

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate

**Combined Financial Statements and Combining Information
as of June 30, 2007 and 2006 and Report Thereon**

**Central Administrative Office of the Catholic Diocese
of Arlington and Affiliate
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June 30, 2007 and 2006**

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INDEPENDENT AUDITORS' REPORT

Most Reverend Paul S. Loverde
Bishop of the Catholic Diocese of Arlington
Arlington, Virginia

We have audited the accompanying combined statement of financial position of the Central Administrative Office of the Catholic Diocese of Arlington and its affiliate (the "Chancery") as of June 30, 2007, and the related combined statements of activities and cash flows for the year then ended. These combined financial statements are the responsibility of the Chancery's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Chancery as of June 30, 2007 and the changes in its net assets and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The 2006 financial statements were compiled by us in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting the form of financial statements information that is the representation of management. We have not audited or reviewed the 2006 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.


LarsonAllen LLP

St. Cloud, Minnesota
November 26, 2007



**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
 Combined Statements of Financial Position
 As of June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u> (Unaudited) (Restated)
Assets		
Cash and cash equivalents	\$ 13,124,459	\$ 12,783,766
Accounts receivable, net	2,641,149	4,247,136
Accrued interest receivable	726,003	644,511
Bishop's Lenten Appeal pledges receivable, net	2,186,088	2,231,560
Major gifts pledges receivable, net	779,376	1,000,000
Rooted in Faith - Forward in Hope, Inc. pledges receivable, net	15,698,466	32,449,042
Investments	189,534,586	165,502,810
Prepaid expenses	336,978	75,064
Unamortized bond costs	442,227	458,967
Demand notes and loans receivable		
Paul VI High School bond receivable	4,579,917	4,664,917
Diocesan Investment and Loan (DIAL) program 200 North Glebe Road, Inc.	48,672,004	45,004,866
	5,812,416	10,882,416
Property, equipment and land, net	37,698,342	37,028,846
Construction in progress	12,967,393	298,334
Land restricted for high school	14,500,000	-
Total assets	<u>\$ 349,699,404</u>	<u>\$ 317,272,235</u>
Liabilities and Net Assets		
Liabilities		
Deposits held in custody for others	\$ 469,825	\$ 564,927
Accounts payable and accrued expenses	9,046,576	5,120,067
Accrued interest payable	330,280	331,209
DIAL deposits payable	112,538,330	100,586,410
Notes payable, net of discount	642,590	630,814
Amounts due parishes and Catholic Charities	18,991,315	25,346,730
Annuity payment liability	213,611	160,851
Arlington Diocese Educational Foundation (ADEF) funds held for schools	2,519,216	1,938,419
Accrued pension liability, priests	1,296,225	1,641,465
Postretirement health benefit obligation	4,276,849	5,030,700
Bonds payable	25,205,000	25,290,000
Total liabilities	<u>175,529,817</u>	<u>166,641,592</u>
Net assets		
Unrestricted		
Current operations	43,237,485	45,711,726
Invested in property, equipment and land	50,665,735	37,327,180
Functioning as endowment	8,611,718	7,723,922
Designated	5,048,333	5,224,014
Total unrestricted	<u>107,563,271</u>	<u>95,986,842</u>
Temporarily restricted	51,012,601	39,111,559
Permanently restricted	15,593,715	15,532,242
Total net assets	<u>174,169,587</u>	<u>150,630,643</u>
Total liabilities and net assets	<u>\$ 349,699,404</u>	<u>\$ 317,272,235</u>

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

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
 Combined Statement of Activities
 For the year ended June 30, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues and support				
Bishop's Lenten Appeal	\$ 9,407,843	\$ -	\$ -	\$ 9,407,843
Operational assessment	5,630,515	-	-	5,630,515
Investment income for operations	2,000,000	-	-	2,000,000
Transmittal fees	132,925	-	-	132,925
Contributions, bequests and major gifts	596,615	3,236,583	-	3,833,198
Program revenue	1,131,684	-	-	1,131,684
Refugee assistance	-	1,314,887	-	1,314,887
Other revenue and support	43,402	-	-	43,402
Satisfaction of temporary restrictions	4,676,723	(4,676,723)	-	-
Total operating revenues and support	<u>23,619,707</u>	<u>(125,253)</u>	<u>-</u>	<u>23,494,454</u>
Operating expenses				
Program services				
Pastoral	4,036,569	-	-	4,036,569
Religious personnel development	1,664,844	-	-	1,664,844
Education	2,748,582	-	-	2,748,582
Social services	1,963,695	-	-	1,963,695
Refugee assistance	1,314,887	-	-	1,314,887
Supporting services				
Diocesan administration and parochial support	9,343,127	-	-	9,343,127
Rooted in Faith - Forward in Hope, Inc.	238,200	-	-	238,200
Bishop's Lenten Appeal	508,238	-	-	508,238
Total operating expenses	<u>21,818,142</u>	<u>-</u>	<u>-</u>	<u>21,818,142</u>
Change in net assets from operations	<u>1,801,565</u>	<u>(125,253)</u>	<u>-</u>	<u>1,676,312</u>
Other changes in net assets				
Investment income less amount included in operations, net	10,952,318	2,009,544	-	12,961,862
Insurance income and dividends	207,004	-	-	207,004
Change in unfunded pension liability, priests	345,240	-	-	345,240
Change in unfunded postretirement health obligation	753,851	-	-	753,851
Net property loss	(181)	-	-	(181)
Rooted in Faith - Forward in Hope, Inc. contributions, net of bad debt losses	-	(4,483,249)	61,473	(4,421,776)
Contributed land restricted for high school	-	14,500,000	-	14,500,000
DIAL loan interest income	2,301,102	-	-	2,301,102
DIAL deposit interest expense	(4,784,470)	-	-	(4,784,470)
Total other changes in net assets	<u>9,774,864</u>	<u>12,026,295</u>	<u>61,473</u>	<u>21,862,632</u>
Change in net assets	11,576,429	11,901,042	61,473	23,538,944
Net assets, beginning of year	95,986,842	39,111,559	15,532,242	150,630,643
Net assets, end of year	<u>\$ 107,563,271</u>	<u>\$ 51,012,601</u>	<u>\$ 15,593,715</u>	<u>\$ 174,169,587</u>

