



THE CLERGY FUNDS



ARCHDIOCESE OF BOSTON
CLERGY FUNDS
ANNUAL REPORT 2012

Caring for the Health and Retirement Needs of our Priests

ARCHDIOCESE OF BOSTON ■ 66 BROOKS DRIVE ■ BRAINTREE MA 02184 ■ (617) 746-5695



THE CLERGY FUNDS

ARCHDIOCESE OF BOSTON, CLERGY FUNDS

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THE CLERGY

FUNDS

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Dear Fathers and Brother Priests,

We are blessed to send you the Fiscal Year 2012 Report for the Clergy Funds. The Executive Director's report and Commentary are included, along with the outside auditor's financial report

Due to the effort and cooperation of our priests, our excellent staff of Clergy Funds was able to deliver another very good fiscal performance. Moreover, we acknowledge the efforts made to help our retired priests live with dignity and security whether in their own home, a nursing facility, a rectory or at Regina Cleri. These efforts continue to be effective.

Thank you for your continued prayers and generous support. May you continue to be blessed in all ways.

On behalf of the Board of Trustees,

John A. Kaneb
Chairperson

Reverend Monsignor George F. Carlson
Vice-Chairperson

Caring for the Health and Retirement Needs of our Priests

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THE CLERGY FUNDS

ARCHDIOCESE OF BOSTON, CLERGY FUNDS

EXECUTIVE DIRECTOR REPORT

FOR THE YEAR ENDING JUNE 30, 2012

The Clergy Funds of the Archdiocese of Boston is in the business of keeping promises: Promises made to all the incardinated priests of this archdiocese. The promise to make sure that our active and senior priests' medical needs are taken care of; that dental benefits are provided for; that a reasonable stipend is available for our senior priests and those with disabilities; the promise to maintain and support Regina Cleri, our residence for senior priests.

The Clergy Funds Board of Trustees is responding to the mission of caring for the well being of all the incardinated priests of the Archdiocese of Boston who are in good standing within the norms of canon law, and providing that care in a fiscally responsible transparent way.

FISCAL YEAR 2012 HIGHLIGHTS



416

active priests received medical and dental coverage

- 90% of the priests made use of the medical plan
- 86% of the priests utilized the pharmacy plan
- 55% of the priests visited the dentist



\$3,924,000 spent on medical benefits
—Average claim \$5,665 per priest

\$1,540,000 spent on pharmacy benefit
—Average claim \$2,637 per priest

\$416,000 spent on dental benefits.
—Average claim \$980 per priest



112 hospital admissions covered

- Our health care coordinator had 156 priest visits to hospitals, rehab centers or nursing homes.
- Visiting 41 senior priests living on their own or in parishes.



242 senior priests received stipends

Caring for the Health and Retirement Needs of our Priests

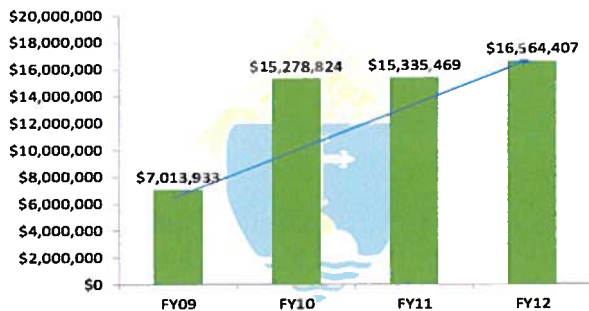


The financial results and trends are encouraging which the attached audited financial statement reflects in detail. The strategy that has been guiding the Clergy Funds for the past four years is bearing fruit.

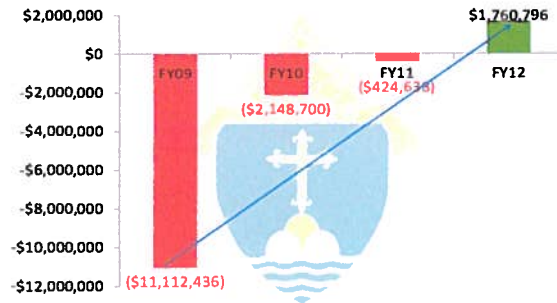
The strategy now is to focus on saving for the future, while at the same time maintaining the discipline of meeting our current obligations. This new strategy of saving for the future is necessary to be assured we have enough money to keep all of our promises to our priests. We will soon be at the stage where for each priest serving in a parish we will have one senior priest.

A disciplined saving plan is essential for success. This year's financial results show an overall surplus of \$1,760,796: a marked improvement from previous years. This surplus goes immediately into our savings for future years' obligations. The following graphs are indication of the progress that has been made and with your help will continue to be maintained.

Clergy Funds Income



Clergy Funds Overall Surplus/(Deficit)



One of our biggest concerns has been and will continue to be the cost of medical care. Our priests were promised to have their health and welfare provided for and to make sure they have access to quality care. The level of benefits provided to our active and senior priests continue to be in the top ten percentile of all dioceses in the United States.

Each month all priests receive a "Notes from the Nurse" newsletter highlighting benefits available and healthy lifestyles that should be considered. We have advocated for and continue to promote the wellness of all of our priests. We will continue to promote this benefit until it becomes a way of life for all of our priests.

