# ADMINISTRATIVE OFFICES
# OF THE
# ARCHDIOCESE OF ATLANTA

Consolidated Financial Statements
for the years ended
June 30, 2012 and 2011

ADMINISTRATIVE OFFICES OF THE ARCHDIOCESE OF ATLANTA

Contents

LANEY
BOTELER &
KILLINGER
Certified Public Accountants

## Independent Auditor's Report

His Excellency
The Most Reverend
Wilton D. Gregory
Archbishop of Atlanta
Atlanta, Georgia

We have audited the accompanying consolidated statements of financial position of the Administrative Offices of the Archdiocese of Atlanta and subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Administrative Offices of the Archdiocese of Atlanta and subsidiaries as of June 30, 2012 and 2011, and the changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Laney, Boteler & Killinger

Atlanta, Georgia
November 7, 2012

100 Ashford Center North • Suite 310 • Atlanta, Georgia 30338 • 770/394-8000

ADMINISTRATIVE OFFICES OF THE ARCHDIOCESE OF ATLANTA
Consolidated Statements of Financial Position
*(Amounts in Thousands)*

Assets

| | June 30, 2012 | | | | June 30, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Cash and cash equivalents | $ 3,362 | $ - | $ - | $ 3,362 | $ 4,165 | $ - | $ - | $ 4,165 |
| Investments at fair value | 47,251 | 21,315 | 62,393 | 130,959 | 45,089 | 19,816 | 49,424 | 114,329 |
| Escrowed deposits | 208 | | | 208 | 208 | | | 208 |
| Accounts receivable | 9,580 | | | 9,580 | 10,377 | | | 10,377 |
| Pledges receivable | 6,520 | | | 6,520 | 6,843 | | | 6,843 |
| Loans receivable-parishes and agencies | 69,470 | | | 69,470 | 74,622 | | | 74,622 |
| Property and equipment, net | 156,911 | | | 156,911 | 156,756 | | | 156,756 |
| Other assets | 10,431 | - | | 10,431 | 6,818 | - | - | 6,818 |
| Total assets | 303,733 | 21,315 | 62,393 | 387,441 | 304,878 | 19,816 | 49,424 | 374,118 |

Liabilities and Net Assets

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|---|---|---|---|
| Accounts payable and accrued expenses | 23,233 | - | - | 23,233 | 19,918 | - | - | 19,918 |
| Custodial funds payable | - | | 14,438 | 14,438 | - | | 5,388 | 5,388 |
| Deposits payable | 63,867 | | | 63,867 | 62,981 | | | 62,981 |
| Interest rate swap liability | 12,685 | | | 12,685 | 9,054 | | | 9,054 |
| Deferred revenue | 42,777 | | | 42,777 | 43,327 | | | 43,327 |
| Notes payable | 3,828 | | | 3,828 | - | | | - |
| Bonds and notes payable | 76,720 | - | - | 76,720 | 90,408 | - | - | 90,408 |
| Total liabilities | 223,110 | - | 14,438 | 237,548 | 225,688 | - | 5,388 | 231,076 |
| Net assets | | | | | | | | |
| Investment funds | 19,650 | - | - | 19,650 | 20,401 | - | - | 20,401 |
| Insurance funds | 17,705 | | | 17,705 | 22,106 | | | 22,106 |
| Plant funds | (4,686) | | | (4,686) | (1,396) | | | (1,396) |
| Undesignated | 47,954 | | | 47,954 | 38,079 | | | 38,079 |
| Restricted | - | 21,315 | 47,955 | 69,270 | - | 19,816 | 44,036 | 63,852 |
| Total net assets | 80,623 | 21,315 | 47,955 | 149,893 | 79,190 | 19,816 | 44,036 | 143,042 |
| Total liabilities and net assets | $303,733 | $21,315 | $62,393 | $387,441 | $304,878 | $19,816 | $49,424 | $374,118 |

See notes to consolidated financial statements.

ADMINISTRATIVE OFFICES OF THE ARCHDIOCESE OF ATLANTA
Consolidated Statements of Activities
*(Amounts in Thousands)*

| | Year Ended June 30, 2012 | | | | Year Ended June 30, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues | | | | | | | | |
| Parishes and missions | | | | | | | | |
| Contributions | $ 7,134 | $ - | $ - | $ 7,134 | $ 8,090 | $ - | $ - | $ 8,090 |
| Assessments | 20,016 | | | 20,016 | 20,015 | | | 20,015 |
| Continuing care | 10,659 | | | 10,659 | 10,378 | | | 10,378 |
| Education | 36,440 | | | 36,440 | 34,198 | | | 34,198 |
| Insurance premiums | 19,043 | | | 19,043 | 18,381 | | | 18,381 |
| Other contributions | 21,458 | 4,176 | 639 | 26,273 | 3,252 | 419 | 1,237 | 4,908 |
| Investment income | 1,881 | 1,523 | 1 | 3,405 | 2,314 | 1,332 | 1 | 3,647 |
| Other | 1,192 | | | 1,192 | 1,554 | | | 1,554 |
| Net assets released from restrictions | 3,871 | (3,871) | - | - | 4,327 | (4,282) | (45) | - |
| Total revenues | 121,694 | 1,828 | 640 | 124,162 | 102,509 | (2,531) | 1,193 | 101,171 |
| Expenses | | | | | | | | |
| Administrative support | 8,440 | | | 8,440 | 7,696 | | | 7,696 |
| Pastoral | 15,514 | | | 15,514 | 6,969 | | | 6,969 |
| Education | 45,476 | | | 45,476 | 44,503 | | | 44,503 |
| Social services | 2,369 | | | 2,369 | 1,623 | | | 1,623 |
| Insurance services | 19,431 | | | 19,431 | 13,585 | | | 13,585 |
| Continuing care | 9,555 | | | 9,555 | 9,224 | | | 9,224 |
| Other | 2,131 | | | 2,131 | 2,104 | | | 2,104 |
| Total expenses | 102,916 | - | - | 102,916 | 85,704 | - | - | 85,704 |
| Change in net assets before capital additions (reductions) | 18,778 | 1,828 | 640 | 21,246 | 16,805 | (2,531) | 1,193 | 15,467 |
| Capital additions (reductions) | | | | | | | | |
| Realized and unrealized gain (loss) on investments | 121 | (404) | (6) | (289) | 6,284 | 7,159 | | 13,443 |
| Gain (loss) on interest rate swap agreements | (3,632) | | | (3,632) | 1,283 | | | 1,283 |
| Depreciation and amortization | (6,339) | | | (6,339) | (5,963) | | | (5,963) |
| Loss on disposal of property and equipment | (25) | | | (25) | (10) | | | (10) |
| Total capital additions (reductions) | (9,875) | (404) | (6) | (10,285) | 1,594 | 7,159 | - | 8,753 |
| Change in net assets | 8,903 | 1,424 | 634 | 10,961 | 18,399 | 4,628 | 1,193 | 24,220 |
| Other ASC 715 pension (charge) credit | (4,110) | | | (4,110) | 408 | | | 408 |
| Net assets transfers | (3,360) | 75 | 3,285 | - | - | | | - |
| Net assets at beginning of year | 79,190 | 19,816 | 44,036 | 143,042 | 60,383 | 15,188 | 42,843 | 118,414 |
| Net assets at end of year | $80,623 | $21,315 | $47,955 | $149,893 | $ 79,190 | $19,816 | $44,036 | $143,042 |