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

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combined Statement of Activities
For the year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u> (Unaudited) (Restated)
Operating revenues and support				
Bishop's Lenten Appeal	\$ 8,680,571	\$ -	\$ -	\$ 8,680,571
Operational assessment	5,226,910	-	-	5,226,910
Investment income for operations	1,500,000	-	-	1,500,000
Transmittal fees	160,036	-	-	160,036
Contributions, bequests and major gifts	1,383,005	4,057,952	-	5,440,957
Program revenue	1,402,439	-	-	1,402,439
Refugee assistance	-	1,311,298	-	1,311,298
Other revenue and support	27,590	-	-	27,590
Satisfaction of temporary restrictions	6,083,460	(6,083,460)	-	-
Total operating revenues and support	<u>24,464,011</u>	<u>(714,210)</u>	<u>-</u>	<u>23,749,801</u>
Operating expenses				
Program services				
Pastoral	3,773,571	-	-	3,773,571
Religious personnel development	1,493,250	-	-	1,493,250
Education	4,442,571	-	-	4,442,571
Social services	1,753,954	-	-	1,753,954
Refugee assistance	1,311,298	-	-	1,311,298
Supporting services				
Diocesan administration and parochial support	8,422,178	-	-	8,422,178
Rooted in Faith - Forward in Hope, Inc.	265,049	-	-	265,049
Bishop's Lenten Appeal	469,557	-	-	469,557
Total operating expenses	<u>21,931,428</u>	<u>-</u>	<u>-</u>	<u>21,931,428</u>
Change in net assets from operations	<u>2,532,583</u>	<u>(714,210)</u>	<u>-</u>	<u>1,818,373</u>
Other changes in net assets				
Investment income less amount included in operations, net	5,312,078	1,196,369	-	6,508,447
Insurance income and dividends	915,742	-	-	915,742
Change in unfunded pension liability, priests	1,158,691	-	-	1,158,691
Change in unfunded postretirement health obligation	2,118,360	-	-	2,118,360
Net property gains	3,616,876	-	-	3,616,876
Rooted in Faith - Forward in Hope, Inc. contributions	-	1,349,319	90,392	1,439,711
DIAL loan interest income	2,491,638	-	-	2,491,638
DIAL deposit interest expense	(4,260,513)	-	-	(4,260,513)
Total other changes in net assets	<u>11,352,872</u>	<u>2,545,688</u>	<u>90,392</u>	<u>13,988,952</u>
Change in net assets	13,885,455	1,831,478	90,392	15,807,325
Net assets, beginning of year	82,101,387	37,280,081	15,441,850	134,823,318
Net assets, end of year	<u>\$ 95,986,842</u>	<u>\$ 39,111,559</u>	<u>\$ 15,532,242</u>	<u>\$ 150,630,643</u>

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

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combined Statements of Cash Flows
For the years ended June 30, 2007 and 2006**

	2007	2006
Cash flows from operating activities		(Unaudited)
Change in net assets	\$ 23,538,944	\$ 15,807,326
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		(Restated)
Depreciation of equipment	461,887	584,762
Contributed land restricted for high school	(14,500,000)	-
Increase (decrease) in allowance for uncollectible accounts receivable	125,361	(84,944)
Bad debt losses on BLA pledges receivable	1,061,623	176,615
Increase in discount on major gifts pledges receivable	20,624	-
Bad debt losses in <i>Rooted in Faith~Forward in Hope, Inc.</i> pledges receivable	4,987,130	186,767
Accretion of discount on <i>Rooted in Faith~Forward in Hope, Inc.</i> pledges receivable	(367,674)	(174,599)
Decrease in discount on notes payable	11,776	73,902
Decrease in allowance for DIAL demand loans receivable	(300,000)	-
Unrealized and realized (gain) on investments	(10,162,010)	(3,959,381)
Loss (gain) from disposal of land and equipment	181	(3,616,876)
(Decrease) in due to parishes and Catholic Charities	(6,549,051)	(6,411,686)
(Increase) decrease in annuity value	(52,760)	8,367
Decrease (increase) in accounts receivable	1,480,626	(2,494,443)
(Increase) in accrued interest receivable	(81,492)	(102,015)
(Increase) in BLA pledges receivable	(1,016,151)	(1,263,407)
Decrease (increase) in major gift pledges receivable	200,000	(1,000,000)
Decrease in <i>Rooted in Faith~Forward in Hope, Inc.</i> pledges receivable	12,331,038	13,423,514
(Increase) decrease in prepaid expenses	(261,914)	399,686
Decrease in unamortized bond costs	16,740	16,741
(Decrease) in deposits held in custody for others	(95,102)	(228,145)
Increase (decrease) in accounts payable and accrued expenses	1,147,087	(273,952)
Increase in ADEF funds held for schools	72,005	99,256
(Decrease) in accrued interest payable	(929)	(875)
(Decrease) in accrued pension liability, priests	(345,240)	(1,158,691)
(Decrease) in postretirement health benefit obligation	(753,851)	(2,118,360)
Increase (decrease) in annuity payment liability	52,760	(8,367)
Net cash and cash equivalents provided by operating activities	<u>11,021,608</u>	<u>7,881,195</u>
Cash flows from investing activities		
Proceeds from land sales	-	4,132,307
Property purchases deposits	-	50,000
Purchases of buildings and land	(856,538)	(1,128,270)
Purchases of equipment	(256,818)	(577,321)
Payments made for construction in progress	(9,907,845)	(298,334)
Decrease (increase) in 200 North Glebe Road loan receivable	5,070,000	(2,393,718)
DIAL demand loans made	(9,416,104)	(3,755,569)
Repayments on DIAL demand loans	6,048,966	6,740,722
Purchases of investments	(372,978,015)	(488,124,157)
Sales of investments	359,663,519	475,555,979
Net cash and cash equivalents used in investing activities	<u>(22,632,835)</u>	<u>(9,798,361)</u>
Cash flows from financing activities		
Deposits into DIAL deposits payable	36,325,988	37,352,543
Withdrawals of DIAL deposits	(24,374,068)	(27,739,318)
Decrease in Paul VI High School loan receivable	85,000	80,000
Repayments of bonds payable	(85,000)	(80,000)
Net cash and cash equivalents provided by financing activities	<u>11,951,920</u>	<u>9,613,225</u>
Net increase in cash and cash equivalents	340,693	7,696,059
Cash and cash equivalents, at beginning of year	12,783,766	5,087,707
Cash and cash equivalents, at end of year	<u>\$ 13,124,459</u>	<u>\$ 12,783,766</u>
Supplement cash flow information		
Interest paid on debt	\$ 1,322,978	\$ 1,326,588
Equipment and construction in progress purchases in accounts payable	\$ 2,780,964	\$ 1,542
Contributed land restricted for high school	\$ 14,500,000	\$ -

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

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006**

1. Nature of operations

The content of these financial statements is limited to the Central Administrative Office of the Catholic Diocese of Arlington (the Chancery) and its affiliate *Rooted in Faith ~ Forward in Hope, Inc.* (the Campaign). Where applicable, the term “the Chancery” is used for disclosures related to the combined amounts of the Central Administrative Office and the Campaign. The Catholic Diocese of Arlington (the Diocese) consists of the 21 counties of the northern tier of Virginia, including the Northern Neck. The Chancery consists of various offices in order to organize events, monitor activities, coordinate efforts, and support the parishes and schools throughout the Diocese. The offices are classified into the following programs:

- Pastoral includes all offices primarily concerned with ministering the Faith; such as the Office for Family Life, Catholic Youth Office, Tribunal, Spanish Apostolate and the various Campus Ministries.
- Religious Personnel Development includes offices associated with the formational and educational needs of priests and deacons and related activities.
- Education includes offices associated with Catholic school administration and oversight of parish-based religious education programs.
- Social Services includes the Campaign for Human Development, Rice Bowl, Office for Protection of Children and Young People and other charitable contributions, as well as the Diocesan support of Catholic Charities of the Diocese.
- Refugee Assistance is headquartered in Arlington with four outlying offices to assist refugees and asylees with a comprehensive array of resettlement services, including housing, community orientation, employment referrals and English as a second language courses. Expenses for these programs are funded through the United States Catholic Conference of Bishops and the Commonwealth of Virginia, which include passthrough funding from the federal government.
- Diocesan Administration and Parochial Support includes offices concerned with the overall Diocesan administration including the Chancery, Communications, Planning, Construction and Facilities, Finance and Accounting, Human Resources and Employee Benefits, Development and Information Services. These offices also provide services in support of the parishes and schools of the Diocese.
- Bishop’s Lenten Appeal (BLA) includes all expenses associated with the annual fund raising drive.
- Rooted in Faith ~ Forward in Hope, Inc. (the Campaign) – A separately incorporated not-for-profit organization, created exclusively to raise and receive contributions for religious and charitable purposes of the Diocese. The Campaign’s goal is to raise a minimum of \$75 million for five specific needs, as follows:

