

Financial Statements and Report of Independent Certified Public Accountants
The Catholic Foundation of the Archdiocese of Boston, Inc.
June 30, 2007 and 2006

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.
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Report of Independent Certified Public Accountants

To the Board of Governors
The Catholic Foundation of the
Archdiocese of Boston, Inc.

We have audited the accompanying statements of financial position of The Catholic Foundation of the Archdiocese of Boston, Inc. (the "Foundation") as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Catholic Foundation of the Archdiocese of Boston, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Boston, Massachusetts
March 13, 2008

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.
Statements of Financial Position
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 8,281,229	\$ 6,401,978
Interest and dividends receivable	287,771	281,277
Investments (note C)	29,497,007	27,386,687
Investments held under split-interest agreements	2,462,249	2,225,268
Contributions receivable, net (note D)	6,243,080	10,647,702
Beneficial interest in charitable remainder trust	759,926	561,066
Property and equipment, net (note E)	<u>150,338</u>	<u>155,119</u>
Total assets	<u>\$ 47,681,600</u>	<u>\$ 47,659,097</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 132,630	\$ 168,463
Due to related organizations, net (note G)	809,175	190,557
Annuity obligations	<u>1,311,602</u>	<u>1,460,208</u>
Total liabilities	<u>2,253,407</u>	<u>1,819,228</u>
NET ASSETS:		
Unrestricted	4,099,712	3,904,102
Temporarily restricted (note F)	25,691,573	27,298,833
Permanently restricted (note F)	<u>15,636,908</u>	<u>14,636,934</u>
Total net assets	<u>45,428,193</u>	<u>45,839,869</u>
Total liabilities and net assets	<u>\$ 47,681,600</u>	<u>\$ 47,659,097</u>

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

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.

Statement of Activities

Year ended June 30, 2007

(With summarized information for the year ended June 30, 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
REVENUES, GAINS AND OTHER SUPPORT:					
Contributions	\$ 1,094,774	\$ 74,627	\$ 420,009	\$ 1,589,410	\$ 1,782,610
Reduction of allowance for uncollectible contributions receivable (note D)	-	1,168,392	-	1,168,392	3,988,479
Interest and dividend income	230,068	1,240,002	22,586	1,492,656	1,463,249
Net realized and unrealized gains on investments	3,319	2,283,438	544,958	2,831,715	1,204,820
Change in value of split-interest agreements	-	211,704	12,421	224,125	(7,084)
Services fee income (note G)	1,427,192	-	-	1,427,192	1,661,768
Other income	4,758	-	-	4,758	-
Net assets released from restrictions (note F)	6,585,423	(6,585,423)	-	-	-
Total revenues, gains and other support	<u>9,345,534</u>	<u>(1,607,260)</u>	<u>999,974</u>	<u>8,738,248</u>	<u>10,093,842</u>
EXPENSES:					
Program grants	6,237,992	-	-	6,237,992	16,510,283
Management and general (Note G)	810,575	-	-	810,575	832,796
Fundraising	2,101,357	-	-	2,101,357	2,769,198
Total expenses	<u>9,149,924</u>	<u>-</u>	<u>-</u>	<u>9,149,924</u>	<u>20,112,277</u>
CHANGE IN NET ASSETS	\$ 195,610	\$ (1,607,260)	\$ 999,974	\$ (411,676)	\$ (10,018,435)
Net assets at beginning of year	<u>3,904,102</u>	<u>27,298,833</u>	<u>14,636,934</u>	<u>45,839,869</u>	<u>55,858,304</u>
Net assets at end of year	<u>\$ 4,099,712</u>	<u>\$ 25,691,573</u>	<u>\$ 15,636,908</u>	<u>\$ 45,428,193</u>	<u>\$ 45,839,869</u>

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

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.

Statement of Activities

Year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT:				
Contributions	\$ 31,519	\$ 1,238,611	\$ 512,480	\$ 1,782,610
Reduction of allowance for uncollectible contributions receivable (note D)	-	3,988,479	-	3,988,479
Interest and dividend income	239,241	1,202,634	21,374	1,463,249
Net realized and unrealized gains on investments	3,097	1,136,755	64,968	1,204,820
Change in value of split-interest agreements	-	55,153	(62,237)	(7,084)
Service fee income (note G)	1,661,768	-	-	1,661,768
Net assets released from restrictions (note F)	16,130,792	(16,130,792)	-	-
Total revenues, gains and other support	18,066,417	(8,509,160)	536,585	10,093,842
EXPENSES:				
Program grants	16,510,283	-	-	16,510,283
Management and general	832,796	-	-	832,796
Fundraising	2,769,198	-	-	2,769,198
Total expenses	20,112,277	-	-	20,112,277
CHANGE IN NET ASSETS	\$ (2,045,860)	\$ (8,509,160)	\$ 536,585	\$ (10,018,435)
Net assets at beginning of year	5,949,962	35,807,993	14,100,349	55,858,304
Net assets at end of year	<u>\$ 3,904,102</u>	<u>\$ 27,298,833</u>	<u>\$ 14,636,934</u>	<u>\$ 45,839,869</u>

