEFITS AT END OF YEAR	<u>\$121,293,446</u>	<u>\$133,454,089</u>	<u>\$128,215,541</u>
CHANGES IN OTHER POST-RETIREMENT BENEFIT OBLIGATIONS			
ACTUARIAL PRESENT VALUE OF OTHER POST-RETIREMENT BENEFIT OBLIGATIONS AT BEGINNING OF YEAR	<u>\$ 39,108,361</u>	<u>\$ 35,221,399</u>	<u>\$ 44,489,531</u>
INCREASE DURING THE YEAR ATTRIBUTABLE TO			
Benefits accumulated	10,822,084	(4,291,929)	(10,750,977)
Increase for interest due to the decrease in the discount period (Note 2)	2,522,323	2,447,151	3,108,439
Benefits paid	(1,763,125)	(1,719,250)	(1,625,594)
Changes in assumptions (Note 1)		7,450,990	0
Change in plan provisions	<u>(6,217,700)</u>	<u>0</u>	<u>0</u>
Net increase (decrease)	<u>5,363,582</u>	<u>3,886,962</u>	<u>(9,268,132)</u>
ACTUARIAL PRESENT VALUE OF OTHER POST-RETIREMENT BENEFIT OBLIGATIONS AT END OF YEAR	<u>\$ 44,471,943</u>	<u>\$ 39,108,361</u>	<u>\$ 35,221,399</u>

Archdiocese of Boston Clergy Retirement/Disability Plan

Notes to Financial Statements

June 30, 2006

Note 1 - Description of Plan

The following brief description of the Archdiocese of Boston Clergy Retirement/Disability Plan ("the Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General Description of Eligibility - The Plan is a noncontributory defined benefit pension plan covering priests incardinated in the Roman Catholic Archdiocese of Boston who are in good standing with the norms of canon law. Established on July 1, 1974, the Plan provides benefits for general, early, disability and postponed retirement. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Pension Benefits - The monthly retirement pension available to a priest who retires at the general retirement age of 70 ranges from \$564 to \$973, depending upon his assigned residence. The monthly benefit available to a priest who retires at the general retirement age or is permanently disabled and living on his own is \$1,889. The monthly retirement pension payable to a retired priest while residing in a nursing home or assisted-living facility is \$564 to \$744. A priest who has attained at least age 65 may, with the permission of the Roman Catholic Archbishop of Boston, retire and receive an early retirement pension. A disability retirement pension is paid to a priest who is totally and permanently disabled, with the monthly benefit equal to his general retirement pension.

It is the Plan's intention to provide funds in amounts sufficient to fund annually the Plan's normal cost.

Other Post-Retirement Benefits – Other post-retirement benefits include future benefits expected to be paid to or for currently retired clergy and active clergy after retirement from service consist of health, dental and subsistence benefits.

Change in Assumptions - During fiscal 2005, the expected return on assets was reduced to 6.5% from 7%, the 3% cost of living adjustment was eliminated, the actuary updated the mortality table to the RP 2000 table from the 1983 Group Annuity Table, and certain healthcare cost trends were reduced from 9% to 8.5% in 2005 and from 8.5% to 8% in 2006. The effects of the changes in assumptions are reflected in the accompanying financial statements for the year June 30, 2005.

Change in Plan Provisions - Effective January 1, 2006, the Plan discontinued reimbursement to senior priests for the Medicare Part B monthly premiums.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed by the Plan are described below:

Accounting 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 and disclosures of assets, liabilities, benefit obligations and changes therein. Actual results could differ from those estimates.

Cash and Cash Equivalents – The Plan deposits its cash in major financial institutions, which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. At times, such cash is in excess of FDIC insured limits. At June 30, 2006, the excess approximated \$553,100 based on bank balances. The Plan has not experienced any losses as a result of the use of uninsured amounts.

Archdiocese of Boston Clergy Retirement/Disability Plan

Notes to Financial Statements (Cont.)

June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Cont.)

Cash equivalents consist of investments in uninsured money market mutual funds approximating \$779,000 at June 30, 2006.

Valuation of Investments - Investments are stated at fair value, based on the latest quoted market prices as of the financial statement date. Realized and unrealized gains and losses on investments are reflected in the statement of changes in net assets.

Property Leased to Regina Cleri, Incorporated - Land and buildings purchased from and leased back to Regina Cleri, Incorporated, a related organization, in the year 2000, are stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets by using straight-line methods. The estimated useful lives of the buildings for the computation of depreciation are 40 years.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting.

Securities Transactions and Investment Income - Securities transactions are recorded on a settlement date basis. Interest income is recorded on the accrual basis.

Actuarial Present Value of Accumulated Pension Plan Benefits - Accumulated pension plan benefits are those future periodic payments that are expected to be paid under the Plan's provisions to retired and active priests.