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

- Parish Needs – A minimum of \$15 million will be provided to participating parishes for their own specific needs.
- Catholic Education – A minimum of \$25 million will be provided toward the creation of two new high schools, and an additional \$15 million for the establishment of four endowments. The annual earnings from the endowments will be used for tuition assistance, faculty development, catechists and youth ministry (endowment income).
- Priests' Retirement Home – A minimum of \$5 million will be provided for the establishment of one or more facilities to accommodate retired priests.
- Diocesan Spirituality Center – A minimum of \$5 million will be provided for the creation of a diocesan spirituality center.
- Catholic Charities of the Catholic Diocese of Arlington (Catholic Charities) - A minimum of \$5 million will be provided for the establishment of an endowment fund for Catholic Charities. The creation of this endowment program will not only allow the agency to stabilize the financial structures of programs currently offered, but also enable it to expand the scope and geographical accessibility of its services to help a greater number of persons in need. An additional \$5 million will be used for the creation of an emergency shelter for homeless families as well as the renovation of Christ House.
- Rooted in Faith ~ Forward in Hope, Inc Allocation Funds (Allocation funds) - Effective July 1, 2003, funds raised in excess of the goal of \$60 million for non-parish needs have been placed in a separate temporarily restricted fund to be allocated at the discretion of the Bishop to those Campaign needs, except Catholic Charities, requiring additional funding beyond the original goal.

2. Basis of presentation and summary of significant accounting policies

Basis of presentation and combination

The accompanying combined financial statement presentation complies with the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. The statements include the accounts of the Chancery, the Campaign (“the Affiliate”), and centralized administrative and Diocesan functions under the control of the Bishop of Arlington (the Diocesan Bishop). They do not include the accounts for Catholic Charities, the Arlington Catholic Herald or 200 North Glebe Road, Inc., over which the Diocesan Bishop exercises control, and are reported separately. Significant intercompany transactions and balances have been eliminated.

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

The financial statements also do not include the accounts of organizations within the Diocese such as parishes, parish schools, cemeteries, homes, and offices and other institutions owned and operated by religious orders of men and women. These organizations may or may not be separate corporations under civil law; however, each is an operating entity distinct from the Chancery, maintains separate accounts and carries on its own services and programs. Transactions between the Chancery and such organizations are recorded on bases agreed upon by the parties.

All properties of parishes and other diocesan-owned entities are legally titled to the Diocesan Bishop and his successors in office. The cost of new properties for future parish sites is included in these financial statements. At the time approval is given to proceed with formal planning of construction of a new parish, the parish is granted free use of the property by the Diocesan Bishop. Although civil ownership resides with the Diocese, the parish, a separate canonical entity, receives ownership of the property at the time of donation from the Chancery. Proceeds of the sale of any excess property shall accrue to the Diocese.

Basis of accounting

The Chancery's combined financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Classification of net assets

The Chancery's net assets have been grouped into the following three categories:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Assets whose use is subject to explicit or implicit donor-imposed restrictions that either expire by the passage of time or can be fulfilled and removed by actions of the Chancery pursuant to these donor restrictions.

Permanently Restricted Net Assets - Net assets that are subject to explicit or implicit donor-imposed restrictions that require the original contribution be maintained in perpetuity by the Chancery, but permits the use of the investment earnings for general or specific purposes.

Unrealized and realized gains and losses and dividends and interest from investing in income-producing assets may be included in any of these net classifications depending on donor restrictions.

Unrestricted net assets

To ensure observances of internally designated limitations and restrictions placed on the use of the resources available to the Chancery, the net assets of the Chancery are maintained in distinct subgroups, whereby, resources for various purposes are classified for accounting and reporting purposes into funds determined in accordance with the internally designated nature and purpose of such funds as follows:

Current operations include all resources available for support of Chancery operations and all custodial funds temporarily held by the Chancery for remittance to the appropriate organizations.

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

Invested in property, equipment and land includes depreciated amounts invested in real property, computer hardware and software, office equipment and furniture and property held for future projects and parish sites, as well as construction in progress.

Functioning as endowment are quasi-endowment funds available for investment as the Diocesan Bishop designates and includes original patrimony of the Diocese. Income from these investments can be used at the discretion of the Diocesan Bishop.

Designated includes monies for the priests' mutual aid fund, medical and property insurance fund, scholarship fund and the Bishop Keating fund for religious personnel development.

Cash and cash equivalents

Cash and short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents, except that any such investments with cash held in trusts or by external endowment investment managers are classified with the deposits and investments, respectively. Cash equivalents include short-term U.S. Treasury securities and other short-term, highly liquid investments, and are carried at cost which approximates fair value.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Chancery provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to accounts receivable.

Property, equipment and land

Property, equipment and land are carried at cost or, in the case of donated or bequeathed property, at fair value at date of donation. Property, equipment and land include real property, equipment, land and the original buildings and grounds of three regional high schools and other affiliated organizations under the control of the diocesan Bishop. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, generally over 3 to 60 years. The cost of repairs and maintenance is expensed as incurred.

Investments

Investments consist of money market funds, mutual funds, government securities, corporate and foreign bonds and equities which are carried at fair value determined by quoted prices in an active market. Also included in investments is an interest in a limited liability partnership which is considered an alternative investment. The financial statements include investments whose fair value is based on information provided by external fund managers if market values are not readily available; actual valuations could differ from those estimates.

Contributions

Contributions are recognized when the donor makes an unconditional promise to transfer assets. These contributions are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence or nature of any donor restrictions. Contributions that are

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

restricted by the donor are reported as increases in unrestricted net assets in the fiscal year in which the restrictions expire or are satisfied. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions solicited and received by the Campaign on behalf of other related entities are not recorded as contributions on the Chancery's combined statement of activities. Rather these amounts are agency transactions since the other related entities carry the variance power and not the Chancery. As of June 30, 2007 and 2006, the following amounts were recorded as due to the related entities and not as contribution revenue of the Chancery:

	<u>2007</u>	<u>2006</u>
Parishes	\$ 7,999,866	\$ 14,815,069
Catholic Charities	<u>10,991,449</u>	<u>10,531,661</u>
	<u>\$ 18,991,315</u>	<u>\$ 25,346,730</u>

These amounts will be distributed over a period of time as cash is collected on the pledges receivable.

Estimates

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

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year financial statement presentation.