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

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES:		
Change in net assets	\$ (411,676)	\$ (10,018,435)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Net realized and unrealized gain on investments	(2,831,715)	(1,204,820)
Change in value of split-interest agreements	(224,125)	7,084
Depreciation	16,097	41,114
Reversal of allowance for uncollectible contributions receivable	(1,168,392)	(3,988,479)
Proceeds from contributions restricted for long-term investment	(420,009)	(512,480)
Changes in operating assets and liabilities:		
Interest and dividends receivable	(6,494)	(18,659)
Beneficial interest in charitable remainder trusts	(198,860)	(7,868)
Contributions receivable	5,573,014	13,863,039
Accounts payable and accrued expenses	(35,833)	(32,627)
Net due to related organizations	618,618	(40,327)
Annuity obligations	(148,606)	(218,376)
Net cash and cash equivalents provided by (used in) operating activities	<u>762,019</u>	<u>(2,130,834)</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment	(11,316)	-
Proceeds from sale of investments	1,187,482	1,058,249
Purchase of investments	(478,943)	(542,912)
Net cash and cash equivalents provided by financing activities	<u>697,223</u>	<u>515,337</u>
FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	<u>420,009</u>	<u>512,480</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,879,251	(1,103,017)
Cash and cash equivalents at beginning of year	<u>6,401,978</u>	<u>7,504,995</u>
Cash and cash equivalents at end of year	<u>\$ 8,281,229</u>	<u>\$ 6,401,978</u>

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

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.

Notes to Financial Statements

June 30, 2007 and 2006

NOTE A - NATURE OF ORGANIZATION

The Catholic Foundation of the Archdiocese of Boston, Inc. (the "Foundation") was organized under Massachusetts law on November 15, 1989. The sole purpose of the Foundation is to receive, manage and distribute gifts and bequests on behalf of various Catholic organizations within the Archdiocese of Boston (the "Archdiocese").

In accordance with the by-laws of the Roman Catholic Archbishop of Boston, A Corporation Sole (the "Corporation Sole"), the Roman Catholic Archbishop of Boston, acting in his capacity as an individual, serves as both the Chairman and Treasurer of the Foundation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

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

Unrestricted net assets - Assets and contributions that are not restricted by the donor or for which restrictions have expired. Board designated net assets represent the portion of unrestricted net assets that the Board of Governors has revocably set aside for specific purposes.

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

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use, all or in part, the income earned on the underlying assets for general or specific purposes. Unexpended appreciation on permanently restricted net assets is classified as temporarily restricted net assets. Interest and dividends on permanently restricted net assets are classified as temporarily restricted until they are distributed to the beneficiary organization, which is generally within the same year earned.

The Foundation reports gifts of cash and other assets as restricted support if they are restricted 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The Foundation considers investments with original maturities of three months or less at purchase to be cash equivalents. Included in cash equivalents are money market mutual funds totaling approximately \$7,112,000 and \$4,823,000 at June 30, 2007 and 2006, respectively.

The Foundation 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. The Foundation has not experienced any losses as a result of the use of uninsured deposit accounts.

Investments

The Foundation's investments are carried at fair value. Changes in fair value are reflected in the statement of activities with the net realized and unrealized gain on investments and assets held in trust.

Investments represent the Foundation's unit holdings in the Common Investment Fund, Roman Catholic Archbishop of Boston (the "Common Investment Fund"), a separate related organization established to provide a common investment pool in which the Foundation and other related organizations may participate. The Common Investment Fund invests nearly all of its funds in the RCAB Collective Investment Partnership (the "Partnership"), the underlying investments of which are primarily equity and fixed-income securities (U.S. Government and agency securities, asset-backed securities and corporate bonds) owned either directly or indirectly through mutual funds and private investment entities..

