

THE BROTHERHOOD OF ST. GREGORY, INC.
(a Not-for-Profit Organization)

FINANCIAL STATEMENTS

DECEMBER 31, 2011

The Brotherhood of St. Gregory, Inc.
(a Not-for-Profit Organization)

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ACCOUNTANTS' REVIEW REPORT

To the Board of Directors:
THE BROTHERHOOD OF ST. GREGORY, INC

We have reviewed the accompanying statement of assets, liabilities and net assets – modified cash basis, of The Brotherhood of St. Gregory, Inc (a not-for-profit organization) as of December 31, 2011, and the related statements of revenues, expenses, and changes in net assets – modified cash basis, the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Keith Boyer, Certified Public Accountant, LLC

Tarrytown, NY
July 10, 2012

THE BROTHERHOOD OF ST. GREGORY, INC
(A Not-for-Profit Organization)

**STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS**

December 31, 2011

Assets:	
Cash and cash equivalents	104,975
Investments	279,250
Total Assets	\$ 384,225
Liabilities:	
	-
Total Liabilities	-
Net Assets	
Unrestricted	384,225
Total Net Assets	384,225
Total Liabilities and Net Assets	\$ 384,225

See accompanying notes and accountants' review report.

THE BROTHERHOOD OF ST. GREGORY, INC
(A Not-for-Profit Organization)

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS**

Year ended December 31, 2011

Revenue	
Member Tithes - Current Year	\$ 102,985
Member Tithes - Prior Year	360
Associates Contributions	95
Undesignated Donations	630
Annual Convocation	848
Publications	244
Investment Income	13,159
Total Revenue	118,321
Expenses:	
Program services:	
Br John E Nidecker Education Fund	9,481
NAECC participation	150
Publications	6,807
Postulant and Novices Program	18
Education	33
Outreach Grants	16,010
Convocation and Council	55,209
Total program services	87,708
Management and general:	
Habit Parts	1,923
Insurance	3,590
Office Expenses	7,093
Public relations/advertising	2,534
Provincial Expense	2,171
Total management and general	17,311
Total Expenses	105,019
Excess/(Deficit) of Revenue over Expenses	13,302
Net Assets-Unrestricted, beginning of year,	370,923
Net Assets-Unrestricted, end of year	\$ 384,225

See accompanying notes and accountants' review report.

THE BROTHERHOOD OF ST. GREGORY, INC
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NOTES TO FINANCIAL STATEMENTS
December 31, 2011

1. ORGANIZATION,
TAX STATUS AND
SIGNIFICANT
ACCOUNTING
POLICIES:

Organization

The Brotherhood of Saint Gregory, Inc, (the Brotherhood), is a Christian Community of the Episcopal Church, whose members follow a common rule and serve the church on parochial, diocesan, and national levels. Members – clergy and lay, without regard to marital status – live individually, in small groups, or with their families. They support themselves and the community through their secular or church-related work, making use of their God-given talents in the world while not being of the world. The trust that all labor and life can be sanctified is summed in the community’s motto: *Sole Deo Gloria*, To God Alone the Glory.

The Brotherhood was founded on Holy Cross Day 1969, by Richard Thomas Biernacki, the present Minister General.

Tax Status

The Brotherhood is exempt from Federal Income Tax under Section 501 (a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

The Brotherhood adopted the accounting standard for uncertainty in income taxes which prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of the accounting standards did not have an impact on the Brotherhood’s financial statements.

In assessing the realizability of tax benefits, management considers whether it is more likely than not that some portion or all of any tax position will not be realized. The ultimate realization of such tax positions is dependent upon the generation of future income. Management considers projected future income, and tax planning strategies in making this assessment. Based upon the level of historical income and projections for future income, management believes it is more likely than not that the Brotherhood will realize all tax benefits. Management believes that its tax-exempt status would be sustained upon examination.

If applicable, the Brotherhood would classify interest and penalties on underpayments of income tax as miscellaneous expenses.

The Brotherhood does not expect a significant increase or decrease to the total amounts of unrecognized tax positions during the fiscal year ended December 31, 2011. However, the Brotherhood is subject to regular audit by tax authorities. The Brotherhood believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year.