See notes to consolidated financial statements.

ADMINISTRATIVE OFFICES OF THE ARCHDIOCESE OF ATLANTA

Consolidated Statements of Cash Flows
(Amounts in Thousands)

| | Year Ended June 30, | |
|---|---|---|
| | 2012 | 2011 |
| Cash flows from operating activities | | |
| Change in net assets | $ 10,961 | $ 24,628 |
| Adjustments to reconcile change in net assets to cash provided by operating activities | | |
| Depreciation and amortization | 6,339 | 5,963 |
| Amortization of entrance fees | (979) | (1,019) |
| Loss on disposal of property and equipment | 25 | 10 |
| Realized and unrealized (gain) loss on investments | 289 | (13,443) |
| (Gain) loss on interest rate swap agreements | 3,631 | (1,283) |
| Restricted contributions | (639) | (1,237) |
| In-kind contributions | (850) | - |
| (Increase) decrease in accounts receivable | 323 | (1,167) |
| (Increase) decrease in pledges receivable | 323 | (1,951) |
| Decrease in bequest receivable | - | 7,652 |
| Increase in other assets | (3,786) | (543) |
| Increase (decrease) in accounts payable and accrued expenses | (796) | 1,822 |
| Decrease in deferred revenue | (182) | (327) |
| Net cash provided by operating activities | 14,659 | 19,105 |
| Cash flows from investing activities | | |
| Proceeds from sale and maturity of investments | 88,579 | 120,971 |
| Purchase of investments | (105,509) | (130,627) |
| Net increase in entrance fee escrow fund | - | - |
| Parish and mission loans | (4,129) | (11,582) |
| Parish and mission loan repayments | 9,281 | 15,111 |
| Proceeds from sale of property and equipment | - | 20 |
| Purchase of property and equipment | (5,469) | (15,377) |
| Net cash used by investing activities | (17,247) | (21,484) |
| Cash flows from financing activities | | |
| Increase (decrease) in notes payable | 3,828 | (220) |
| Payments on bonds and notes payable | (13,688) | (3,950) |
| Proceeds from residents entrance fees | 1,069 | 1,115 |
| Restricted contributions received | 639 | 1,237 |
| Parish and mission deposits received | 16,799 | 32,335 |
| Parish and mission deposits paid | (15,913) | (27,395) |
| Increase (decrease) in custodial funds payable | 9,050 | (477) |
| Net cash provided by financing activities | 1,784 | 2,645 |
| Net increase (decrease) in cash and cash equivalents | (803) | 266 |
| Cash and cash equivalents, beginning of the year | 4,165 | 3,899 |
| Cash and cash equivalents, end of the year | $ 3,362 | $ 4,165 |

See notes to consolidated financial statements.

## Note 1 - Summary of significant accounting policies

### Basis of reporting

The accompanying consolidated financial statements include the accounts and transactions of the Administrative Offices of the Archdiocese of Atlanta and the accounts and transactions of the following separate legal entities which are affiliated with or related to the Administrative Offices of the Archdiocese of Atlanta:

AoA Properties Holding, Inc.
Catholic Construction Services, Inc.
Catholic Continuing Care Retirement Communities, Inc.
Catholic Education of North Georgia, Inc.
The Catholic Foundation of North Georgia, Inc.

All of the consolidated organizations are collectively referred to in this report as the Archdiocese. All significant intercompany transactions have been eliminated in consolidation.

Subsidies to auxiliary services and programs are included but detailed operations of such subsidized activities are not included in the accounts of the Administrative Offices and, accordingly, are not included in the accompanying consolidated financial statements. Moreover, this report does not include the financial statements of the parishes and missions of the Archdiocese of Atlanta.

Revenues, expenses, gains, losses, and net assets of the Archdiocese are classified based on the existence or absence of donor-imposed restrictions and are reported as follows:

#### Unrestricted Net Assets

Unrestricted net assets are utilized to account for support from parishes and missions and other revenues that are unrestricted in nature. Donor-restricted contributions whose restrictions are met in the year of contribution are reported as unrestricted support.

#### Temporarily Restricted Net Assets

Temporarily restricted net assets are utilized to account for contributions that are donor-restricted for uses which have not yet been fulfilled either in time or by purpose.

**Permanently Restricted Net Assets**

Permanently restricted net assets are utilized to account for true endowments whereby the donor has permitted the Archdiocese to use the income for operations, but has prohibited the use of principal.

**Income Taxes**

The Archdiocese is a religious organization exempt from income taxes under Section 501(c)3 of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the financial statements. The organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Archdiocese considers all unrestricted highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Investments in marketable securities**

The Archdiocese carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are recognized as changes in net assets in the periods they occur. Investment income and realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

**Accounts receivable**

Accounts receivable are primarily due from Archdiocesan parishes, missions, and schools for insurance premiums and assessments owed to the Administrative Offices. The carrying amounts of receivables have been reduced by a valuation allowance of $2,560,000 and $1,790,000 at June 30, 2012 and 2011, respectively.