The fair value of the Partnership's investments in actively domestic securities is determined by State Street Corporation which obtains bid price quotations from independent pricing services on most securities. Investments in traded foreign securities are fair valued by State Street Corporation at the mean between bid and asked prices. For those securities whose prices are not available through independent pricing services, bid price quotations are obtained by State Street Corporation from principal market makers in those securities or at fair value as determined in good faith by management. Investment holdings of private investment entities that are not actively traded are valued by the managers of these entities.

Investments held under split-interest agreements consist of funds received under charitable gift annuities with the Foundation having sole investment authority and were invested in balanced mutual funds (equity and fixed-income) at June 30, 2007 and 2006.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

Property and equipment are carried at cost, or if donated, at appraised 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 three to twenty years. Expenditures for maintenance and repairs are charged to expense, as incurred.

Charitable Gift Annuities

The Foundation records contribution revenue derived from charitable gifts based on the fair value of the assets associated with the instrument and the present value of the amount expected to be paid to beneficiaries under the arrangement. This requires the use of life expectancy estimates and discounting of cash flows in determining the amount to be recorded. In computing present value of annuity payments, the Foundation has used discount rates ranging from 3.8% to 7.4%.

If the Foundation has control over the assets associated with the gift annuity, the assets and the liability associated with obligations under the instrument are recorded on a gross basis. If third parties control the assets associated with the gift annuity, only the present value of the net amount expected to be received is recorded as an asset.

Contributions

Unconditional promises to give are reported at fair value on the date the promise is verifiably committed. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate based on the number of years over which the contributions are expected to be received. Amortization of discounts is classified in contributions revenue. Unconditional promises to give are reported as contributions receivable. Conditional promises to give are not included as support until the conditions are substantially met. There were no conditional promises to give at June 30, 2007 and 2006.

Contributions received by the Foundation are recorded as revenue and are primarily for the purpose of raising funds for related Catholic organizations. This includes funds raised for the "Promise for Tomorrow" campaign and other contributions where the donor is designating the ultimate beneficiary as a Catholic organization that operates within the geographic territory of the Archdiocese of Boston. The Foundation and these ultimate beneficiaries meet certain criteria under Statement of Financial Accounting Standards No. 136 "*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*", permitting the Foundation to recognize all contributions received as revenue.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is determined to approximate the portion of contributions receivable which will not be ultimately collected. The estimate made by management is based on a review of overdue accounts and projected total future collections based on historical experience. The allowance represents an estimate and actual uncollected pledges may vary significantly from the amount currently recorded with adjustments to be recorded in the period they become known. Contributions receivable are written off based either upon donor cancellation or a time lapse without donor activity.

Concentration of Credit Risk

The Foundation's financial instruments that are subject to concentrations of credit risk consist primarily of cash, cash equivalents, contributions receivable. The Foundation places cash and temporary cash investments in high-quality credit institutions. At times, such deposits may exceed federal depository insurance limits.

At June 30, 2007 and 2006, two donors represent 90% and 83%, respectively, of contributions receivable balances. These donors have had a long history of supporting the Archdiocese of Boston through multi-year pledges and have made payments annually on their pledges.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for uncollectible accounts, the fair value of investments which are not traded in active markets and life expectancies for charitable gift annuities. Actual results could vary from those estimates.

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.

Notes to Financial Statements - Continued

June 30, 2007 and 2006

NOTE C - INVESTMENTS

Investments consisted of the Foundation's interest in the Common Investment Fund, which had the following cost and fair value at June 30:

	<u>2007</u>	<u>2006</u>
Cost	\$18,751,063	\$19,160,311
Unrealized appreciation, net	<u>10,745,944</u>	<u>8,226,376</u>
Total investments at fair value	<u>\$29,497,007</u>	<u>\$27,386,687</u>

NOTE D - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Amounts due in:		
Less than one year	\$ 8,412,163	\$ 8,124,002
One to five years	<u>3,000,000</u>	<u>11,984,444</u>
	11,412,163	20,108,446
Less: unamortized discount	(415,127)	(933,926)
allowance for uncollectible accounts	<u>(4,753,956)</u>	<u>(8,526,818)</u>
Net contributions receivable	<u>\$ 6,243,080</u>	<u>\$10,647,702</u>

The rates used to discount contributions receivable at June 30, 2007 ranged from 1.98% to 6.30%.

Changes in the allowance for uncollectible accounts were as follows for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$8,526,818	\$21,781,951
Write off of uncollectible accounts	(2,604,470)	(9,266,654)
Reduction of allowance	<u>(1,168,392)</u>	<u>(3,988,479)</u>
Balance at end of year	<u>\$4,753,956</u>	<u>\$8,526,818</u>

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.