Concentration of credit risk

Financial instruments which potentially subject the Chancery to a concentration of credit risk principally consist of cash and cash equivalents, accounts receivable, DIAL demand notes and loans receivable and investments. The Chancery maintains cash and investments with several financial institutions. The Chancery performs periodic evaluations of these institutions for relative credit standing. The total deposits at these institutions at times exceed the amount guaranteed by federal agencies and therefore bear some risk since they are not collateralized. The DIAL demand notes and loans receivable are from parishes or other related entities in the Diocese. Financial instruments that potentially subject the Campaign to credit risk include cash and pledges receivable. Cash on deposit with financial institutions exceeded the federally insured limit by \$650,975 and \$300,405 at June 30, 2007 and 2006, respectively. Pledges receivable, which have been adjusted for doubtful accounts,

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

are due from individuals, corporations, and foundations. To date, no losses have been experienced in these areas.

Income taxes

The Chancery and the Campaign are exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and related provisions of the Commonwealth of Virginia. The Chancery has no unrelated business income and accordingly, no provision for income taxes is provided in the accompanying combined financial statements.

3. Bishop's Lenten Appeal pledges receivable

As of June 30, 2007 and 2006, Bishop's Lenten Appeal (BLA) contributors to the Diocesan Bishop have unconditionally promised to give \$2,963,409 and \$2,425,608. The promised contributions are due as follows as of June 30:

	<u>2007</u>	<u>2006</u>
Within one year	\$2,963,409	\$2,425,608
Less: allowance for doubtful accounts	<u>(777,321)</u>	<u>(194,048)</u>
Net BLA contributions receivable	<u><u>\$2,186,088</u></u>	<u><u>\$2,231,560</u></u>

4. Rooted in Faith ~ Forward in Hope, Inc. pledges receivable

Campaign pledges receivable at June 30 are:

	<u>2007</u>	<u>2006</u>
Receivables due in less than one year	\$ 21,446,935	\$ 8,668,391
Receivables due in one to five years	<u>4,253,109</u>	<u>29,367,584</u>
Total unconditional promises to give	25,700,044	38,035,975
Less: discount to present value	(470,982)	(1,022,616)
Less: allowance for doubtful accounts	<u>(9,530,596)</u>	<u>(4,564,317)</u>
Pledges receivable, net	<u><u>\$ 15,698,466</u></u>	<u><u>\$ 32,449,042</u></u>

Bad debt losses for the years ended June 30, 2007 and 2006 were \$4,987,130 and \$186,767, respectively. The collectibility of outstanding pledges was re-evaluated during the year ended June 30, 2007. The allowance for doubtful accounts was adjusted based on a more detailed analysis of specific parishes, pledges and trends. It is at least reasonably possible that the estimated pledges to be collected may change within the next year as the Campaign nears completion.

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using risk free rates on the date of the pledge at rates ranging from 3.83% to 5.21%. Prior years' discount is accreted into contribution revenue. Included in

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contributions is the accretion of the discount to present value on pledge receivable amounts received in prior years. Amounts of \$367,674 and \$174,599 were accreted into contributions for the years ended June 30, 2007 and 2006, respectively.

5. Diocesan Investment and Loan (DIAL) Program

DIAL is a collaborative effort where diocesan parishes, schools and other entities deposit excess funds and diocesan parishes can take out loans for appropriate construction needs. Interest rates for deposits and loans are reviewed annually and adjusted as necessary. All diocesan parishes are required to deposit all cash in excess of six weeks' operating expenses into their deposit account. Deposits currently earn 4.5% annual interest, and can generally be withdrawn as requested. Parishes are required to obtain approval for any capital expenditure of \$20,000 or more. In order to obtain this approval, the parish representatives present documentation to the Diocesan Finance Office. If a loan is requested, the Diocesan Finance Office seeks counsel from the DIAL subcommittee of the Diocesan Finance Council. Existing parishes are required to have 50% of the total construction costs on deposit in DIAL before a loan can be approved; new parishes, 30%. Parishes pay interest monthly at an annual rate of 6.5% on the outstanding balance of the loan while construction progresses. When the project is completed, the loan is amortized. A repayment schedule is sent to the parish and the parish begins paying monthly principal and interest payments with maturity dates from 2008 to 2050, and interest at 6.5%. The term of the loan is determined by the total amount borrowed. Loans are not collateralized. Expected repayments on loans receivable for the years through 2012 and thereafter are as follows:

2008	\$	3,575,689
2009		3,596,296
2010		3,505,654
2011		3,841,021
2012		3,749,069
Thereafter		<u>30,404,275</u>
	\$	<u><u>48,672,004</u></u>

6. Property, equipment and land, net

Property, equipment and land, net, consists of the following at June 30:

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	<u>2007</u>	<u>2006</u>
Operating properties-buildings	\$ 17,688,507	\$ 17,006,768
Operating properties-land	23,167,212	22,992,412
Operating properties-improvements	1,272,033	1,272,033
Land held for future projects and parishes	9,197,222	9,197,222
Office furniture and equipment	937,080	930,379
Computer hardware	426,592	493,793
Computer software	2,284,422	2,166,175
Vehicles	318,108	318,108
Leasehold improvements	91,329	-
Total property, equipment and land	<u>55,382,505</u>	<u>54,376,890</u>
Less: accumulated depreciation	<u>(17,684,163)</u>	<u>(17,348,044)</u>
Property, equipment and land, net	<u>\$ 37,698,342</u>	<u>\$ 37,028,846</u>

Depreciation expense was \$461,887 and \$584,762 during the years ended June 30, 2007 and 2006, respectively. Of the total assets listed above, \$14,154,235 and \$4,284,192 were fully depreciated at June 30, 2007 and 2006, respectively.

On October 31, 2003, land known as Oakland Farm was purchased for \$1,409,388 to be potentially used for construction of the Diocesan spirituality center, one of the identified projects of the Campaign. Subsequent to purchase, it has been decided that this property will be used for other purposes. The sellers took back two demand promissory notes for a total of \$705,000. Interest on the outstanding balance of the notes is due monthly at the rate of 2% per annum (see note 15).

In 1998, a conditional gift of approximately forty acres of land in Prince William County was donated to the Chancery. In August 2006, the conditions of this gift were satisfied and the donation was recorded at the appraised value of \$14,500,000. The land must be used for educational purposes for a period of thirty years and therefore the donation will remain in temporarily restricted net assets until which time this restriction expires.

The Chancery has begun construction on a high school in Prince William County (site of the donated land) and several other projects. Construction in progress on these projects was \$12,967,363 and \$298,334 as of June 30, 2007 and 2006, respectively.

Construction of the high school is being funded, in part, from tax-exempt bonds (see note 16). Once it was reasonably assured that the high school would be constructed, interest costs, net of interest earned from the temporary investment of the bonds were capitalized. Capitalized interest included in construction in progress at June 30, 2007 was:

Interest costs	\$ 1,072,023
Less: interest earned on bonds	<u>1,203,655</u>
Net amount capitalized	<u>\$ (131,631)</u>

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Cumulative investment earnings do not exceed cumulative investment expenses, and therefore the Diocese does not have an arbitrage recapture obligation.