The actuarial present value of accumulated pension plan benefits is determined by an actuary, and is that amount that results from applying actuarial assumptions to adjust the accumulated pension plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Investment Return	6.5%	6.5%
Mortality Before & After Retirement	RP 2000 Combined Healthy No Collar Projection 2020 Mortality Table.	RP 2000 Combined Healthy No Collar Projection 2020 Mortality Table.
Retirement Age	72	72
Asset Valuation	Market value.	Market value.
Retirement Benefit	\$1,206 average per month at June 30, 2006	\$1,160 average per month at June 30, 2005
Cost of Living Adjustment	None assumed	None assumed
Salary Increases	None assumed	None assumed

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated pension plan benefits.

Archdiocese of Boston Clergy Retirement/Disability Plan

Notes to Financial Statements (Cont.)

June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Cont.)

Actuarial Present Value of Other Post-Retirement Obligations

Other post-retirement benefit obligations represent the actuarial present value of those estimated future health, dental and subsistence benefits that are attributed to clergy service rendered to the financial statement date.

Prior to an active clergy's full eligibility date, the post-retirement benefit obligation is the portion of the expected post-retirement benefit obligation that is attributed to that clergy's service rendered to the valuation date.

The actuarial present value of the expected post-retirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006 (8.5% in 2005); the rate was assumed to decrease gradually to 5.0% for 2012 and to remain at that level thereafter.

The following were other significant assumptions used in the valuation as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Investment Return	6.5%	6.5%
Retirement age	72	72
Mortality	RP 2000 Combined Healthy No Collar Projection 2020 Mortality Table for 2005.	RP 2000 Combined Healthy No Collar Projection 2020 Mortality Table for 2005.

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of other post-retirement benefit obligations.

Note 3 - Investments

Investments consist of the following at June 30:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
At quoted market price:				
RCAB:				
Collective Investment Partnership	<u>\$31,794,644</u>	<u>\$43,151,704</u>	<u>\$39,384,646</u>	<u>\$49,266,279</u>

Archdiocese of Boston Clergy Retirement/Disability Plan

Notes to Financial Statements (Cont.)

June 30, 2006

Note 3 - Investments (Cont.)

During the reporting periods, the Plan's investments (including investments bought, sold as well as held during the years) appreciated in value as follows as determined by quoted market price:

	Year Ended June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
RCAB			
Collective Investment Partnership	<u>\$3,885,425</u>	<u>\$3,343,251</u>	<u>\$3,536,759</u>

RCAB Collective Investment Partnership is an investment fund whose assets consist primarily of equity and fixed-income securities. The Plan is a partner in this partnership, along with other partners who are related organizations within the Archdiocese of Boston.

Note 4 – Property

Property consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
Land	\$ 4,036,578	\$ 4,036,578
Land improvements	529,925	0
Buildings	10,464,324	10,464,324
Building improvements, including construction-in-progress of \$1,852,335 in 2006 and \$1,614,651 in 2005	<u>1,939,835</u>	<u>1,702,151</u>
	16,970,662	16,203,053
Less accumulated provisions for depreciation	<u>1,578,369</u>	<u>1,314,588</u>
	<u>\$15,392,293</u>	<u>\$14,888,465</u>

Depreciation expense for the years ended June 30, 2006, 2005 and 2004 was \$263,781, \$265,968 and \$282,546, respectively.

At June 30, 2006, property consists of a retirement home for retired priests located in Boston, Massachusetts, which is leased to and operated by Regina Cleri, Incorporated (Note 7). A retreat house on Cape Cod, Massachusetts, which was for use of the residents of Regina Cleri, Incorporated, was sold in September of 2003 for \$2,550,000, resulting in a gain of approximately \$758,000 to the Plan in fiscal 2004.

As of June 30, 2005, the Plan had entered into various contracts relating to construction-in-process totaling approximately \$1,680,000. At June 30, 2005, the Plan had incurred and capitalized approximately \$1,443,000 under these contracts, with the remaining commitment of approximately \$237,000 completed and capitalized during 2006.

Archdiocese of Boston Clergy Retirement/Disability Plan

Notes to Financial Statements (Cont.)

June 30, 2006

Note 5 – Financial Status of Plan

A summary of the financial status of the Plan is as follows at June 30:

	<u>2006</u>	<u>2005</u>
Actuarial Present Value of:		
Accumulated Retirement Pension Benefits	\$121,293,446	\$133,454,089
Post-Retirement Medical Benefits	<u>44,471,943</u>	<u>39,108,361</u>
	<u>165,765,389</u>	172,562,450
 Net Assets Available for Benefits	 <u>55,509,268</u>	 <u>61,356,818</u>
 Excess of Actuarial Present Value of Accumulated Pension Plan Benefits and Other Post-Retirement Benefits Over Net Assets Available for Benefits	 <u>\$110,256,121</u>	 <u>\$111,205,632</u>

Note 6 - Plan Termination

Although it has not expressed any intention to do so, the Trustees may completely or partially amend or terminate the Plan at any time after consulting the Trustee's Advisory Committee. In the event that the Plan terminates, its funds are not to revert to the participating employers or to be used for any purpose other than the exclusive benefit of the participants and their beneficiaries.

Any excess funds remaining after all liabilities are satisfied would be distributed among eligible participants in an equitable manner as determined by the Trustees.