Caring for the Health and Retirement Needs of our Priests

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Regina Cleri continues to be a shining example of a senior residence that has incorporated all the best in class protocols, making it a facility that all of our priests, both active and senior should be proud of. Anyone traveling to the West End of Boston visiting their brother priests will come away inspired. Today, many of the Clergy Fund committee meetings and senior priest vicariate meetings are held there.

The Clergy Fund staff continues to be dedicated to meeting the promises made to all of our priests, and doing so in a manner that treats all of our priests with gratitude for the work they have done for the Church and our families. We are always available to answer all questions.

Thank you for your continued support and belief in the work of the Clergy Funds team,

Joseph D'Arrigo
Executive Director, Clergy Funds

Caring for the Health and Retirement Needs of our Priests

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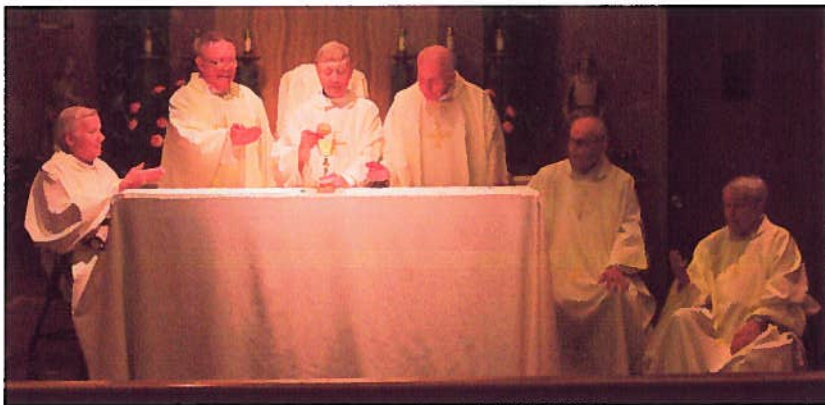


THE CLERGYFUNDS



Mission of the Clergy Funds:

To support and provide services to active and senior priests of the Archdiocese of Boston



Caring for the Health and Retirement Needs of our Priests

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ARCHDIOCESE OF BOSTON, CLERGY FUNDS
AUDIT & FINANCE COMMITTEE
FOR THE YEAR ENDING JUNE 30, 2012

The Clergy Funds Audit & Finance Committee is pleased to present the audited financial statements of the Clergy Funds for the fiscal year ended June 30, 2012.

These statements are the responsibility of Management and the Board of the Clergy Funds, and have been audited by the independent auditing firm of Grant Thornton LLP, who have issued an unqualified opinion that the statements fairly present the financial position of the Clergy Funds in conformity with generally accepted accounting principles as of and for the year ended June 30, 2012.

As further detailed in the reports of the Board Chair and Executive Director, the Audit & Finance Committee is pleased with the progress being made in the business and financial management and controls under the leadership of the Clergy Funds Staff, and with the cooperative efforts of so many, none more than the beneficiaries – our Priests.

The Audit & Finance Committee consists of Rev. Thomas S. Rafferty, Pastor of St. John's Church, Swampscott, Richard F. Reilly, CPA a former partner at KPMG LLP and Kenneth K. Quigley, Jr. (chair), President of Curry College.

On behalf of the Audit & Finance Committee,


Kenneth K. Quigley, Jr.
Chairperson, Audit & Finance Committee, Clergy Funds

Caring for the Health and Retirement Needs of our Priests

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Combined Financial Statements and Report of
Independent Certified Public Accountants

Archdiocese of Boston Clergy Funds

- **Clergy Medical/Hospitalization Trust**
- **Clergy Retirement Trust**
- **Clergy Benefit Funding Trust**

June 30, 2012

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Report of Independent Certified Public Accountants

To the Trustee
Archdiocese of Boston Funds

Grant Thornton LLP
226 Causeway Street, 6th Floor
Boston, MA 02114-2155

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We have audited the accompanying combined statements of net assets available for benefits and of accumulated plan benefits of the Archdiocese of Boston Clergy Funds (the Funds) as of June 30, 2012 and 2011, and the related combined statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the years then ended. These combined financial statements are the responsibility of the Plan's management. 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 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 combined 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 Plan'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial status of the Archdiocese of Boston Clergy Funds as of June 30, 2012 and 2011, and the changes in its combined financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP
Boston, Massachusetts
October 16, 2012

ARCHDIOCESE OF BOSTON CLERGY FUNDS
 Combined Statements of Net Assets Available for Benefits
 June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 8,574,843	\$ 14,582,279
Investments, at fair value (notes D and H)	16,097,498	8,251,555
Participating entities receivable, net (note E)	7,700	7,100
Accounts receivable, Medicare	150,000	150,000
Contributions receivable (note C)	150,000	-
Accounts receivable, other	257,748	253,001
Land and buildings, net (notes C, F, and G)	13,439,911	13,780,585
Prepaid expenses	<u>22,295</u>	<u>16,175</u>
Total assets	<u>\$ 38,699,995</u>	<u>\$ 37,040,695</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 102,422	\$ 105,895
Deferred income (note C)	203,141	-
Deferred lease income (note G)	<u>2,947,369</u>	<u>3,248,533</u>
Total liabilities	<u>3,252,932</u>	<u>3,354,428</u>
NET ASSETS AVAILABLE FOR BENEFITS		
Total Net Assets Available for Benefits	<u>\$ 35,447,063</u>	<u>\$ 33,686,267</u>