7. Investments

Investments are stated at fair value. The cost of investments and related fair values at June 30, 2007 and 2006 consist of the following:

	Current Operations			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 17,326,906	\$ 17,328,280	\$ 22,736,700	\$ 22,915,725
U.S. Government securities	4,316,497	4,249,707	2,832,842	2,739,458
Corporate bonds	2,117,437	2,047,986	2,849,009	2,740,982
Equities	9,368,122	12,276,529	9,232,366	11,108,627
	<u>\$ 33,128,962</u>	<u>\$ 35,902,502</u>	<u>\$ 37,650,917</u>	<u>\$ 39,504,792</u>

	Functioning as Endowment and ADEF			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 350,099	\$ 350,099	\$ 402,214	\$ 402,214
U.S. Government securities	1,144,053	1,118,556	1,079,921	1,043,560
Corporate bonds	523,612	521,939	425,721	420,337
Equities	7,422,881	10,526,402	6,698,832	9,003,166
	<u>\$ 9,440,645</u>	<u>\$ 12,516,996</u>	<u>\$ 8,606,688</u>	<u>\$ 10,869,277</u>

	Restricted Endowments			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 1,528,841	\$ 1,528,841	\$ -	\$ -
U.S. Government securities	1,218,320	1,210,741	-	-
Corporate bonds	11,961,327	11,826,363	-	-
	<u>\$ 14,708,488</u>	<u>\$ 14,565,945</u>	<u>\$ -</u>	<u>\$ -</u>

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	DIAL Fund			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 36,222,848	\$ 36,222,848	\$ 19,302,842	\$ 19,302,841
U.S. Government securities	4,321,852	4,206,012	4,440,825	4,285,165
Corporate bonds	8,688,325	8,453,179	8,095,253	7,774,863
Equities	36,251,669	45,127,887	32,003,964	39,093,693
Limited Partnerships	1,145,666	1,489,795	769,435	870,683
	<u>\$ 86,630,360</u>	<u>\$ 95,499,721</u>	<u>\$ 64,612,319</u>	<u>\$ 71,327,245</u>

	Rooted in Faith - Forward in Hope, Inc.			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 1,929,739	\$ 1,929,739	\$ 5,113,648	\$ 5,117,637
U.S. Government securities	2,145,219	2,145,167	4,323,388	4,304,980
Corporate and foreign bonds	27,144,042	26,974,516	34,535,955	34,378,879
	<u>\$ 31,219,000</u>	<u>\$ 31,049,422</u>	<u>\$ 43,972,991</u>	<u>\$ 43,801,496</u>

	Total			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 57,358,433	\$ 57,359,807	\$ 47,555,404	\$ 47,738,417
U.S. Government securities	13,145,941	12,930,183	12,676,976	12,373,163
Corporate and foreign bonds	50,434,743	49,823,983	45,905,938	45,315,061
Equities	53,042,672	67,930,818	47,935,162	59,205,486
Limited Partnerships	1,145,666	1,489,795	769,435	870,683
	<u>\$ 175,127,455</u>	<u>\$ 189,534,586</u>	<u>\$ 154,842,915</u>	<u>\$ 165,502,810</u>

Also included in investments at June 30, 2007 and 2006 is \$213,611 and \$156,213, respectively, representing the fair market value of the receivable from split interest agreements for which the Chancery is the trustee. Quarterly or semiannual distributions are made to the donors. The ultimate beneficiaries are Catholic Charities and parishes. The proceeds are expected to be received in five to eighteen years, based on 2006 Social Security actuarial tables, and are calculated using discount rates which represent the risk-free rates in existence at the date of the gift. This amount is disclosed as annuity payment liability in the accompanying combined statements of financial position.

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Investment income is reported on the Statement of Activities as follows:

	<u>2007</u>	<u>2006</u>
For operations	\$ 2,000,000	\$ 1,500,000
In Other changes in net assets	<u>12,961,862</u>	<u>6,508,447</u>
Net investment income - Chancery	<u>\$ 14,961,862</u>	<u>\$ 8,008,447</u>
Earned on behalf of other Diocesan entities	<u>624,929</u>	<u>255,794</u>
Total net investment income - Chancery and on behalf of other Diocesan entities	<u>\$ 15,586,791</u>	<u>\$ 8,264,241</u>

Investment income represented in operating revenue represents the amount included in the approved budget based on a spending rate formula.

Total net investment income for the years ended June 30, 2007 and 2006, respectively, consists of the following:

	<u>2007</u>	<u>2006</u>
Chancery		
Interest and dividends	\$ 5,542,250	\$ 4,729,261
Realized gains and losses, net	6,519,782	3,895,421
Unrealized gains and losses, net	3,642,228	84,375
Less - investment management expenses	<u>(742,398)</u>	<u>(700,610)</u>
Net investment income - Chancery	<u>\$ 14,961,862</u>	<u>\$ 8,008,447</u>
Funds held for Diocesan entities		
Investment income allocated to Diocesan entities	\$ 624,929	\$ 255,794
Total net investment income - Chancery and funds held for Diocesan entities	<u>\$ 15,586,791</u>	<u>\$ 8,264,241</u>

8. Related-party transactions

The following is a description of material transactions with related parties as of and for the years ended June 30, 2007 and 2006, respectively:

Catholic Charities of the Diocese of Arlington (Catholic Charities) – The Chancery has made annual contributions to subsidize the operations of Catholic Charities. These contributions amounted to \$991,019 and \$964,266 in fiscal years 2007 and 2006, respectively. The Chancery made an additional contribution of \$24,227 to Catholic Charities in the year ended June 30, 2007 to

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administer the allocation of the Chancery share of the collections for Rice Bowl and Campaign for Human Development. The amount due to Catholic Charities for these expenses and miscellaneous expenses related to properties and other employee costs was \$24,816 and \$5,302 as of June 30, 2007 and 2006, respectively. The Chancery pays a portion of administrative expenses on behalf of Catholic Charities and Catholic Charities reimburses the Chancery on a monthly basis. The Chancery also provides transaction processing services. Total reimbursements from Catholic Charities were \$539,219 and \$466,807 in the years ended June 30, 2007 and 2006, respectively. The amount due from Catholic Charities for these expenses was \$38,140 and \$9,164 at June 30, 2007 and 2006, respectively. Catholic Charities subleases office space from the Chancery which leases office space from 200 North Glebe Road, Inc., also a related party. Rent expense was \$101,439 and \$81,695 for the years ended June 30, 2007 and 2006, respectively. In addition, Catholic Charities had \$2,901,003 and \$3,240,358 in DIAL deposits with the Chancery as of June 30, 2007 and 2006, respectively. Further, under the terms of the Campaign, Catholic Charities will receive a portion of the proceeds. Catholic Charities received no funds during the years ended June 30, 2007 and 2006, and is due \$10,991,449 and \$10,531,661 as of June 30, 2007 and 2006, respectively. The amount due includes \$3,816,980 in endowment funds held by the Chancery at the request of Catholic Charities.

Arlington Catholic Herald (Herald) – The Herald had \$942,699 and \$956,366 in DIAL deposits with the Chancery as of June 30, 2007 and 2006, respectively. The Chancery pays a portion of administrative expenses on behalf of the Herald and the Herald reimburses the Chancery on a monthly basis. The Chancery processes accounts receivable transactions on behalf of the Herald in addition to providing accounting services. Total reimbursements from the Herald were \$255,441 and \$235,271 in the years ended June 30, 2007 and 2006, respectively. The amount due from the Herald related to accounts receivable transactions and reimbursements were \$69,789 and \$0 at June 30, 2007 and 2006, respectively. The Catholic Herald subleases office space from the Chancery which leases office space from 200 North Glebe Road, Inc., also a related party. Rent expense was \$107,809 and \$110,185 for the years ended June 30, 2007 and 2006, respectively. Various offices within the Chancery frequently advertise in the Herald. Total advertising expense to the Herald was \$115,819 and \$69,631 for the years ended June 30, 2007 and 2006, respectively. Amounts payable to the Herald were \$3,732 and \$2,354 at June 30, 2007 and 2006, respectively.