**Pledges and bequests receivable**

Promises to give that are scheduled to be received after the end of the reporting period are shown as increases in temporarily restricted net assets and reclassified to unrestricted net assets when the purpose or time restriction is met. Promises to give subject to donor-imposed restrictions that the corpus is maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted and carried at the present value of estimated future cash flows. Amortization of the discount is recorded as contribution revenue.

The Archdiocese uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from the estimates.

**Property and equipment**

Property and equipment are recorded at cost if acquired by purchase and at fair market value at the date of receipt if acquired by gift. Maintenance and repairs are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in the statements of activities. Property and equipment at June 30, 2012 and 2011, consisted of the following:

| | 2012 | 2011 |
|---|---|---|
| Land | $ 27,247,929 | $ 26,397,390 |
| Land improvements | 7,079,947 | 4,596,249 |
| Buildings | 150,534,659 | 147,204,004 |
| Furniture and equipment | 30,579,430 | 28,023,471 |
| Automobiles | 1,429,050 | 1,306,179 |
| Construction in progress | 96,091 | 3,346,037 |
| | 216,967,106 | 210,873,330 |
| Less accumulated depreciation | (60,056,731) | (54,117,169) |
| Property and equipment, net | $156,910,375 | $156,756,161 |

Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Land improvements | 15 years |
| Buildings | 40-50 years |
| Furniture and equipment | 3-10 years |
| Automobiles | 5-7 years |

Depreciation expense for 2012 and 2011 was $6,108,813 and $5,732,432, respectively.

Land, buildings and equipment are pledged in part to secure bonds payable (Note 5).

Construction in progress consists of costs incurred on construction projects that have not been completed and placed in service as of year-end. At June 30,2011, construction in progress primarily consisted of the construction of baseball and practice fields and HVAC and electrical renovations at two schools. Both projects were completed during fiscal year 2012.

**Deferred charges**

Costs incurred for issuance of bonds to finance schools and a life care facility are included in other assets in the consolidated statements of financial position. Bond issuance costs, totaling $1,896,540, have been capitalized and are being amortized over the life of the bonds using the interest method. Amortization of bond issuance costs for the years ended June 30, 2012 and 2011, totaled $81,339 and $82,179, respectively, and accumulated amortization at June 30, 2012 and 2011, totaled $800,546 and $719,207, respectively.

**Contributions**

Contribution revenues are recorded as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions that are not fulfilled in the accounting period. Contributions subject to donor-imposed restrictions are recorded as temporarily restricted support and are reclassified to unrestricted support when the donor-imposed restriction has been fulfilled or the stipulated time period has elapsed.

**Revenue recognition - Catholic Continuing Care Retirement Communities, Inc.**

Revenues for Catholic Continuing Care Retirement Communities, Inc. (CCCRC) are primarily generated from monthly fees for the independent living units, amortization of entrance fees, and monthly fees and per diem charges for assisted living units and skilled nursing beds. Additional revenue is also generated from ancillary services such as activity fees, additional housekeeping, guest meals, and beauty services.

Entrance fees that are expected to be non-refundable to the resident are recorded as deferred revenue and are amortized into revenue using the straight-line method over the estimated remaining life expectancy of the resident, as determined by actuarial life expectancy tables. The remaining life expectancy is re-evaluated annually and amortization periods adjusted accordingly. Entrance fees that are refundable to the resident to the extent of subsequent re-occupancy proceeds are recorded as deferred revenue and are amortized into revenue using the straight-line method over the estimated remaining useful life of the facility.

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

**Residency agreements**

All residents at Catholic Continuing Care Retirement Communities are required to sign a residency agreement that defines the terms of their residency at the Community. The residency agreement requires an entrance fee ranging from approximately $191,000 to $540,000. The entrance fee is 80%, 90%, or 95% refundable at the time the resident no longer lives at the Community. Except under special circumstances stipulated in the agreement, residents receive their refund after receipt of sufficient proceeds to fully refund the obligation from the next remarketing and occupancy of a similar residence.

## Note 2 - Investments

At June 30, 2012 and 2011, investments consisted of the following:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| Short-term investments | $ 5,939,147 | $ 5,939,147 | $ 31,901,353 | $ 31,901,353 |
| Corporate obligations | 7,448,159 | 7,065,028 | 9,958,943 | 8,416,928 |
| Equity securities | 34,693,542 | 31,691,751 | 28,478,765 | 24,526,071 |
| Equity funds | 32,168,560 | 33,216,340 | 23,866,093 | 21,410,921 |
| Debt mutual funds | 30,472,535 | 30,111,205 | 10,367,454 | 10,291,460 |
| U.S. Government obligations | 20,237,232 | 19,819,027 | 9,755,920 | 9,633,300 |
| | $130,959,175 | $127,842,498 | $114,328,528 | $106,180,033 |

## Note 3 - Pledges receivable

Pledges receivable of $6,519,773 and $6,843,028 at June 30, 2012 and 2011, respectively, represent unconditional promises to give. Substantially all of the pledges are due in less than one year. Pledges receivable at June 30, 2012 and 2011, have been reduced by a valuation allowance of $750,000 and $600,000, respectively.

## Note 4 - Loans receivable and deposits payable

The amounts due from parishes relate primarily to interest-bearing loans made to the parishes and agencies by the Administrative Offices. Interest rates range from 0% to 5.5% for the years ended June 30, 2012 (0% to 6% prior to July 1, 2011). Loans receivable have been reduced by a $275,000 and $250,000 allowance for uncollectible loans at June 30, 2012 and 2011, respectively.

The Archdiocese administers a deposit and loan plan for the parishes. Parishes may deposit any excess funds with the Administrative Office. The Administrative Office uses the funds on deposit to loan to other parishes. Interest on these deposits is credited at the rate of 3.25% for the years ended June 30, 2012 and 3.75% prior to July 1, 2011.