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

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Combined Statements of Changes in Net Assets Available for Benefits

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Collections from parishes	\$ 7,252,697	\$ 7,071,473
Assessments to participating entities	6,585,986	6,572,883
Special event dinner, net costs of \$244,188 and \$209,765, respectively	779,076	796,156
Medicare reimbursement	115,675	119,836
Total operating revenue	<u>14,733,434</u>	<u>14,560,348</u>
OPERATING EXPENSES:		
Benefits:		
Claims paid	5,879,336	5,798,017
Retirement benefits	3,747,246	3,678,759
Room and board	2,565,648	3,319,746
Plan administrator	248,337	231,359
Unassigned and health leave benefits	240,632	473,206
Other expenses	55,673	84,641
Disability benefits	42,909	64,323
Medex benefits	36,892	31,916
Legal - estate planning	30,500	45,700
Total benefits	<u>12,847,173</u>	<u>13,727,667</u>
Administration:		
Salaries and benefits	420,880	494,975
Service fees	370,018	427,642
Contract services	332,920	331,350
Fundraising expense	148,777	12,643
Professional fees	93,542	185,685
Other administrative expenses	50,791	22,043
Total administration	<u>1,416,928</u>	<u>1,474,338</u>
Total operating expenses:	<u>14,264,101</u>	<u>15,202,005</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>469,333</u>	<u>(641,657)</u>
NON-OPERATING REVENUES (EXPENSES):		
Gifts, bequests and donations	1,111,123	122,820
Rental income	500,000	500,000
Interest and dividends	187,152	50,959
Net realized and unrealized gains on investments	32,698	100,742
Miscellaneous income	-	600
Interest expense	(198,836)	(217,428)
Depreciation expense	<u>(340,674)</u>	<u>(340,674)</u>
Total non-operating revenues	<u>1,291,463</u>	<u>217,019</u>
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS	<u>1,760,796</u>	<u>(424,638)</u>
NET ASSETS AVAILABLE FOR BENEFITS:		
BEGINNING OF YEAR	<u>33,686,267</u>	<u>34,110,905</u>
END OF YEAR	<u>\$ 35,447,063</u>	<u>\$ 33,686,267</u>

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

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Combined Statements of Accumulated Plan Benefits

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ACCUMULATED PLAN BENEFIT OBLIGATIONS:		
ACTUARIAL PRESENT VALUE OF ACCUMULATED RETIREMENT PLAN BENEFITS		
Retired and disabled participants currently receiving retirement benefits	\$ 44,418,877	\$ 43,049,822
Active participants	<u>33,553,937</u>	<u>32,658,301</u>
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED RETIREMENT PLAN BENEFITS	<u>77,972,814</u>	<u>75,708,123</u>
ACTUARIAL PRESENT VALUE OF OTHER POST-RETIREMENT BENEFIT OBLIGATIONS		
Retired and disabled participants currently receiving health, dental and subsistence benefits	17,435,631	17,891,099
Active participants	<u>24,416,379</u>	<u>26,471,699</u>
TOTAL ACTUARIAL PRESENT VALUE OF OTHER POST-RETIREMENT BENEFIT OBLIGATIONS	<u>41,852,010</u>	<u>44,362,798</u>
RESERVE FOR HEALTH INSURANCE CLAIMS		
Claims payable and claims incurred but not reported for retired participants	173,200	231,480
Claims payable and claims incurred but not reported for active participants	<u>394,800</u>	<u>342,499</u>
TOTAL RESERVE FOR HEALTH INSURANCE CLAIMS	<u>568,000</u>	<u>573,979</u>
TOTAL ACCUMULATED PLAN BENEFIT OBLIGATIONS	<u>\$ 120,392,824</u>	<u>\$ 120,644,900</u>

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

ARCHDIOCESE OF BOSTON CLERGY FUNDS
 Combined Statements of Changes in Accumulated Plan Benefits
 For the year ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ACCUMULATED PLAN BENEFIT OBLIGATIONS		
AT THE BEGINNING OF YEAR	\$ 120,644,900	\$ 126,647,247
CHANGES IN ACCUMULATED RETIREMENT PLAN BENEFITS		
Actuarial present value of accumulated retirement plan benefits at beginning of year	<u>75,708,123</u>	<u>81,714,575</u>
Decrease during the year attributable to:		
Benefits accumulated	(580,092)	(2,021,751)
Increase for interest due to the decrease in the discount period	3,888,763	4,260,589
Benefits paid	(6,355,803)	(6,906,828)
Changes in assumptions (note B)	<u>5,311,823</u>	<u>(1,338,462)</u>
Net increase (decrease)	<u>2,264,691</u>	<u>(6,006,452)</u>
Actuarial present value of accumulated retirement plan benefits at end of year	<u>77,972,814</u>	<u>75,708,123</u>
CHANGES IN OTHER POST-RETIREMENT BENEFIT OBLIGATIONS		
Actuarial present value of other post-retirement benefit obligations at beginning of year	<u>44,362,798</u>	<u>44,288,234</u>
Increase (decrease) during the year attributable to:		
Benefits accumulated	(912,108)	(2,695,391)
Increase for interest due to the decrease in the discount period	2,512,738	2,559,985
Benefits paid	(1,708,861)	(1,354,520)
Changes in assumptions (note B)	<u>(2,402,557)</u>	<u>1,564,490</u>
Net increase (decrease)	<u>(2,510,788)</u>	<u>74,564</u>
Actuarial present value of other post-retirement benefit obligations at end of year	<u>41,852,010</u>	<u>44,362,798</u>
CHANGES IN RESERVE FOR HEALTH INSURANCE CLAIMS		
Reserve for health insurance claims at beginning of year	<u>573,979</u>	<u>644,438</u>
Increase (decrease) during the year attributable to:		
Claims reported and approved and claims incurred but not yet reported	5,873,357	5,727,558
Claims paid	<u>(5,879,336)</u>	<u>(5,798,017)</u>
Net decrease	<u>(5,979)</u>	<u>(70,459)</u>
Reserve for health insurance claims at end of year	<u>568,000</u>	<u>573,979</u>
ACCUMULATED PLAN BENEFITS AT THE END OF YEAR	\$ <u>120,392,824</u>	\$ <u>120,644,900</u>