Catholic High Schools -There are three high schools under the supervision of the Diocesan Superintendent of Schools. Additionally, a fourth high school is under construction scheduled to open in September 2008.

Bishop O’Connell High School – This high school had \$2,491,831 and \$2,498,626 in DIAL deposits with the Chancery as of June 30, 2007 and 2006, respectively. In addition, the high school has a DIAL loan payable to the Chancery. The balance was \$77,579 and \$118,234 as of June 30, 2007 and 2006, respectively. Under the terms of the loan, payments of principal and interest at 6.5% are due monthly, and mature in 2009. The carrying value of the loan payable approximates fair value. Property and equipment includes the high school’s original building and grounds acquired by the Chancery. The Chancery does not charge the high school rent for use of the facilities. Improvements and repairs necessary to maintain the property are financed by the high school and carried on their financial statements.

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Paul VI High School – This high school had \$1,378,356 and \$1,649,232 in DIAL deposits with the Chancery as of June 30, 2007 and 2006, respectively. In addition, the high school has a DIAL loan payable to the Chancery. The balance was \$295,928 and \$377,224 as of June 30, 2007 and 2006, respectively. Under the terms of the loan, payments of principal and interest at 6.5% are due monthly, and mature in 2010. The carrying value of the loan payable approximates fair value. The high school received \$4,839,917 from the bond proceeds (Note 15) for renovations and additions and has agreed to repay the Chancery this amount and related interest. The balance was \$4,579,917 and \$4,664,917 as of June 30, 2007 and 2006, respectively. Under the terms of the bond, payments of principal and interest at rates ranging from 4.375% to 5.550% are due annually, and mature in 2033. Property and equipment includes the high school's original building and grounds acquired by the Chancery. The Chancery does not charge the high school rent for use of the facilities. Improvements and repairs necessary to maintain the property are financed by the high school and carried on their financial statements.

Bishop Ireton High School – This high school had \$1,075,450 and \$1,269,922 in DIAL deposits with the Chancery as of June 30, 2007 and 2006, respectively. In addition, the high school had four DIAL loans payable to the Chancery. The loans were consolidated in 2007. The balance totaled \$2,060,346 and \$2,463,584 as of June 30, 2007 and 2006, respectively. Under the terms of the loan, payments of principal and interest at 6.5% are due monthly, and mature in 2015. The carrying values of these loans payable approximate fair value. Property and equipment includes the high school's original building and grounds acquired by the Chancery. The Chancery does not charge the high school rent for use of the facilities. Improvements and repairs necessary to maintain the property are financed by the high school and carried on their financial statements.

Parishes – All parishes are required to deposit excess cash into the DIAL program. Two parishes have deposits in excess of 5% of the deposit balance in DIAL. These parishes make up 16.12% of the total deposits. Certain parishes have DIAL loans payable to the Chancery. The carrying values of these loans payable approximate fair value. Six parishes have loans in excess of 5% of the loans payable balance in DIAL. These parishes make up 68.86% of the total loans.

Certain parishes have chosen to participate in the Arlington Diocese Educational Foundation (ADEF) program. This program was established to support the cause of Catholic education through endowments or quasi-endowment investment accounts. The assets of ADEF are held in trust with the Chancery being steward and guardian of such endowments. Amounts due to parishes as of June 30, 2007 and 2006 include \$2,519,216 and \$1,938,419, respectively, in ADEF endowment funds held by the Chancery on behalf of participating parishes.

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In addition, under the terms of their participation agreement in the Campaign, the parishes will receive a percentage of any contributions made up to and above their parish goal, as follows:

	<u>2007</u> <u>Distributions</u>	<u>2006</u> <u>Distributions</u>	<u>2007</u> <u>Amount Due</u>	<u>2006</u> <u>Amount Due</u>
Parishes	\$ 4,583,909	\$ 6,857,032	\$ 7,999,866	\$ 14,815,069

In 2007, the amount due to parishes was also decreased by allocated contribution revenue net of bad debt losses in the amount of \$2,241,044 and increased by investment income allocated in the amount of \$9,750.

200 N Glebe Road, Inc. (200 N Glebe) – The Chancery is the major tenant in property owned by 200 N Glebe, a related entity. Rent expense was \$1,595,031 and \$1,271,192 in 2007 and 2006, respectively. In addition, the Chancery has a loan receivable from 200 N Glebe with no stated maturity date. The balance was \$5,812,416 and \$10,882,416 as of June 30, 2007 and 2006, respectively. The Chancery has waived interest on this loan and accepts payments as cash is available, without a fixed schedule. The fair value of this note, based on quoted market rates, is \$3,506,399 and \$6,136,644 at June 30, 2007 and 2006, respectively. There is no allowance for uncollectibility associated with this loan.

9. Pension expense

Pension Plan - Employees

The Diocese has a noncontributory defined benefit pension plan which covers substantially all lay employees within the Diocese. The plan provides benefits based on a formula which takes into account the lay employees' annual compensation, period of service, and age.

The lay employees' plan is administered by the Chancery, but is a multi-employer plan. The plan covers employees from other diocesan organizations, such as parishes and schools, the Arlington Catholic Herald, and diocesan high schools, which, as noted in Note 2, are not combined with the Chancery for financial reporting purposes. The plan is noncontributory for employees, and employer contributions amount to 10% of each eligible participant's annual earnings. The amount contributed to the lay retirement plan and charged to expense for the Chancery was \$362,751 and \$334,827 for the years ended June 30, 2007 and 2006, respectively. The plan is not subject to ERISA funding requirements.

Pension Plan - Priests

The Diocese also has a noncontributory defined benefit plan which covers diocesan priests incardinated in the Diocese and provides benefits based on age and compensation at retirement. The pension benefit obligation for retired priests has been actuarially determined. The effects of adopting FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, are reflected in the pension benefit obligation. FASB Statement No. 158 requires that the full funding status of defined benefit pension postretirement plans be recognized on

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the balance sheet as an asset (for overfunded plans) or as a liability (for underfunded plans). In addition, FASB Statement 158 requires that the measurement of defined benefit plan assets and obligations be as of the balance sheet date.

The following amounts relate to the Diocesan Priests' defined benefit pension plan:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 7,912,198	\$ 8,900,379
Service cost	307,479	396,060
Interest cost	480,235	434,511
Actuarial (gain) loss	35,853	(1,374,987)
Benefits paid	<u>(555,016)</u>	<u>(443,765)</u>
Benefit obligation at end of year	8,180,749	7,912,198
Change in plan assets:		
Fair value of plan assets at beginning of year	6,270,733	6,100,223
Return on plan assets	736,807	291,125
Employer contributions	432,000	323,150
Benefits paid	<u>(555,016)</u>	<u>(443,765)</u>
Fair value of plan assets at end of year	6,884,524	6,270,733
Accrued pension liability, priests	<u>\$ 1,296,225</u>	<u>\$ 1,641,465</u>

Assumptions used to determine the year-end benefit obligation:

	<u>2007</u>	<u>2006</u>
Discount rate on the benefit obligation	6.25%	6.25%
Rate of expected return on plan assets	7.00%	7.00%
Rate of priests' compensation increase	2.00%	2.00%

Following is an analysis of plan assets at fair value by category at June 30:

	<u>2007</u>	<u>2006</u>
Fair value, June 30:		
Equity securities	46.21%	45.46%
Debt securities	45.72%	45.57%
Other	8.07%	8.97%
Total	<u>100.00%</u>	<u>100.00%</u>

The Diocese's overall strategy is to invest in high-grade securities and other assets with a minimum risk of market value fluctuation.