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

**Note 5 - Bonds and notes payable**

Bonds and notes payable consist of the following at June 30, 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds dated February 1, 1999, and maturing April 1, 2024 | $18,200,000 | $19,400,000 |
| Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds dated February 1, 1999, and maturing April 1, 2024. These bonds were paid in full in 2012. | - | 3,000,000 |
| Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds dated March 1, 1999, and maturing April 1, 2024. | 11,900,000 | 12,800,000 |
| Tax-Exempt Variable Rate Educational Facilities Revenue Bonds dated December 19, 2002, and maturing April 1, 2028. | 18,630,000 | 18,885,000 |
| Tax-Exempt Variable Rate Educational Facilities Revenue Bonds dated December 19, 2002, and maturing April 1, 2028. | 6,640,000 | 6,740,000 |
| Development Authority of Fulton County Tax-Exempt Variable Rate Revenue Bonds (CCCRC bonds) dated April 1, 2004, and maturing April 1, 2034. | 21,350,000 | 21,750,000 |
| Unsecured bank note payable in the original amount of $10,000,000 with interest at LIBOR plus 1.875%. This note was paid in full in 2012. | - | 7,833,333 |
| | $76,720,000 | $90,408,333 |

Maturities of bonds and notes payable are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2013 | $ 2,955,000 |
| 2014 | 3,155,000 |
| 2015 | 3,235,000 |
| 2016 | 3,435,000 |
| 2017 | 3,550,000 |
| 2018-2034 | 60,390,000 |
| | $76,720,000 |

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

Effective January 26, 2012, the educational bond debt was modified whereby the bank that originally issued a letter of credit securing the bonds, purchased the outstanding bonds. As part of the restructuring, the variable interest rate on the bonds was modified and the letter of credit was cancelled. Interest at 67% of LIBOR plus 1.25% is payable monthly. The bonds are secured by various school properties owned by Catholic Education of North Georgia, Inc. The total carrying amount of these properties was approximately $72,000,000 and $73,000,000 at June 30, 2012 and 2011, respectively. All of the educational bonds require monthly interest payments and mature in varying annual amounts through April 1, 2028. The rate at June 30, 2012, was 1.410%.

Effective November 1, 2011, the CCCRC bond debt agreements were amended and restated. Included in the restructuring, the bank that originally issued a letter of credit securing the bonds purchased all of the outstanding bonds, cancelled the letter of credit, and replaced it with a continuing covenant agreement whereby CCCRC is required to meet certain operating covenants. In lieu of CCCRC paying the bond principal and interest and letter of credit fees, CCCRC is obligated to pay a note dated November 1, 2011, and maturing October 1, 2014, with an original principal amount equal to the outstanding bonds of $21,750,000. Interest at 67% of LIBOR plus 1.32% is payable monthly. The rate at June 30, 2012, was 1.48%. Annual principal payments are the same as bond maturities shown above. Unless the bank otherwise agrees, CCCRC is required to purchase the bonds from the bank at the bank note maturity on October 1, 2014. The CCCRC bonds are secured by substantially all of the CCCRC assets and a Keep Well agreement. The total carrying amount of these assets was approximately $55,300,000 and $55,700,000 at June 30, 2012 and 2011, respectively. Under the Keep Well agreement, the Archdiocese has committed to fund any operating deficits, as defined in the agreement, of CCCRC up to $3,000,000.

As discussed in Note 6, the Archdiocese has entered into various interest rate swap agreements that provide for fixed rates of interest on the bonds.

At June 30, 2012, the Archdiocese had one unsecured bank line of credit totaling $20,000,000. This note is payable on demand and bears interest at 1.25%. The total outstanding under the demand note at June 30, 2012 and 2011, was $828,257 and $0, respectively.

In 2012, the Archdiocese received an interest free loan from a private foundation. The balance at June 30, 2012, was $3,000,000. The loan requires annual principal payments of $600,000.

Interest expense to the Archdiocese on bonds and notes payable and interest paid on deposits from parishes and agencies (Note 4) totaled $7,981,270 and $8,245,525 for the years ended June 30, 2012 and 2011, respectively. Cash payments for interest totaled $8,321,327 and $8,272,000 for fiscal years 2012 and 2011, respectively.

Interest expense for the years ended June 30, 2012 and 2011, is reported in the statements of activities as follows:

| | 2012 | 2011 |
|---|---|---|
| Interest included in school operations | $2,978,508 | $2,994,671 |
| Interest included in CCCRC operations | 1,239,519 | 1,214,206 |
| Interest charged against loan fund income (Note 4) | 3,763,243 | 4,036,648 |
| | $7,981,270 | $8,245,525 |

Under the debt and swap agreements, the Archdiocese is required to maintain certain financial covenants, including ratios of unrestricted cash and marketable securities to consolidated funded debt and unrestricted net assets to consolidated funded debt. The Archdiocese is in compliance with these requirements as of June 30, 2012 and 2011.

**Note 6 - Interest rate swap agreements**

In order to mitigate its exposure to interest rate fluctuations, the Archdiocese entered into various interest rate swap agreements that provide for fixed rates of interest on the school bonds, CCCRC bonds and note payable (Note 5). The purpose of entering into these swaps is to eliminate long-term interest rate variability by converting LIBOR-based variable-rate payments to fixed-rate payments. The Archdiocese's interest rate swap agreements have been designed and qualify as cash flow hedging instruments. The fair value of the liabilities represent the discounted amount the Archdiocese would have to pay the bank to terminate the agreements at the respective balance sheet dates. The change in fair value of the interest rate swap agreements is recorded in the statements of activities as a gain or loss on interest rate swap agreements. The Archdiocese has no plans to terminate the interest rate swap agreements prior to the expiration date of the agreements.

By using a derivative financial instrument to hedge its exposure to changes in interest rates, the Archdiocese exposes itself to credit and market risk. Credit risk is the failure of the counter party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter party owes the Archdiocese, which creates credit risk for the Archdiocese. When the fair value of a derivative contract is negative the Archdiocese owes the counter party and, therefore, it does not possess credit risk. The Archdiocese minimized the credit risk in derivative instruments by entering into transactions with high-quality counter parties.

Market risk is an adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing the monitoring parameters that limit the types and degree of market risk may be undertaken.