The Brotherhood files income tax returns in the United States federal and New York state jurisdictions. With few exceptions, the Brotherhood is no longer subject to U.S. federal or state income tax examinations by tax authorities for fiscal years before 2007.

Revenue Recognition

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified cash basis of accounting income is recognized when received, expenses are recognized when paid. Assets are recognized when received. The investment account, (Investments) is adjusted for changes in market value.

Basis of Presentation

The accompanying financial statements include the assets, liabilities, net assets and financial activities of the Brotherhood.

The Brotherhood reports its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Brotherhood is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Brotherhood.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the Brotherhood is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Brotherhood pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Brotherhood reports the support as unrestricted.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

The Brotherhood records contributions received as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Investments

The Brotherhood carries its investments at fair value. In accordance with accounting standards, investments have been measured at fair value determined by quoted market prices and realized and unrealized gains and losses are reported in the statement of activities. Income from investments is considered unrestricted net assets unless restricted by a donor. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standards establish a fair value hierarchy in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable units be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Brotherhood. Unobservable inputs reflect the Brotherhood's assumption about inputs used by market participants at the measurement date. The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1- Valuation based on quoted prices in active markets for identical assets or liabilities that the Brotherhood has the ability to access.

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- Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

Level 3 assets and liabilities measured at fair market value are based on one or more of three valuation techniques noted in the standard. The three valuation techniques are as follows:

Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

Cost approach – Amount that would be required to replace the service capacity of an asset (i.e. replacement costs); and

Income approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option pricing models, and lattice models).

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 and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could affect the Foundation's statement of financial position and statement of activities.

The Brotherhood's investments consist of publicly traded securities which are considered level 1 inputs.

The Brotherhood adopted the provisions of the fair value measurements standard for certain non-financial assets and liabilities. Under this standard, the Brotherhood reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the entity recognizes an impairment loss. No impairment losses were recognized for the year ended December 31, 2011.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles of the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that management uses.

Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 through 2013.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through the accountant's report date and the date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles in the United States of America. Management has determined that there are no unrecognized subsequent events that require additional disclosure.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. As of December 31, 2011, cash and cash equivalents totaled \$104,975.

2. INVESTMENTS:

The Brotherhood participates in a trust fund maintained by the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America, (DFMS). As of December 31, 2011 The Brotherhood's participation was 11,824.085 shares. Income is distributed quarterly and is reflected as interest on these financial statements. Valuation is based on the stated value in the *Statement of Participation*, provided quarterly by the DFMS. The fair market value of this proportionate interest, as of December 31, 2011 is \$210,562. The investments are summarized below.

For the year ended December 31, 2011, the Brotherhood's investments (including unrealized gains on investments held during the year) depreciated in value by \$18,510 resulting in a fair value of \$210,562. The balance of the investments \$66,599 are certificates of deposits held directly in the name of The Brotherhood. Investment activity for the year ended December 31, 2011 is summarized below:

<u>Fair value on a recurring basis</u>	
Fair value - beginning of year	\$ 295,528
Investment activity:	
Transfer to Trust Fund	(25,000)
Interest earned	143
Net decrease in fair value of investments:	
Unrealized gain	<u>(60,109)</u>
Fair value – end of year	<u>\$210,562</u>

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The following tables summarize the investments of the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America, (*the Society*) as of December 31, 2011 of which the Brotherhood has a .0741% interest:

In 000s:

At December 31, 2011, total investments of approximately \$319,000 consist of \$284,000 in trust fund endowment assets, \$9,000 in unit-trust and pooled income funds, \$21,000 in medium-term investments, \$3,000 in St. John's School (Guam) investments and \$2,000 in certificates of deposits with minority controlled banks. At December 31, 2010, total investments of approximately \$341,000 consist of \$307,000 in trust fund assets, \$9,000 in unit-trust and pooled income funds, \$21,000 in medium-term investments, \$2,000 in St. John's School (Guam) investments and \$2,000 in certificates of deposits with minority controlled banks.