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

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE A – NATURE OF ORGANIZATION

The Archdiocese of Boston Clergy Funds (the “Clergy Funds”) represents collectively all trusts, as they may exist from time to time, that provide for the health, welfare, disability, and retirement of priests incardinated in the Roman Catholic Archdiocese of Boston who are in good standing within the norms of canon law (“Eligible Priests”). At June 30, 2012 and 2011, the Clergy Funds include the financial position and activities of 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 was established for the purpose of generating and providing support for the benefit of Eligible Priests incardinated in the Roman Catholic Archdiocese of Boston, as directed by the Roman Catholic Archbishop of Boston. The Clergy Funds is 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 of Eligible Priests. He also appoints the Board of Trustees of the Clergy Funds in addition to serving as Chairman to numerous separately incorporated Catholic organizations that operate within the Archdiocese of Boston. These organizations are considered to be related organizations.

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.

NOTE B - DESCRIPTION OF THE CLERGY FUNDS

The following brief description of the Clergy Funds is provided for general information purposes only. Participants should refer to each plan agreement for more complete information.

Funding and Benefits

The Clergy Funds primary source of funding benefits is from contributions, principally from special collections from parishes in the Archdiocese of Boston and health assessments to parishes and other catholic organizations within the Archdiocese of Boston. As collections are received from the parishes, they are held in the Funding Trust. Funds are transferred to the Medical Trust and the Retirement Trust at the discretion of the Trustee. Although the Archbishop of Boston has not expressed any intention to do so, in the event that the Clergy Funds were to be terminated, its funds are not to revert to the participating employers or to be used for any purpose other than the exclusive benefit of the Eligible Priests.

The Medical Trust was established to provide substantially all medical and/or hospitalization coverage to Eligible Priests.

The Retirement Trust is a noncontributory defined benefit pension plan covering Eligible Priests that provides retirement benefits, which includes a stipend and room and board.

The primary benefits provided by the Funding Trust relate to funding of the Medical Trust and the Retirement Trust. The Funding Trust pays substantially all benefits for Eligible Priests who are currently on health leave and waiting assignment for up to six months. Additional benefits include support for the well being of Eligible Priests at the discretion of the Trustee.

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE B - DESCRIPTION OF THE CLERGY FUNDS - Continued

Health Assessments

The Medical Trust charges assessments to parishes and related catholic organizations for medical and hospitalization coverage of Eligible Priests who are assigned. The annual assessments are calculated based on the expected claims and the total number of priests. From time to time, the Medical Trust also receives funding from the Funding Trust to cover expenses that exceed assessments received.

Retirement Benefits

The monthly retirement benefit available to a priest who retires at the general retirement age of 75 includes a stipend and room and board, which varies depending upon the retiree's residence. The monthly stipend ranges from \$60 to \$1,289. The monthly room and board benefit ranges from \$600 if living on his own or in a parish to 40% of the total cost of a nursing home or the cost of an assisted-living facility. A priest who has attained at least age 65 may, with the permission of the Roman Catholic Archbishop of Boston, retire early and receive a retirement benefit. Any priest who becomes totally and permanently disabled qualifies for retirement benefit.

Other Post-Retirement Benefits

Other post-retirement benefits include health, dental and subsistence benefits.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Clergy Funds are described below:

Basis of Accounting

The combined financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

Financial instruments with original maturities of three months or less at the purchase date are classified as cash equivalents. Included in cash equivalents are money market funds of \$7,260,195 and \$12,174,449 at June 30, 2012 and 2011, respectively.

Clergy Funds deposits its cash in major financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000, per institution. While at times funds deposited in banks are in excess of FDIC insured limits, Clergy Funds has not experienced any losses as a result of the use of uninsured deposit accounts.