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The table below summarizes the swap information reported in the financial statements as of June 30, 2012 and 2011, and for the years then ended.

| Issue | Effective Date | Expiration Date | Notional Amount | | Fixed Interest Rate | Variable Interest Rate as of | | Fair Value of Asset (Liability) in Statement of Financial Position | | Gain (loss) on interest rate Swap Agreements in Statement of Activities | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | June 30, | | | June 30, | | June 30, | | June 30, | |
| | | | 2012 | 2011 | | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| School Bonds | 4/1/2004 | 7/1/2011 | $ - | $ - | - | - | - | $ - | $ - | $ - | $ 2,320 |
| CCCRC Bonds | 5/15/2007 | 5/1/2017 | 21,305,000 | 21,750,000 | 3.90% | 0.18233% | 0.12800% | (3,088,718) | (2,405,984) | (682,734) | 36,969 |
| School Bonds | 10/1/2008 | 1/24/2012 | - | 16,750,000 | 3.58% | - | 0.14000% | - | (1,698,027) | 1,698,027 | 238,342 |
| Note Payable | 4/6/2009 | 6/30/2012 | - | 7,833,333 | 3.80% | - | 0.19103% | - | (113,682) | 113,682 | 53,843 |
| School Bonds | 1/4/2010 | 1/24/2012 | - | 25,705,000 | 3.25% | - | 0.14000% | - | (2,799,007) | 2,799,007 | 505,095 |
| School Bonds | 7/1/2010 | 1/24/2012 | - | 18,450,000 | 4.53% | - | 0.14000% | - | (2,036,984) | 2,036,984 | 446,187 |
| School Bonds | 1/26/2012 | 7/1/2020 | 55,370,000 | - | 3.55% | 1.41000% | - | (9,596,561) | - | (9,596,561) | - |
| | | | $76,675,000 | $90,488,333 | | | | $(12,685,279) | $(9,053,684) | $(3,631,595) | $1,282,756 |

## Note 7 - Contingencies

The Archdiocese has been named defendant in various civil lawsuits. The Archdiocese considers all of these suits to be without basis and plans to vigorously contest the claims. The likely outcome of the various lawsuits cannot be determined.

## Note 8 - Endowment and designated investment funds

Permanently restricted net assets include donor-restricted endowment funds. Unrestricted net assets include funds that have been designated by the Archbishop (board-designated) to function as endowments. The donor-restricted endowment funds and the board designated funds are collectively referred to as endowment funds. The endowment funds are restricted or designated for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Archdiocese has interpreted Georgia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Archdiocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Archdiocese in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Archdiocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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1. The duration and preservation of the fund
2. The purposes of the Archdiocese and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Archdiocese
7. The investment policies of the Archdiocese

Endowment net assets composition by type of fund as of June 30, 2012 and 2011:

| June 30, 2012 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | | | | |
| Campus ministry | $ - | $ 49,133 | $ 135,000 | $ 184,133 |
| Cemeteries | | 187,416 | - | 187,416 |
| Community service | | 411,996 | 3,153,896 | 3,565,892 |
| Dependent children | | 946,886 | 387,207 | 1,334,093 |
| Education | (23,326) | 12,252,511 | 33,554,860 | 45,784,045 |
| Elderly | (37) | 266,703 | 441,468 | 708,134 |
| Operations | | 333,594 | 5,160,834 | 5,494,428 |
| Parishes | | 81,333 | 1,463,638 | 1,544,971 |
| Seminary | - | 2,445,698 | 3,658,000 | 6,103,698 |
| | (23,363) | 16,975,270 | 47,954,903 | 64,906,810 |
| Board-designated endowment funds | | | | |
| Charitable gift annuity | 444,108 | - | - | 444,108 |
| Clergy welfare | 134,128 | | | 134,128 |
| Dependent children | 49,823 | | | 49,823 |
| Donor-advised fund | 1,826,082 | | | 1,826,082 |
| Education | 1,717,362 | | | 1,717,362 |
| Operations | 1,438,384 | | | 1,438,384 |
| Parishes | 8,912,376 | | | 8,912,376 |
| Retired priests | 1,246,007 | | | 1,246,007 |
| Seminary | 3,881,929 | - | - | 3,881,929 |
| | 19,650,199 | - | - | 19,650,199 |
| Total | $19,626,836 | $16,975,270 | $47,954,903 | $84,557,009 |

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

| June 30, 2011 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | | | | |
| Campus ministry | $ - | $ 56,720 | $ 135,000 | $ 191,720 |
| Cemeteries | | 188,459 | | 188,459 |
| Community service | | 454,913 | 1,003,896 | 1,458,809 |
| Dependent children | | 1,181,750 | 387,207 | 1,568,957 |
| Education | (20,221) | 13,579,554 | 33,046,615 | 46,605,948 |
| Elderly | | 279,811 | 441,368 | 721,179 |
| Operations | | 448,056 | 5,119,994 | 5,568,050 |
| Parishes | | 71,196 | 243,978 | 315,174 |
| Seminary | - | 2,515,705 | 3,657,900 | 6,173,605 |
| | (20,221) | 18,776,164 | 44,035,958 | 62,791,901 |
| Board-designated endowment funds | | | | |
| Charitable gift annuity | 426,504 | - | - | 426,504 |
| Clergy welfare | 131,508 | | | 131,508 |
| Dependent children | 48,759 | | | 48,759 |
| Donor-advised fund | 2,544,967 | | | 2,544,967 |
| Education | 1,790,371 | | | 1,790,371 |
| Operations | 1,483,821 | | | 1,483,821 |
| Parishes | 8,737,640 | | | 8,737,640 |
| Retired priests | 1,221,434 | | | 1,221,434 |
| Seminary | 4,015,716 | - | - | 4,015,716 |
| | 20,400,720 | - | - | 20,400,720 |
| Total | $20,380,499 | $18,776,164 | $44,035,958 | $83,192,621 |

Changes in endowment net assets for the years ended June 30, 2012 and 2011:

| June 30, 2012 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 20,380,499 | $18,776,164 | $ 44,035,958 | $83,192,621 |
| Contributions | | | 639,040 | 639,040 |
| Transfers to increase board designated funds | 88,020 | | | 88,020 |
| Net asset transfers | (275,000) | 75,000 | 3,285,000 | 3,085,000 |
| Investment return | | | | |
| Investment income | 430,356 | 1,523,500 | 889 | 1,954,745 |

Notes to Consolidated Financial Statements
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| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Net realized and unrealized depreciation | (126,041) | (403,406) | (5,984) | (535,431) |
| Appropriation of endowment net assets for expenditure | (867,856) | (2,999,130) | | (3,866,986) |
| Restoration of deficiencies in donor-restricted endowment funds | (3,142) | 3,142 | - | - |
| Endowment net assets, end of year | $19,626,836 | $ 16,975,270 | $47,954,903 | $84,557,009 |

| June 30, 2011 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $17,160,099 | $13,522,767 | $42,843,088 | $73,525,954 |
| Contributions | | 163,993 | 1,237,223 | 1,401,216 |
| Transfers to increase board designated funds | 615,530 | | | 615,530 |
| Investment return | | | | |
| Investment income | 412,882 | 1,331,999 | 697 | 1,745,578 |
| Net realized and unrealized appreciation | 2,632,573 | 7,158,738 | | 9,791,311 |
| Appropriation of endowment net assets for expenditure | (656,588) | (3,185,330) | (45,050) | (3,886,968) |
| Restoration of deficiencies in donor-restricted endowment funds | 216,003 | (216,003) | - | - |
| Endowment net assets, end of year | $20,380,499 | $18,776,164 | $44,035,958 | $83,192,621 |

The Archdiocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Archdiocese must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to produce a reasonable rate of return under current market conditions with minimal risk.