Investments are carried at fair value and consist of the following at December 31:

In 000s	Fair Value 2011	Cost 2011
Common Stock	\$ 153,624	\$ 145,627
Bonds:		
Corporate	20,838	22,596
Government	15,659	14,896
Other, primarily mutual bond funds	4,873	4,635
Total bonds	41,370	42,127
Mutual funds (primarily common stock and bonds)	27,061	28,163
Certificates of deposit	2,100	2,100
Other, primary money market funds and other cash equivalents	30,710	30,993
Fund of funds	27,148	24,914
Fixed income fund	27,489	24,038
Global equity fund	9,935	10,000
Total alternative investments	64,572	58,952
Total investments	319,437	307,962
Funds held for the benefit other	(80,393)	(72,634)
Total DFMS-controlled funds	\$ 239,044	\$ 235,328

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The following table prioritizes the inputs used to measure the fair value of Society's investments within the fair value hierarchy at December 31, 2011:

In 000s

	2011			
	Level 1	Level 2	Level 3	Total
Common Stock	\$ 152,848	\$ 776	\$ -	\$ 153,624
Bonds:				
Corporate	20,838	-	-	20,838
Government	15,659	-	-	15,659
Other, primarily mutual bond funds	1,995	2,878	-	4,873
Mutual fund (primarily common stock and bonds)	21,927	5,134	-	27,061
Certificates of deposit	-	2,100	-	2,100
Other, primarily money market funds and cash equivalents	30,681	29	-	30,710
Alternative investments:				
Fund of funds	-	-	27,148	27,148
Fixed income fund	-	27,489	-	27,489
Global equity fund	-	9,935	-	9,935
Total	<u>\$ 243,948</u>	<u>\$ 48,341</u>	<u>\$ 27,148</u>	<u>\$ 319,437</u>

Bonds: The fair value for fixed maturity securities is determined by management after considering one of three primary sources of information: third party pricing services, independent broker quotations, or pricing matrices. Security pricing is applied using a "waterfall" approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to, reported trades, benchmark yields, issued spreads, bids, offers, and/or estimated cash flows and prepayments speeds. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third party pricing services will normally derive the security prices through recent reported trades for identical or similar securities making adjustment through the reporting date based upon available market observable information as outlined above.

Certificates of Deposit: Valued using amortized cost which approximates fair value.

Money Market Funds: Valued using amortized cost which approximates fair value.

Mutual Funds: Valued at net asset value (NAV) of shares held at year end.

Since alternative investments may not be readily marketable, the estimated fair value assigned to such interests is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The values assigned to holdings do not necessarily represent amounts which might ultimately be realized upon sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. Because of the inherent uncertainty of such valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed and the differences could be material.

The following table summarizes the changes in fair value associated with Society Level 3 investments for the year ended December 31, 2011:

In 000s

	2011
Balance, beginning of the year	\$ 17,209
Realized gains	65
Unrealized gain	(126)
Purchases	10,000
Balance, end of year	\$ <u>27,148</u>

The Society lends certain equities and bonds included in its investment portfolio to brokerage firms. In return for the securities loaned, the Society receives cash or securities as collateral in amounts at least equal to the fair value of the securities loaned. The Society retains all right of ownership to the securities loaned and receives all interest and dividend income. The related collateral received under this arrangement at December 31, 2011 is reflected as collateral received under securities loan agreement with an off-setting payable in the accompanying consolidated statements of financial position.

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The Society uses the Net Asset Value (NAV) per share, or its equivalent to determine the fair value as of the measurement date of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investees financial statements consistent with the measurement principles of an investments company or have the attributes of an investment company. The following table details certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2011.

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	\$ Amount of Unfunded Commitments	Timing to Drawdown Commitments	Redemption Terms
Fund of Funds	Commodities, equity, and interest rate-driven focused commingled funds	\$ 27,148	1	N/A	N/A	N/A	Subject to 95 days with prior written Notice.
Fixed Income Fund	Global investment grade fixed income	12,483	1	N/A	N/A	N/A	Any business day of the month, up to 10 business days notice depending on the size of the withdrawal.
Fixed Income Fund	Global equity and fixed income funds in market neutral strategies	2,530	1	N/A	N/A	N/A	Subject to 2 days with written notification.
Fixed Income Fund	U.S. government and corporate fixed income	12,476	6	N/A	N/A	N/A	Subject to 2 days with written notification.
Global Equity Fund	Large and mid-capitalization equities in emerging economies	9,935	1	N/A	N/A	N/A	Monthly as of the last day of any month upon 10 days' prior written notice.
Total		\$ 64,572	10		\$ -	-	

The composition of the collateral received under the securities loan agreement at December 31, 2011 is as follows:

In 000s

	2011
Asset backed securities	\$ 201
Bank notes	510
Corporate debt	232
Total	<u>\$ 943</u>

The collateral detailed above is classified as Level 2 within the FASB's fair value hierarchy as of December 31, 2011.