Investments

Investments are carried at fair value. Changes in fair values are reflected in the combined statements of changes in net assets available for benefits as net realized and unrealized gains (losses) on investments. Investment transactions are accounted for as of the date the securities are purchased or sold (trade date). Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments with original maturities of greater than three months at the purchase date are classified as investments. Included in investments are certificates of deposit and short term investment grade bond mutual funds of \$6,003,313 and \$10,094,185, respectively at June 30, 2012. Included in investments are certificates of deposit of \$8,251,555 at June 30, 2011.

Participating Entities Assessments and Receivable

Clergy Funds charges assessments to parishes and related catholic organizations for medical and hospitalization coverage of Eligible Priests who are assigned. The annual assessments are calculated based on the expected claims and the total number of priests. The annual assessments charged to parishes and related catholic organizations were \$16,800 per individual priest during both fiscal year 2012 and 2011, respectively.

Participating entities receivables are for health assessments to the related parties for assigned Eligible Priests and are stated net of an allowance for uncollectible accounts. The allowance is established via a provision for uncollectible assessments charged to operations. Management evaluates its assessments receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible. Accounts are charged against the allowance when management believes that the collectability of the specific account is unlikely.

Property Leased to Regina Cleri, Incorporated

Land and buildings purchased from and leased back to Regina Cleri, Incorporated, a related organization, 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 life of the buildings is 40 years.

Collections from Parishes

Collections from parishes are recognized in the statement of changes in net assets available for benefits as parishes receive the contributions.

Contributions Receivable, Gifts, Bequests and 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 are recorded at net realizable value. 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, 2012 and 2011.

Contributions receivable are reflected on the statements of net assets available for benefits at the full value of the contribution. Given the nature of collectability, there was no allowance for doubtful accounts.

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued
June 30, 2012 and 2011

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Special Events and Deferred Income

Special event donation amounts are recognized in the changes in net assets available for benefits at the completion of the event. Amounts received prior to the event are recorded as deferred income until the occurrence of the event.

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Fundraising

During the years ended June 30, 2012 and 2011, the Funding Trust incurred \$209,630 and \$212,256, respectively in fundraising expense as part of an initiative to increase contributions and collections.

A service fee based on the level of efforts provided for fundraising is charged to the Clergy Funds by the Roman Catholic Archbishop of Boston, Boston Catholic Development Services ("BCDS"). The fee charged for the year ended June 30, 2012 was \$147,000, which was the initial year that BCDS provided fundraising services.

Actuarial Present Value of Accumulated Retirement Trust Benefits

Accumulated retirement plan benefits, which include a stipend and room and board, are those future periodic payments that are expected to be paid under the Retirement Trust's provisions to retired and active priests.

The actuarial present value of accumulated retirement plan benefits is determined by an actuary, and is the amount that results from applying actuarial assumptions to adjust the accumulated retirement 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.

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The significant actuarial assumptions used in the valuations are as follows at June 30:

	<u>2012</u>	<u>2011</u>
Discount rate	4.5%	5.3%
Mortality before and after retirement	2012 IRS Static Mortality Tables	2011 IRS Static Mortality Tables
Retirement age	Age graded tables	Age graded tables
Asset valuation	Market value	Market value
Retirement benefit	\$1,394 average per month	\$1,356 average per month
Cost of living adjustment	None assumed	None assumed
Salary increases	N/A	N/A

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

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 through 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.

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

For measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012; the rate was assumed to decrease gradually to 4.5% by 2020. An 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011; the rate was assumed to decrease gradually to 5.0% by 2019 for 2011.

The following were other significant assumptions used in the valuation as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Discount rate	4.8%	5.65%
Retirement age	Age graded tables	Age graded tables
Mortality	2012 IRS Static Mortality Tables	2011 IRS Static Mortality Tables
Effect of 1% increase in healthcare cost trend rate	\$ 551,000	\$ 610,000
Effect of 1% decrease in healthcare cost trend rate	\$ (439,000)	\$ (489,000)

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

Reserve for Health Insurance Claims

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

Income Taxes

The Clergy Funds 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 Clergy Funds recognizes the financial statement 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. The Clergy Funds' management has reviewed the tax positions for open periods and determined that no provision for income tax is required in the Clergy Funds' financial statements.

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 and disclosures of assets, liabilities, benefit obligations, contingent assets and liabilities, and changes during the reported period. Actual results could differ from those estimates. As discussed above, key estimates include the allowance for uncollectible assessments; health claims incurred by participants but not yet reported, and accumulated retirement plan benefits and other post-retirement benefits.

Operations

Changes in net assets that do not impact current operations are presented as non-operating activities, including non-current contributions (gifts or pledges intended to fund future-year activities), net realized and unrealized investment gains/losses, and sales leaseback related income and expenses (see note G).

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the current year presentation.

NOTE D - INVESTMENTS

The following table presents the fair values of investments. Investments that represent 5 percent or more of the plan's net assets are separately identified.