Notes to Financial Statements - Continued

June 30, 2007 and 2006

NOTE D - CONTRIBUTIONS RECEIVABLE - Continued

The Archdiocese of Boston's "Promise for Tomorrow" campaign experienced a significant decline in the collection of scheduled pledge payments beginning in 2002. This decline has been attributed to the clergy abuse crisis, the decline in the economy and the parish reconfiguration project. Receivable write-offs are recorded upon receipt of communication of a pledge cancellation from the donor or upon a time lapse without donor activity.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$ 196,934	\$ 196,934
Vehicles	17,954	17,954
Furniture and computer equipment	<u>838,773</u>	<u>827,457</u>
	<u>1,053,661</u>	<u>1,042,345</u>
Less accumulated depreciation	<u>(903,323)</u>	<u>(887,226)</u>
Net property and equipment	<u>\$ 150,338</u>	<u>\$ 155,119</u>

NOTE F - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Program restrictions	\$ 9,646,658	\$13,159,456
Time restrictions	5,513,912	6,430,992
Pending designation by the donor	1,191,866	835,292
Accumulated unrealized gains on temporarily and permanently restricted net assets	<u>9,339,137</u>	<u>6,873,093</u>
Total temporarily restricted net assets	<u>\$25,691,573</u>	<u>\$27,298,833</u>

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.

Notes to Financial Statements - Continued

June 30, 2007 and 2006

NOTE F - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS - Continued

Net assets released from restrictions through satisfaction of program and time restrictions were expended for the following purposes during the years ended June 30:

	<u>2007</u>	<u>2006</u>
Education	\$1,278,614	\$ 5,056,681
Health	1,005,000	1,275,083
Ministry formation	1,487,079	3,261,105
Women religious	125,173	118,338
Parish support	922,334	3,185,686
Social services	705,797	1,819,562
The Catholic Foundation Fund	684,123	438,871
Catholic Appeal	227,105	763,656
Pastoral services	24,066	124,137
Other	<u>126,131</u>	<u>87,673</u>
Total net assets released from restrictions	<u>\$6,585,423</u>	<u>\$16,130,792</u>

For purposes of this presentation, the Foundation treats net assets released from time restrictions based on the program purpose for which the related funds were used.

The permanently restricted net asset are designated for the following purposes at June 30:

	<u>2007</u>	<u>2006</u>
Education	\$ 4,727,536	\$ 4,242,360
Ministry formation	3,236,503	3,224,002
Parish support	1,600,170	1,582,588
Social services	575,102	890,831
Catholic Appeal	4,362,434	3,895,846
Pastoral Services	278,935	-
Other	<u>856,228</u>	<u>801,307</u>
Total permanently restricted net assets	<u>\$15,636,908</u>	<u>\$14,636,934</u>

THE CATHOLIC FOUNDATION OF THE ARCHDIOCESE OF BOSTON, INC.

Notes to Financial Statements - Continued

June 30, 2007 and 2006

NOTE G - RELATED-PARTY TRANSACTIONS

Service fee income of approximately \$1.4 million and \$1.7 million for the years ended June 30, 2007 and 2006, respectively, consists of revenue received from the Corporation Sole for the Foundation's activities to support the Annual Catholic Appeal.

Services fees charged by the Corporation Sole, Central Funds for administrative and clerical services performed on behalf of the Foundation totaled approximately \$787,000 and \$786,000 for the year ended June 30, 2007 and 2006, respectively, and are included in management and general expenses in the accompanying statements of activities for the years then ended.

The following is a summary of net due to affiliates at June 30:

	<u>2007</u>	<u>2006</u>
Due from Corporation Sole - Revolving Loan Fund	\$ -	\$ 104,999
Due to Corporation Sole	<u>(809,175)</u>	<u>(295,556)</u>
Net due to affiliates	<u>\$(809,175)</u>	<u>\$(190,557)</u>

The Foundation utilizes office space on a tenant-at-will basis at St. John's Seminary; rent expense totaled \$47,795 and \$45,295 during 2007 and 2006, respectively.

Included in contributions receivable at June 30, 2007 and 2006, are pledges from members of the Board of Governors of the Foundation totaling \$5,712,500 and \$7,574,990, respectively.

Amounts recorded in contributions revenue include amounts raised by the Foundation on behalf of donor specified beneficiary organizations that are related to the Archdiocese of Boston. Distributions to specified affiliates are recorded as expenses upon payment of these amounts. Amounts paid are based on actual cash collections associated with the underlying pledges and gifts raised on behalf of the specified organization. The Foundation also makes other appropriations from time to time to these related organizations.