The Archdiocese's spending policy reflects the fundamental objective of preserving and enhancing the resources of the Archdiocese, both at present and in the future. Current spending and the long term objectives of preserving and enhancing the assets are

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

balanced by considerations given to reasonable expectations of investment returns, contributions, operating expenses, and inflation. The Archdiocese has a policy of appropriating for distribution each year amounts that are required to be distributed under the terms of donor-restricted endowment agreements and amounts needed to fund and subsidize Archdiocesan programs and agencies. In establishing this policy, the Archdiocese considered the long-term expected return on its endowment. Accordingly, over the long term, the Archdiocese expects the current spending policy to allow its endowment to grow at a rate that will maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

## Note 9 - Restrictions on net assets

Temporarily restricted net assets and permanently restricted net assets, including donor-restricted endowment funds, are available for the following purposes at June 30, 2012 and 2011:

| | June 30, 2012 | | | June 30, 2011 | | |
|---|---|---|---|---|---|---|
| | Temporarily Restricted | Permanently Restricted | Total | Temporarily Restricted | Permanently Restricted | Total |
| Campus ministry | $ 49,133 | $ 135,000 | $ 184,133 | $ 56,720 | $ 135,000 | $ 191,720 |
| Cemeteries | 187,416 | - | 187,416 | 188,459 | - | 188,459 |
| Community service | 411,996 | 3,153,896 | 3,565,892 | 454,913 | 1,003,896 | 1,458,809 |
| Dependent children | 946,886 | 387,207 | 1,334,093 | 1,181,750 | 387,207 | 1,568,957 |
| Education | 12,252,511 | 33,554,860 | 45,807,371 | 13,579,554 | 33,046,615 | 46,626,169 |
| Elderly | 266,703 | 441,468 | 708,171 | 279,811 | 441,368 | 721,179 |
| Operations | 333,594 | 5,160,834 | 5,494,428 | 448,056 | 5,119,994 | 5,568,050 |
| Parishes | 81,333 | 1,463,638 | 1,544,971 | 71,196 | 243,978 | 315,174 |
| Religious purposes | 2,012,299 | - | 2,012,299 | - | - | - |
| School operations | 2,327,601 | - | 2,327,601 | 1,039,487 | - | 1,039,487 |
| Seminary | 2,445,698 | 3,658,000 | 6,103,698 | 2,515,705 | 3,657,900 | 6,173,605 |
| | $21,315,170 | $47,954,903 | $69,270,073 | $19,815,651 | $44,035,958 | $63,851,609 |

## Note 10 - Financial Instruments

The Financial Accounting Standards Board (FASB) requires disclosure about financial instruments and related off-balance sheet risk and concentrations of credit risk. The activity of the Administrative Offices of the Archdiocese of Atlanta and its subsidiaries is primarily with the parishes and missions within the Archdiocese, which covers approximately fifty percent of the State of Georgia. The accounts, pledges, and loans receivable from parishes and bonds, notes and mortgages payable are all associated with the parishes or other Archdiocesan activities. Any off-balance sheet risk or credit risk is dependent on the financial support of the parishioners to their local parish and the parishes subsequent support of the Archdiocese.

The Archdiocese places its cash and investments with various financial institutions. All funds in non-interest bearing bank accounts are fully insured by the Federal Deposit Insurance Company (FDIC) through December 31, 2012. After that date, FDIC insurance coverage will be limited to $250,000. Other financial instruments are reported at amounts which the Archdiocese believes are not materially different from fair value.

**Note 11 - Fair value measurements**

Generally accepted accounting principles require that certain assets and liabilities be measured at fair value on a recurring basis. For the Archdiocese, the assets and liabilities that are adjusted to fair value on a recurring basis are investments in marketable securities, pledges and bequests receivable, charitable gift annuities payable and interest rate swap agreements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

*Level 1* - Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date.

*Level 2* - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents, accounts receivable, loans receivable, accounts payable, and deposits payable - carrying amounts approximate fair value based upon the nature of the instrument.

Pledges receivable are valued at estimated net realizable value discounted to present value at 3.25% to 3.75%. Change in value includes changes in discount and adjustments to the allowance for uncollectible pledges.

Interest rate swap - fair value determined using a discounted cash flow method based on forward interest rates and expected cash flows.

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The following table presents the Archdiocese's fair value hierarchy for the financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and 2011:

| June 30, 2012 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments | | | | |
| Short-term investments | $ 5,939,147 | $ - | $ 5,939,147 | $ - |
| Corporate obligations - domestic bonds | 6,518,413 | - | 6,518,413 | - |
| Corporate obligations - international bonds | 929,746 | 929,746 | - | - |
| Equity securities - domestic | 25,911,364 | 25,911,364 | - | - |
| Equity securities - exchange traded funds | 7,893,073 | 7,893,073 | - | - |
| Equity securities - international | 889,105 | 889,105 | - | - |
| Equity funds - domestic | 22,307,080 | 22,307,080 | - | - |
| Equity funds - international | 9,861,480 | 9,861,480 | - | - |
| Debt funds - domestic and international | 30,472,535 | 30,472,535 | - | - |
| U.S. agency funds | 4,347,569 | - | 4,347,569 | - |
| U.S. agency securities | 1,717,827 | 1,717,827 | - | - |
| U.S. treasury notes | 3,336,408 | 3,336,408 | - | - |
| U.S. government bond funds | 10,835,428 | 10,835,428 | - | - |
| | $ 130,959,175 | $114,154,046 | $16,805,129 | $ - |
| Pledges receivables | $ 6,519,773 | $ - | $ - | $ 6,519,773 |
| Interest rate swap liability | $ 12,685,279 | $ - | $ - | $12,685,279 |