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 1,002,630	\$ 8,251,555
Century Bank and Trust certificate of deposit, maturity date 6/20/13	5,000,683	-
Vanguard Short-term Invest-Gr Adm	<u>10,094,185</u>	<u>-</u>
	<u>\$ 16,097,498</u>	<u>\$ 8,251,555</u>

During the reporting periods, the Clergy Funds investments appreciated in value as follows:

	<u>Year ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Short-term bond mutual fund	\$ 32,698	\$ -
Fixed income fund	<u>-</u>	<u>100,742</u>
	<u>\$ 32,698</u>	<u>\$ 100,742</u>

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE E - PARTICIPATING ENTITIES RECEIVABLE

Participating entities receivable consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Assessments receivable	\$ 127,582	\$ 96,313
Less: Allowance for uncollectibles	<u>(119,882)</u>	<u>(89,213)</u>
	<u>\$ 7,700</u>	<u>\$ 7,100</u>

NOTE F - LAND AND BUILDINGS

Land and buildings consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 4,036,578	\$ 4,036,578
Land improvements	529,925	529,925
Building	10,551,225	10,551,225
Building improvements	<u>1,903,727</u>	<u>1,903,727</u>
	17,021,455	17,021,455
Less accumulated depreciation	<u>3,581,544</u>	<u>3,240,870</u>
	<u>\$ 13,439,911</u>	<u>\$ 13,780,585</u>

NOTE G - RELATED PARTY TRANSACTIONS

Deferred Lease Income, Regina Cleri Incorporated

In July 1999, the Clergy Funds purchased retirement homes and land for \$16.2 million from Regina Cleri, Incorporated, a related organization, which operates a retirement home for priests. The purchase was financed by the assumption of Regina Cleri, Incorporated's debt of \$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, Clergy Funds retired the \$10.5 million of debt it had assumed. Under the leaseback agreement Regina Cleri, Incorporated continues to operate the 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 FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE G - RELATED PARTY TRANSACTIONS – Continued

Future lease income, by year, along with the related net present value at June 30, 2012 is as follows:

<u>Year ending</u> <u>June 30</u>	
2013	\$ 500,000
2014	500,000
2015	500,000
2016	500,000
2017	500,000
Later years	<u>1,208,333</u>
	3,708,333
Less amounts representing interest	<u>760,964</u>
	<u>\$ 2,947,369</u>

Rental income under the leaseback agreement totaled \$500,000 for each of the years ended June 30, 2012 and 2011. Interest expense imputed on the lease obligation was \$198,836 and \$217,428 for the year ended June 30, 2012 and 2011, respectively.

Service Fees

A service fee based on the level of efforts provided for administrative, technology and clerical services is charged to the Clergy Funds by the Roman Catholic Archbishop of Boston, A Corporation Sole ("Corporation Sole"). The fees charged for the years ended June 30, 2012 and 2011 were \$370,018 and \$427,642, respectively.

Consulting Fees

A member of management was previously a contractor for a consulting firm used by the Clergy Funds. Shortly after the close of fiscal year 2012, this individual was paid certain deferred compensation by the firm for past services provided. Total fees paid to this consulting firm for the years ended June 30, 2012 and 2011 were \$79,000 and \$81,250, respectively.

NOTE H - FAIR VALUE MEASUREMENTS

The Clergy Funds measures the fair values of assets and liabilities as 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 Clergy Funds classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), 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). Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued
 June 30, 2012 and 2011

NOTE H - FAIR VALUE MEASUREMENTS – Continued

Other investments consist of certificates of deposit and a short term investment grade bond mutual fund. The mutual fund is valued based on quoted prices in active markets and is 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.

The Clergy Funds' financial assets that are accounted for at fair value on a recurring basis as of June 30, 2012 and 2011, by level within the fair value hierarchy, are presented in the table below.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance as of June 30, 2012</u>
Certificates of deposit	\$ -	\$ 6,003,313	\$ -	\$ 6,003,313
Short-term bond mutual fund	<u>10,094,185</u>	<u>-</u>	<u>-</u>	<u>10,094,185</u>
Total	<u>\$ 10,094,185</u>	<u>\$ 6,003,313</u>	<u>\$ -</u>	<u>\$ 16,097,498</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance as of June 30, 2011</u>
Certificates of deposit	<u>\$ -</u>	<u>\$ 8,251,555</u>	<u>\$ -</u>	<u>\$ 8,251,555</u>

NOTE I - FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

The Clergy Funds' financial instruments that are potentially subject to concentrations of credit risk consist of cash, cash equivalents (note C), and investments.

The Clergy Funds invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Plan contributions are made and the actuarial present value of accumulated retirement plan benefits and other post-retirement benefit obligations are reported based on certain assumptions pertaining to interest rates, inflation rates, health care inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would affect the financial statements.

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Notes to Financial Statements - Continued

June 30, 2012 and 2011

NOTE J - REPORTING AND DISCLOSURE BY CORPORATION SOLE

The accounting and financial disclosures within this report for the Clergy Funds are prepared under the provisions of Accounting and Reporting by Defined Benefit Pension Plans and Health and Welfare Plans. The primary objective of the Clergy Funds financial statement is to provide financial information that is useful in assessing the Clergy Funds present and future ability to pay benefits when due.

Clergy Funds is the retirement vehicle for the Eligible priests assigned to the Roman Catholic Archdiocese of Boston. Accordingly, the financial reporting of Corporation Sole as the employer of these priests, includes corresponding accounting and financial disclosures relating to the Clergy Funds' retirement and other post-retirement benefits.

NOTE K - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 16, 2012, which is the date the financial statements were available to be issued. There were no subsequent events that would require recognition or additional disclosure in the Plan's financial statements.