The society follows the "Total Return Approach" to investments whereby it applies a prudent portion of the realized and unrealized returns on investments to meet current designated and undesignated expenditures. Total return consists of two elements: yield and appreciation. Based on the Society's long-term investment strategy, the Executive Council sets the payout rate on the DFMS trust funds at a percentage (5.5% in 2011) of a five-year moving average market value of the portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation.

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Investment income is comprised of the following for the years ended December 31:

In 000s

	2011
Interest and dividends	\$ 3,673
Realized and unrealized gains	(8,607)
Total investment income	(4,934)
Less: ERD investment income	276
Investment return	\$ (4,658)

The table below shows the money managers, the asset class managed and the percentage of the portfolio under management.

Domestic Large Cap-Growth Equity	11.8%
<i>Edgewood Management (Edgewood)</i>	
Domestic Large Cap-Opportunistic Equity	11.8%
<i>Institutional Capital (ICAP)</i>	
Domestic Large Cap-Value Equity	10.5%
<i>Westwood Management (Westwood)</i>	
Domestic Small Cap-Growth Equity	6.6%
<i>Century Capital Management</i>	
Domestic Small Cap-Value Equity	5.4%
<i>Columbia Management (Formerly RiverSource)</i>	
Domestic Micro Cap Equity	2.6%
<i>DePrince, Race & Zollo</i>	
Domestic Convertibles	4.6%
<i>Advent Capital Management</i>	
Domestic Hedge Fund-of-Funds	9.5%
<i>Blackstone Alternative Asset Management</i>	
International Equity	15.6%
<i>Artio Global Management (Artio)</i>	6.6%
<i>First State Global Artio Global Mgmt (Artio)</i>	3.5%
<i>Vanguard Europe Pacific ETF (Vanguard)</i>	5.5%
Global (Domestic & International) Bonds	18.4%
<i>Western Asset Management (WAMCO)</i>	13.1%
<i>Brandywine Global Investment Management</i>	4.4%
<i>State Street Global Advisors</i>	0.9%
Global Real Estate	3.1%
<i>European Investors</i>	
TOTAL	100%

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Asset Allocation by Market Value
(US Dollars)
December 31, 2011

<u>Manager</u>	<u>U.S. Equity</u>	<u>Int'l Equity</u>	<u>U.S. Bonds</u>	<u>Global Bonds</u>	<u>Passive Bond Index</u>	<u>Short Term & Other</u>	<u>Convertible</u>	<u>Hedge Fund of Funds</u>	<u>Real Estate</u>	<u>Total</u>
ICAP	\$32,430,307					\$1,197,506				\$33,627,813
Westwood	29,337,283					482,124				29,819,407
Edgewood	33,152,896					355,724				33,508,620
Columbia	15,283,856					179,269				15,463,125
DePrince	6,994,383					261,130				7,255,513
Wells Capital	18,300,096					552,879				18,852,975
Artio										
Global		83,769				18,560,273				18,644,042
Vanguard		15,617,193				37,182				15,654,375
First State		9,934,886								9,934,886
Western			27,026,238	2,053,648		8,192,065				37,271,951
Advent						476,150	12,649,882			13,126,032
Blackstone								27,147,756		27,147,756
European									8,801,468	8,801,468
Brandywine				12,482,849						12,482,849
State Street					2,530,368					2,530,368
Total	\$135,498,821	\$25,635,848	\$27,026,238	\$14,536,497	\$2,530,368	\$30,294,302	\$12,649,882	\$27,147,756	\$8,801,468	\$284,121,180
	47.7%	9.0%	9.5%	5.1%	0.9%	10.7%	4.5%	9.6%	3.1%	100%

The Brotherhood has a .0741% interest in the above portfolio amounting to a market value of \$210,562 as of December 31, 2011.