| June 30, 2011 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments | | | | |
| Short-term investments | $ 31,901,353 | $ - | $31,901,353 | $ - |
| Corporate obligations - domestic bonds | 8,785,873 | - | 8,785,873 | - |
| Corporate obligations - international bonds | 1,173,070 | 1,173,070 | - | - |
| Equity securities - domestic | 20,426,249 | 20,426,249 | - | - |
| Equity securities - exchange traded funds | 7,835,556 | 7,835,556 | - | - |
| Equity securities - international | 216,960 | 216,960 | - | - |
| Equity funds - domestic | 12,266,756 | 12,266,756 | - | - |
| Equity funds - international | 11,599,337 | 11,599,337 | - | - |
| Debt funds - domestic and international | 10,367,454 | 7,347,616 | 3,019,838 | - |
| U.S. agency funds | 3,354,220 | - | 3,354,220 | - |
| U.S. agency securities | 1,918,548 | 1,622,648 | 295,900 | - |
| U.S. treasury notes | 4,483,152 | 4,483,152 | - | - |
| | $114,328,528 | $66,971,344 | $47,357,184 | $ - |
| Pledges receivables | $ 6,843,028 | $ - | $ - | $ 6,843,028 |
| Interest rate swap liability | $ 9,053,684 | $ - | $ - | $ 9,053,684 |

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The following is a reconciliation of the change in fair value for the years ended June 30, 2012 and 2011 for Level 3:

| | Year Ended June 30, | |
|---|---|---|
| | 2012 | 2011 |
| Interest rate swap liability | | |
| Liability at beginning of year | $ 9,053,684 | $10,336,441 |
| Change in value | 3,631,595 | (1,282,757) |
| Liability at end of year | $12,685,279 | $ 9,053,684 |
| | | |
| Pledges receivable | | |
| Receivable at beginning of year | $ 6,843,028 | $ 4,892,499 |
| New pledges received | 10,909,135 | 10,514,804 |
| Payments on pledges | (6,312,555) | (5,823,234) |
| Change in value of pledges | (4,919,835) | (2,741,041) |
| Receivable at end of year | $ 6,519,773 | $ 6,843,028 |

The change in value of the interest rate swap agreements in 2012 and 2011, is attributable to the revaluation of the interest rate swap agreements based on the current market conditions and is included in the change in net assets for the years ended June 30, 2012 and 2011.

Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amount that the Archdiocese could realize in a current market exchange.

**Note 12 - Post retirement benefits**

**Clergy retirement plan**

On July 1, 1969, the Archdiocese adopted a retirement plan which covers all priests within the Archdiocese. The Archdiocese's funding policy is to make contributions to the plan at such times and in such amounts required to keep the plan actuarially sound. Benefits are based on years of service. Contributions are intended to provide not only for benefits attributed to service to-date, but also for those expected to be earned in the future. The Archdiocese expects to contribute approximately $750,000 to the Plan during the fiscal year ending June 30, 2013.

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The annual measurement date is June 30, for the pension benefits. The following table provides further information about the Archdiocese's clergy retirement plan:

| | 2012 | 2011 |
|---|---|---|
| Obligation and Funded Status | | |
| Projected benefit obligation | $(18,259,987) | $(14,229,528) |
| Plan assets at fair value | 9,517,233 | 8,420,105 |
| Funded status | $ (8,742,754) | $ (5,809,423) |
| | | |
| Accumulated benefit obligation | $ 18,259,987 | $ 14,229,528 |
| Employer contributions | 1,878,764 | 883,949 |
| Benefits paid | 861,817 | 803,776 |

Amounts recognized in the consolidated statements of financial position:

| | | |
|---|---|---|
| Noncurrent liabilities | $ 8,742,754 | $5,809,423 |

Amounts recognized in the consolidated statements of activities:

| | 2012 | 2011 |
|---|---|---|
| Service cost with interest | $ 440,449 | $ 398,425 |
| Interest cost | 760,498 | 763,473 |
| Expected return on plan assets | (601,337) | (492,165) |
| Amortization of prior service cost (credit) and net (gain)/loss | 239,655 | 269,076 |
| Net periodic pension cost (income) | $ 839,265 | $ 938,809 |
| | | |
| Other changes in net assets: | | |
| Actuarial gain (loss) | $(4,212,485) | $ 138,710 |
| Amortization of prior service cost | 239,655 | 269,076 |
| | $(3,972,830) | $ 407,786 |

The estimated net loss and prior service cost that will be amortized from changes in unrestricted net assets into net periodic benefit cost in 2013 are $425,547 and $0, respectively.

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The following assumptions were used in accounting for the plan:

| | 2012 | 2011 |
|---|---|---|
| Weighted-average assumptions used to determine benefit obligations: | | |
| Discount rate | 4.0% | 5.5% |
| Expected return on plan assets | 7.5% | 7.5% |
| Future cost of living adjustments | 3.0% | 3.0% |
| Weighted-average assumptions used to determine the net periodic benefit cost: | | |
| Discount rate | 5.5% | 6.0% |
| Expected return on plan assets | 7.5% | 7.5% |
| Future cost of living adjustments | 3.0% | 3.0% |

Retirement age: Age based retirement rates are given below:

| Age | Probability of Retirement |
|---|---|
| 65 | 33.33% |
| 66-74 | 15.00% |
| 75+ | 100.00% |

Mortality rates (per 1,000 lives): RP-2000 combined mortality table

| Age | Male | Female |
|---|---|---|
| 20 | 0.35 | 0.19 |
| 35 | 0.77 | 0.48 |
| 50 | 2.14 | 1.68 |
| 60 | 6.75 | 5.06 |

Disability: Rates varying by age and service:

| Age | Male | Female |
|---|---|---|
| N/A | N/A | N/A |

The Archdiocese’s overall investment strategy is to achieve a mix of investments for long-term growth and near-term benefit payments with a diversification of asset types, fund strategies, and fund managers. The target allocation for plan assets is 65% equity securities and 35% corporate bonds and U.S. Treasury securities.

The Archdiocese’s expected rate of return on plan assets is determined by the plan assets’ historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

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No plan assets are expected to be returned to the Archdiocese during the fiscal year ending June 30, 2013.