SUPPLEMENTAL INFORMATION



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Independent Auditors' Report

To the Trustee
Archdiocese of Boston Clergy Funds

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying combining statements of net assets available for benefits as of June 30, 2012 and 2011, and combining statements of changes in net assets available for benefits as of and for the years ended June 30, 2012 and 2011, on pages 21 -24 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with US GAAS. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Grant Thornton LLP

Boston, Massachusetts
October 16, 2012

ARCHDIOCESE OF BOSTON CLERGY FUNDS
Combining Statements of Net Assets Available for Benefits
June 30, 2012

	<u>MEDICAL TRUST</u>	<u>RETIREMENT TRUST</u>	<u>FUNDING TRUST</u>	<u>TOTAL CLERGY FUNDS</u>
ASSETS				
Cash and cash equivalents	\$ 1,071,589	\$ 1,583,966	\$ 5,919,288	\$ 8,574,843
Investments, at fair value (notes D and H)	1,002,630	-	15,094,868	16,097,498
Participating entities receivable, net (note E)	7,700	-	-	7,700
Accounts receivable, Medicare	150,000	-	-	150,000
Contributions receivable (note C)	-	-	150,000	150,000
Accounts receivable, other	-	86	257,662	257,748
Land and buildings, net (notes C, F and G)	-	-	13,439,911	13,439,911
Prepaid expenses	-	-	22,295	22,295
	<u>\$ 2,231,919</u>	<u>\$ 1,584,052</u>	<u>\$ 34,884,024</u>	<u>\$ 38,699,995</u>
Total assets				
LIABILITIES				
Accounts payable and accrued expenses	\$ 32,552	\$ -	\$ 69,870	\$ 102,422
Deferred income (note C)	-	-	203,141	203,141
Deferred lease income (note G)	-	-	2,947,369	2,947,369
	<u>32,552</u>	<u>-</u>	<u>3,220,380</u>	<u>3,252,932</u>
Total liabilities				
NET ASSETS AVAILABLE FOR BENEFITS				
Total Net Assets Available for Benefits	<u>\$ 2,199,367</u>	<u>\$ 1,584,052</u>	<u>\$ 31,663,644</u>	<u>\$ 35,447,063</u>

ARCHDIOCESE OF BOSTON CLERGY FUNDS
Combining Statements of Net Assets Available for Benefits
June 30, 2011

	<u>MEDICAL TRUST</u>	<u>RETIREMENT TRUST</u>	<u>FUNDING TRUST</u>	<u>TOTAL CLERGY FUNDS</u>
ASSETS				
Cash and cash equivalents	\$ 1,096,263	\$ 2,857,325	\$ 10,628,691	\$ 14,582,279
Investments, at fair value (notes D and H)	500,055	1,750,191	6,001,309	8,251,555
Participating entities receivable, net (note E)	7,100	-	-	7,100
Accounts receivable, Medicare	150,000	-	-	150,000
Accounts receivable, other	16,409	-	236,592	253,001
Land and buildings, net (notes C, F and G)	-	-	13,780,585	13,780,585
Prepaid expenses	-	-	16,175	16,175
	<u>1,769,827</u>	<u>4,607,516</u>	<u>30,663,352</u>	<u>37,040,695</u>
Total assets	<u>\$ 1,769,827</u>	<u>\$ 4,607,516</u>	<u>\$ 30,663,352</u>	<u>\$ 37,040,695</u>
LIABILITIES				
Accounts payable and accrued expenses	\$ 40,863	\$ -	\$ 65,032	\$ 105,895
Deferred lease income (note G)	-	-	3,248,533	3,248,533
	<u>40,863</u>	<u>-</u>	<u>3,313,565</u>	<u>3,354,428</u>
Total liabilities	<u>40,863</u>	<u>-</u>	<u>3,313,565</u>	<u>3,354,428</u>
NET ASSETS AVAILABLE FOR BENEFITS				
Total Net Assets Available for Benefits	<u>\$ 1,728,964</u>	<u>\$ 4,607,516</u>	<u>\$ 27,349,787</u>	<u>\$ 33,686,267</u>

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Combining Statements of Changes in Net Assets Available for Benefits