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The Diocese expects to contribute approximately \$435,000 to the plan in 2008. Benefits expected to be paid by the plan during the ensuing five years and thereafter are approximately as follows:

2008	\$ 457,465
2009	458,536
2010	460,187
2011	466,435
2012	467,743
Thereafter	\$ 2,433,381

10. Postretirement Benefits

The Chancery sponsors a post-retirement Medicare supplemental plan for retired priests. The plan pays medical and prescription costs not covered by parts A and B of Medicare. The plan is noncontributory for diocesan priests. The Chancery also sponsors a lay-retiree postretirement plan which provides health benefits to retired lay employees meeting service and other participation requirements. The plan provides benefits to employees of the Chancery and other diocesan organizations, such as parishes, schools, the Arlington Catholic Herald, and diocesan high schools. The lay retirees pay 100% of the stated premium which is a blended rate for both active employees and retirees. Because the true medical costs are higher for retirees than for active employees, the plan is providing an “implicit subsidy” to the retirees. The postretirement obligation for both priests and lay retirees has been actuarially determined. The following amounts relate to the postretirement health obligation:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 5,030,700	\$ 7,149,060
Service cost	215,432	390,393
Interest cost	310,091	353,990
Employee contributions	136,791	103,956
Actuarial (gain) loss	(1,241,283)	(1,570,484)
Benefits paid	(174,882)	(247,710)
Change in plan provisions	<u>-</u>	<u>(1,148,505)</u>
Benefit obligation at end of year	4,276,849	5,030,700
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	38,091	143,754
Employee contributions	136,791	103,956
Benefits paid	<u>(174,882)</u>	<u>(247,710)</u>
Fair value of plan assets at end of year	-	-
Post retirement health benefit obligation	<u>\$ 4,276,849</u>	<u>\$ 5,030,700</u>

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In 2006, the Diocese amended its postretirement health plan to eliminate prescription coverage for those lay employees who qualify for such coverage under Medicare.

Assumptions used to determine the year-end benefit obligation:

	<u>2007</u>	<u>2006</u>
Discount rate on the benefit obligation	6.25%	6.25%

For measurement purposes, a 10% increase in the cost of health care benefits was assumed for 2008 and 2007. The rate was assumed to decrease to 5% over 5 years, and then to remain level.

The Diocese expects to contribute approximately \$104,374 to the plan in 2008. Benefits expected to be paid by the plan during the ensuing five years and thereafter are approximately as follows:

2008	\$	104,374
2009		116,179
2010		128,577
2011		146,108
2012		156,888
Thereafter		1,015,463

11. Insurance programs

The Diocese maintains health, property, general liability and workers compensation insurance plans for the Chancery and participating affiliates. Each entity participating in the plans is charged premiums to cover estimated losses, administrative costs, and excess insurance policy premiums.

Under the medical plan the first \$150,000 of each individual loss and aggregate annual losses of up to 125% of expected claims, or about \$8,500,000 in plan year 2006 -2007, are self-insured. Losses exceeding these amounts are covered by stop-loss insurance policies that pay a \$1,000,000 lifetime limit for each individual loss and a \$1,000,000 annual limit on aggregate losses. Incurred but not reported health claims are estimated to be \$1,089,950 and \$1,515,447 at June 30, 2007 and 2006, respectively.

The Diocese maintains a multi-tiered approach to its risk financing program which includes both risk retention and risk transferring strategies.

Workers' compensation coverage is 100% insured and the Diocese does not retain any exposure for this coverage.

The Diocese retains the first layer of coverage for all other property and casualty exposures with the exception of workers' compensation which is fully insured. The 2006-2007 self-insured retention (SIR) level is \$100,000 per accident with an annual aggregate of \$350,000. The retention amount applies cumulatively to property and liability exposures. The Chancery's estimated exposure for future payments of this layer is \$327,055 and \$100,000 at June 30, 2007 and 2006, respectively.

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The second layer of excess provides coverage, \$5,500,000 excess of \$1,500,000 is retained by the Catholic Umbrella Pool II (CUP II) which is a risk retention pool consisting of member Dioceses of which Arlington is included. Currently there are 49 participants each with equal voting rights. Participation percentages vary annually based on the exposures of the Diocese and the number of participating entities. The Diocese participation interest averages 3% of the total contributions to the Pool. The Chancery's contributions to the pools were \$49,288 and \$47,610 for the years ended June 30, 2007 and 2006, respectively. The Diocese would retain an exposure equal to its participation level in any year should the claims in that year exceed contributions collected. Since the current reserves for all policy years are well within the contributions collected, the Chancery estimates no exposure with regard to additional participation.

The final layer of excess is \$20,000,000 in excess of \$5,500,000 which is held by Catholic Mutual and reinsured at 100%,

Included in accounts payable and accrued expenses are the following:

	<u>2007</u>	<u>2006</u>
Incurred but not reported estimated health claims	\$ 1,089,950	\$ 1,515,447
Estimated property and general liability claims	\$ 327,055	\$ 100,000

12. Accounts receivable

The Chancery bills the parishes, schools and miscellaneous entities and individuals on a monthly basis for various items paid by the Chancery or covered under the Diocesan structure. These include the retirement programs for priests and lay employees, unemployment compensation, insurance premiums and legal fees. The Chancery also bills the parishes on a monthly basis for the operational assessment, a percentage of the parish offertory income to help offset the administration of diocesan programs. Accounts receivable are not collateralized.

As of June 30, 2007 and 2006, respectively, the Chancery had the following accounts receivable:

	<u>2007</u>	<u>2006</u>
Parishes	\$ 542,675	\$ 259,059
Schools	629,985	100,826
Employee advances	21,700	23,408
Federal and state grants receivable	299,543	297,686
Due from investment sales	826,756	2,751,313
Due from brokers	138,814	155,747
Miscellaneous	335,341	687,401
Total accounts receivable	<u>2,794,814</u>	<u>4,275,440</u>
Less: allowance for doubtful accounts	(153,665)	(28,304)
Total accounts receivable, net	<u>\$ 2,641,149</u>	<u>\$ 4,247,136</u>

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006**

13. Commitments and contingencies

Leases

The Chancery leases office space under a non-cancelable lease agreement with 200 North Glebe Road, Inc., a related entity, which expires July 31, 2017. The lease provides for an automatic adjustment of 3% annually. The financial statements reflect rent expense on a straight-line basis with the excess expense over cash paid reflected in accrued expenses. In addition to lease payments, the office lease generally requires the Chancery to pay any incremental increases in taxes, insurance and utilities. Total rent expense for office space, net of sublease rentals for years ended June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Office space	\$ 1,595,031	\$ 1,271,192
Sublease office rental (related entities)	<u>(209,247)</u>	<u>(168,603)</u>
Net expense	<u>\$ 1,385,784</u>	<u>\$ 1,102,589</u>

At June 30, 2007, future minimum lease payments are as follows:

	<u>Total Lease</u>	<u>Sublease</u>	<u>Net Lease</u>
2008	1,373,407	175,938	1,197,469
2009	1,414,503	181,216	1,233,287
2010	1,456,727	186,653	1,270,074
2011	1,500,596	192,252	1,308,344
2012	1,545,641	198,020	1,347,621
2013 and thereafter	8,600,816	1,102,030	7,498,786
Total future minimum lease payments	<u>\$ 15,891,690</u>	<u>\$ 2,036,109</u>	<u>\$ 13,855,581</u>

See also Note 8 for current fiscal year lease payments to 200 North Glebe Road, Inc.