The following benefits are expected to be paid:

| Year Ending June 30, | Amount |
|---|---|
| 2013 | $ 828,820 |
| 2014 | 833,525 |
| 2015 | 834,701 |
| 2016 | 840,003 |
| 2017 | 843,059 |
| 2018-2022 | 4,374,800 |
| | $8,554,908 |

Billings to the parishes and agencies and related pension and administrative expenses for clergy retirement are reported in insurance revenues and expenses as follows:

| | Year Ended June 30, | |
|---|---|---|
| | 2012 | 2011 |
| Pension and administrative expenses | $ 853,948 | $ 979,285 |
| Billings to parishes and agencies | (879,918) | (882,118) |
| | $ (25,970) | $ 97,167 |

The fair values of the Archdiocese's pension plan assets at June 30, 2012 and 2011, by asset category as follows:

| June 30, 2012 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Short-term investments | $1,184,307 | $1,184,307 | $ - | $ - |
| U.S. Treasury obligations | 735,340 | 428,748 | 306,591 | - |
| Marketable debt securities | 585,710 | - | 585,710 | - |
| Marketable equity securities | 4,470,405 | 4,470,405 | - | - |
| Equity mutual funds | 2,541,470 | 2,541,470 | - | - |
| | $9,517,233 | $8,624,931 | $ 892,302 | $ - |

| June 30, 2011 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Short-term investments | $ 964,654 | $ 964,654 | $ - | $ - |
| U.S. Treasury obligations | 475,647 | 331,794 | 143,853 | - |
| Marketable debt securities | 517,855 | - | 517,855 | - |
| Marketable equity securities | 4,418,147 | 4,418,147 | - | - |
| Equity mutual funds | 2,043,802 | 2,043,802 | - | - |
| | $8,420,105 | $7,758,397 | $ 661,708 | $ - |

Notes to Consolidated Financial Statements
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**Clergy long-term care plan**

On January 1, 2012, the Archdiocese adopted a long-term care plan covering priests within the Archdiocese. To be eligible for the plan, a priest must be incardinated within the Archdiocese and must be an active participant in the clergy retirement plan. There are no minimum age or service requirements to qualify for benefits under the plan.

The following table provides further information about the clergy long-term care plan:

| | 2012 |
|---|---|
| Obligation and Funded Status | |
| Projected benefit obligation | $ (4,713,816) |
| Plan assets at fair value | 4,150,369 |
| Funded status | $ (563,447) |
| | |
| Accumulated benefit obligation | $ 4,713,816 |
| Employer contributions | 4,100,000 |
| Benefits paid | 42,600 |

Amounts recognized in the consolidated statements of financial position:

| | |
|---|---|
| Noncurrent liabilities | $ 563,447 |

Amounts recognized in the consolidated statements of activities:

| | 2012 |
|---|---|
| Service cost with interest | $ 42,901 |
| Interest cost | 94,504 |
| Expected return on plan assets | - |
| Immediate recognition of prior service cost | 4,388,783 |
| Net periodic pension cost (income) | $ 4,526,188 |

Other changes in net assets:

| | |
|---|---|
| Actuarial (gain) loss | $137,259 |

The following assumptions were used in accounting for the plan:

| | 2012 |
|---|---|
| Weighted-average assumptions used to determine the net periodic benefit obligations: | |
| For the year end disclosure | |
| Discount rate | 4.25% |
| Expected return on plan assets | 7.50% |
| Future cost of living adjustments | 2.75% |

Notes to Consolidated Financial Statements
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Weighted-average assumptions used to determine the net periodic benefit cost:

| | |
|---|---|
| Discount rate | 4.50% |
| Expected return on plan assets | 7.50% |
| Future cost of living adjustments | 2.75% |

Mortality rates (per 1,000 lives):

| Age | Not on long term care | On long term care |
|---|---|---|
| 20 | 0.27 | N/A |
| 35 | 0.73 | N/A |
| 50 | 1.72 | 76.12 |
| 60 | 5.56 | 150.42 |

Long-term care incidence rates:

| Age | Probability of Retirement |
|---|---|
| 60-64 | 0.485% |
| 65-69 | 0.621% |
| 70-74 | 1.007% |
| 75-79 | 2.092% |
| 80-84 | 4.595% |
| 85-89 | 7.997% |
| 90-99 | 11.545% |
| 100+ | 100.000% |

No plan assets are expected to be returned to the Archdiocese during the fiscal year ending June 30, 2013.

The following benefits are expected to be paid:

| Year Ending June 30, | Amount |
|---|---|
| 2013 | $ 105,209 |
| 2014 | 106,631 |
| 2015 | 113,196 |
| 2016 | 118,873 |
| 2017 | 126,782 |
| 2018-2022 | 744,535 |
| | $1,315,226 |

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

| | June 30, 2012 |
|---|---|
| Plan and administrative expenses | $4,560,568 |
| Billings to parishes and agencies | (83,286) |
| | $4,477,282 |

The fair values of the Archdiocese's pension plan assets at June 30, 2012 and 2011, by asset category as follows:

| June 30, 2012 | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Short-term investments | $ 196,798 | $ 196,798 | $ - | $ - |
| Marketable equity securities | 3,953,570 | 3,953,570 | - | - |
| | $4,150,369 | $4,150,369 | $ - | $ - |

**Lay employee retirement plan**

The Archdiocese sponsors a defined contribution retirement plan that covers all lay employees within the Archdiocese. Contributions to the plan are predetermined amounts based on compensation paid to each lay employee. Benefits under the plan are computed based on the pension fund assets.

The parishes and agencies were billed for their respective share of pension and administrative costs which are included in insurance revenue and expenses as follows:

| | Year Ended June 30, | |
|---|---|---|
| | 2012 | 2011 |
| Pension and administrative expenses | $ 3,234,465 | $ 3,854,383 |
| Billings to parishes and agencies | (3,596,750) | (3,815,352) |
| | $ (362,285) | $ 39,031 |

**Note 13 - Fund raising cost**

The Archdiocese incurred fund raising costs related to the annual appeal campaign of $706,242 in 2012 and $488,218 in 2011.

**Note 14 - Subsequent events**

Management has evaluated subsequent events through November 7, 2012, which is the date the financial statement were available to be issued.