Note 7 - Related Party Transactions

Deferred Lease Income, Regina Cleri Incorporated - In July of 1999, the Plan purchased retirement homes and land for \$16.2 million from Regina Cleri Incorporated, a related organization, that operates a retirement home for priests. The purchase was financed by the assumption of Regina Cleri, Incorporated's debt approximating \$10.5 million, and by executing a leaseback agreement with Regina Cleri, Incorporated for 20 years, which was valued at \$5.7 million. Simultaneous with the transaction, the Plan prepaid the \$10.5 million of debt it had assumed. Under the leaseback agreement, Regina Cleri, Incorporated will continue its operations as a retirement home for priests.

The net present value of the leaseback agreement was recorded as deferred lease income and is being amortized into income over the 20-year term of the agreement.

Archdiocese of Boston Clergy Retirement/Disability Plan

Notes to Financial Statements (Cont.)

June 30, 2006

Note 7 - Related Party Transactions (Cont.)

Future lease income, by year, along with the related net present value at June 30, 2006 are as follows:

<u>Year Ending</u> <u>June 30</u>	
2007	\$ 500,000
2008	500,000
2009	500,000
2010	500,000
2011	500,000
Later years	<u>4,208,334</u>
	<u>6,708,334</u>
Less amounts representing interest	<u>2,210,944</u>
Present value of lease obligations at June 30, 2006	<u>\$4,497,390</u>

Rental income under the leaseback agreement totaled \$500,000 in 2006, 2005 and 2004. Interest expense imputed on the lease obligation was \$294,525 in 2006 (\$307,391 in 2005 and \$319,112 in 2004).

Service Fees to Corporation Sole - A service fee for administrative, technology and clerical services is charged to the Plan by the Roman Catholic Archbishop of Boston, A Corporation Sole. The fees charged for the years ended June 30, 2006, 2005 and 2004 were approximately \$136,400, \$133,300 and \$121,700, respectively.

Loan to Corporation Sole – In October of 2003, the Plan liquidated \$30 million of investments and set the funds aside in a money market fund in anticipation of loaning the funds to the Corporation Sole.

On December 5, 2003, the Plan and Corporation Sole entered into a note agreement whereby the Plan loaned \$15 million to Corporation Sole. The funds were loaned for the purpose of assisting in the payment of certain misconduct claims against Corporation Sole. The note was collateralized by certain real estate owned by Corporation Sole, and it was paid in full in June of 2004 with a single payment of the principal of \$15 million, a \$1.5 million finance fee, and approximately \$1.79 million of interest. The interest was determined based on the amount of investment income and appreciation the Plan would have realized if it had not liquidated its investments to generate the loan proceeds.

In connection with the loan, Corporation Sole agreed to make remunerations to the Plan for the investment income and appreciation that it would have realized on the remaining \$15 million of investment funds that it liquidated in anticipation of a \$30 million loan. Such remuneration approximated \$1.2 million.

Payments from Corporation Sole were based on estimated market values at the time. Subsequently, actual market values were determined and an overpayment of \$297,477 was found to exist, which was recorded as an obligation to the Corporation Sole as of June 30, 2004. The Corporation Sole obligation balance was repaid July 30, 2004.

Archdiocese of Boston Clergy Retirement/Disability Plan

Notes to Financial Statements (Cont.)

June 30, 2006

Note 8 – Financial Instruments and Concentrations of Credit Risk

The Plan's financial instruments that are potentially subject to concentrations of credit risk consist of cash, cash equivalents, and investments. The Plan's investments consist principally of investments in the RCAB Collective Investment Partnership as disclosed in Note 3.

Note 9 - Reporting and Disclosure by Roman Catholic Archbishop of Boston, A Corporation Sole

The accounting and financial disclosures within this report for the Archdiocese of Boston Clergy Retirement/Disability Plan are prepared under Statement of Financial Accounting Standards No. 35, "Accounting and Reporting by Defined Benefit Pension Plans". The primary objective of the Plan's financial statements is to provide financial information that is useful in assessing the Plan's present and future ability to pay benefits when due.

This Plan is the retirement vehicle for the priests assigned to the Roman Catholic Archdiocese of Boston. Accordingly, the financial reporting of the Roman Catholic Archbishop of Boston, A Corporation Sole, as the employer of these priests, includes corresponding accounting and financial disclosures relating to pension and other post-retirement benefits.

Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" and Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-Retirement Benefits Other than Pensions", govern the accounting by the employer. Statement of Financial Accounting Standards No. 132, "Employers; Disclosures about Pensions and Other Post-Retirement Benefits" govern the disclosures required within the employers' report.

The primary objective of the employers' financial disclosure is to provide information about plan assets, obligations, cash flow and net cost to assist readers in assessing the market risk of the plan, the amount and timing of cash flows, and reported financial results of the employer.

Due to the fact that the accounting pronouncements and objectives of financial reporting are different for the Plan and the employer, there can be significant differences between the benefit obligations shown in the Plan's financial statements and the benefit obligation amount reported in the employers' financial statements.