For the year ended June 30, 2012

	MEDICAL TRUST	RETIREMENT TRUST	FUNDING TRUST	TOTAL CLERGY FUNDS
OPERATING REVENUE:				
Collections from parishes	\$ -	\$ 250	\$ 7,252,447	\$ 7,252,697
Assessments to participating entities	6,505,662	-	80,324	6,585,986
Special event dinner, net of \$244,188 of costs	-	20,000	759,076	779,076
Medicare reimbursement	115,675	-	-	115,675
Total operating revenue	<u>6,621,337</u>	<u>20,250</u>	<u>8,091,847</u>	<u>14,733,434</u>
OPERATING EXPENSES:				
Benefits:				
Claims paid	5,879,336	-	-	5,879,336
Retirement benefits	-	3,747,246	-	3,747,246
Room and board	-	-	2,565,648	2,565,648
Plan administrator	248,337	-	-	248,337
Unassigned and health leave benefits	-	-	240,632	240,632
Other expenses	30,669	-	25,004	55,673
Disability benefits	-	42,909	-	42,909
Medex benefits	-	-	36,892	36,892
Legal - estate planning	-	-	30,500	30,500
Total benefits	<u>6,158,342</u>	<u>3,790,155</u>	<u>2,898,676</u>	<u>12,847,173</u>
Administration:				
Salaries and benefits	-	-	420,880	420,880
Service fees	-	-	370,018	370,018
Contract services	-	-	332,920	332,920
Fundraising expense	-	-	148,777	148,777
Professional fees	-	-	93,542	93,542
Other administrative expenses	-	-	50,791	50,791
Total administration	<u>-</u>	<u>-</u>	<u>1,416,928</u>	<u>1,416,928</u>
Total operating expenses:	<u>6,158,342</u>	<u>3,790,155</u>	<u>4,315,604</u>	<u>14,264,101</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>462,995</u>	<u>(3,769,905)</u>	<u>3,776,243</u>	<u>469,333</u>
NON-OPERATING REVENUES (EXPENSES):				
Gifts, bequests and donations	-	733,198	377,925	1,111,123
Rental income	-	-	500,000	500,000
Interest and dividends	7,408	13,243	166,501	187,152
Net realized and unrealized gains on investments	-	-	32,698	32,698
Interest expense	-	-	(198,836)	(198,836)
Depreciation expense	-	-	(340,674)	(340,674)
Total non-operating revenues	<u>7,408</u>	<u>746,441</u>	<u>537,614</u>	<u>1,291,463</u>
NET (DECREASE) INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	<u>470,403</u>	<u>(3,023,464)</u>	<u>4,313,857</u>	<u>1,760,796</u>
NET ASSETS AVAILABLE FOR BENEFITS:				
BEGINNING OF YEAR	<u>1,728,964</u>	<u>4,607,516</u>	<u>27,349,787</u>	<u>33,686,267</u>
END OF YEAR	<u>\$ 2,199,367</u>	<u>\$ 1,584,052</u>	<u>\$ 31,663,644</u>	<u>\$ 35,447,063</u>

ARCHDIOCESE OF BOSTON CLERGY FUNDS

Combining Statements of Changes in Net Assets Available for Benefits
For the year ended June 30, 2011

	<u>MEDICAL TRUST</u>	<u>RETIREMENT TRUST</u>	<u>FUNDING TRUST</u>	<u>TOTAL CLERGY FUNDS</u>
OPERATING REVENUE:				
Collections from parishes	\$ -	\$ -	\$ 7,071,473	\$ 7,071,473
Assessments to participating entities	6,522,656	-	50,227	6,572,883
Special event dinner, net of \$209,765 of costs	-	-	796,156	796,156
Medicare reimbursement	119,836	-	-	119,836
Total Operating Revenue	<u>6,642,492</u>	<u>-</u>	<u>7,917,856</u>	<u>14,560,348</u>
OPERATING EXPENSES:				
Benefits:				
Claims paid	5,798,017	-	-	5,798,017
Retirement benefits	-	3,678,759	-	3,678,759
Room and board	-	-	3,319,746	3,319,746
Plan administrator	231,359	-	-	231,359
Unassigned and health leave benefits	-	-	473,206	473,206
Other expenses	50,168	-	34,473	84,641
Disability benefits	-	64,323	-	64,323
Medex benefits	-	-	31,916	31,916
Legal - estate planning	-	-	45,700	45,700
Total Benefits	<u>6,079,544</u>	<u>3,743,082</u>	<u>3,905,041</u>	<u>13,727,667</u>
Administration:				
Salaries and benefits	-	-	494,975	494,975
Service fees	-	-	427,642	427,642
Contract services	-	-	331,350	331,350
Fundraising expense	-	-	12,643	12,643
Professional fees	11,290	22,292	152,103	185,685
Other administrative expenses	-	-	22,043	22,043
Total Administration	<u>11,290</u>	<u>22,292</u>	<u>1,440,756</u>	<u>1,474,338</u>
Total Operating Expenses:	<u>6,090,834</u>	<u>3,765,374</u>	<u>5,345,797</u>	<u>15,202,005</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>551,658</u>	<u>(3,765,374)</u>	<u>2,572,059</u>	<u>(641,657)</u>
Non-Operating Gains (Losses):				
Gifts, bequests and donations	500	1,460	120,860	122,820
Rental income	-	-	500,000	500,000
Interest and dividends	1,700	11,913	37,346	50,959
Net realized and unrealized gains on investments	-	60,113	40,629	100,742
Miscellaneous income	-	-	600	600
Interest expense	-	-	(217,428)	(217,428)
Depreciation expense	-	-	(340,674)	(340,674)
Total Non-Operating Revenues	<u>2,200</u>	<u>73,486</u>	<u>141,333</u>	<u>217,019</u>
NET (DECREASE) INCREASE	<u>553,858</u>	<u>(3,691,888)</u>	<u>2,713,392</u>	<u>(424,638)</u>
NET ASSETS AVAILABLE FOR BENEFITS:				
BEGINNING OF YEAR	<u>1,175,106</u>	<u>8,299,404</u>	<u>24,636,395</u>	<u>34,110,905</u>
END OF YEAR	<u>\$ 1,728,964</u>	<u>\$ 4,607,516</u>	<u>\$ 27,349,787</u>	<u>\$ 33,686,267</u>