Lines of credit and letters of credit

The Chancery has obtained lines of credit as follows:

	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Total Available</u>	<u>Outstanding</u>	<u>Total Available</u>	<u>Outstanding</u>
Operating needs	\$ 15,000,000	\$ -	\$ 15,000,000	\$ -
Building improvement programs	\$ 14,250,000	\$ 12,438,954	\$ 14,250,000	\$ 11,689,848
Standby letters of credit for various construction projects	\$ 15,000,000	\$ 9,416,752	\$ 15,000,000	\$ 9,504,864

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
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For the years ended June 30, 2007 and 2006

The outstanding building and improvement loans were obtained for the benefit of two parishes. The parishes are currently paying on and directly liable for these loans with the Diocese acting as guarantor. Under the loan agreement, the Chancery is subject to certain financial covenants such as operating liquidity, minimum net assets, additional indebtedness and financial reporting.

The line of credit for operating needs had a stated rate of interest of the monthly London Interbank Offered Rate (LIBOR) plus 195 basis points for the years ended June 30, 2007 and 2006. The building improvement programs have interest rates ranging from 5.95% to 6.78% for the years ended June 30, 2007 and 2006. The issuance fee for standby letters of credit for various construction projects was 1.5% per annum with a minimum of \$200 for the years ended June 30, 2007 and 2006.

These facilities are subject to annual renewals by our financial institutions.

Investments

In connection with a limited partnership subscription agreement, the Chancery is required to make future capital contributions in the amount of \$854,334. The commitment period is determined by the Fund managers.

Litigation

The Diocese has been named as a defendant in various lawsuits. Coverage for each of the lawsuits is provided by either a self-insurance fund or external insurance coverage. When applicable, reserves have been established for those cases where the potential liability is estimable and probable. There was no reserve for 2007 and 2006.

Purchase and Construction Agreements

In connection with the construction of a new high school in Prince William County the Chancery entered into a construction contract with a guaranteed maximum price of approximately \$48.8 million. The contract price remaining as of June 30, 2007 is \$38,107,056. In connection with other construction projects, the Chancery is committed under contracts with remaining amounts of \$895,945.

For the year ended June 30, 2007, the Chancery worked under an interim operating and purchase agreement to acquire property to be used for a Diocesan spirituality center. Subsequent to year-end the property was acquired at a cost of \$4,350,000.

14. Federal awards

The Chancery receives revenue from the pass through of United States Government grants. The ultimate determination of amount received under these programs generally is based upon allowable costs, which are subject to audit, and are reported to the United States Government. The Chancery is of the opinion that adjustments, if any, arising from such audit will not have a material effect on the reported financial statement amounts.

Revenue is recognized when costs are incurred. Some of the grants are awarded are on a calendar-year basis, while others are on a fiscal year basis. Costs incurred but not yet reimbursed are carried

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

as accounts receivable. Amounts receivable from pass-through agents were \$299,543 and \$297,686 as of June 30, 2007 and 2006, respectively.

15. Notes payable

The Chancery has two demand promissory notes to outside parties in the face amount of \$705,000 at June 30, 2007 and 2006 (stated value of \$642,590 and \$630,814; respectively; fair value of \$466,388 and \$466,381, respectively). The fair value is based on an imputed interest rate of 8.25% and 8.02% as of June 30, 2007 and 2006, respectively. The notes are due as described in the agreement, currently projected to be during the year 2013. The notes are not collateralized. Interest on the outstanding balance of the notes is due monthly at the rate of 2% per annum. The total unamortized discount of \$62,410 at June 30, 2007 is based on an imputed interest rate of 4.01%.

16. Bonds payable

On November 1, 2003, tax-exempt bonds with a face value of \$25,465,000 were issued by the Prince William County Industrial Development Authority on behalf of the Diocese of Arlington with proceeds to be used for construction of a new high school in Prince William County and renovations and additions to Pope Paul VI Catholic High School (Note 8). The fair value of these bonds is \$23,871,740 and \$23,275,468 at June 30, 2007 and 2006, respectively. These bonds have varying maturity terms ranging through October 1, 2033 with interest payments due ranging from \$46,613 to \$666,247 and interest rates ranging from 4.375% to 5.500%. Interest is due and payable on April 1 and October 1 of each year. Principal, ranging from \$80,000 to \$1,695,000, is due and payable on October 1 each year. There is no expectation that any bonds will be redeemed prior to maturity. An amount equal to the maximum annual debt service on the bonds (\$1,781,820 at June 30, 2007) has been deposited in a reserve fund with Wells Fargo Bank Minnesota, N. A., the Trustee. The Chancery is subject to an acceleration clause under the default provisions of the Indenture of Trust and is subject to certain covenants such as operating liquidity, additional indebtedness, maintenance of insurance on the project, use of the bond proceeds, maintenance of tax-exempt status of the Diocese and financial reporting.

The outstanding balance on the bonds at June 30, 2007 is \$25,205,000. Maturities on the bonds payable annually for the years through 2012 and thereafter are as follows:

2008	\$	465,000
2009		490,000
2010		510,000
2011		535,000
2012		555,000
Thereafter		22,650,000
	\$	<u>25,205,000</u>

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

17. Restricted net asset activity

Net assets released from restrictions include construction expenses for the two high schools, the spirituality center and the priests' retirement home and support for such program activities as seminarian education, communications and Campaign for Human Development.

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

	<u>2007</u>	<u>2006</u>
Catholic Education	\$ 21,597,331	\$ 20,454,560
Donated land restricted for high school	14,500,000	-
Priest Retirement Home	5,757,989	5,193,886
Diocesan Spirituality Center	3,820,910	3,708,198
Allocation funds	2,435,726	6,802,177
ADEF education scholarships	1,054,059	918,125
Major Gifts Pledges Receivable for future period use	779,376	1,000,000
Campaign for Human Development	168,249	131,503
Continuing Formation Fund	161,803	135,972
Hurricane Relief	132,806	242,907
Project Rachel	65,219	43,815
Refugee assistance	63,498	42,636
Gabriel Project	56,158	25,790
Msgr Roeltgen Memorial	53,053	1,706
Black and Indian Mission	52,379	52,379
Diocesan Work Camp	50,874	76,446
Catholic Communications	-	104,737
Others	263,171	176,722
Total	<u>\$ 51,012,601</u>	<u>\$ 39,111,559</u>

Permanently restricted net assets are for the following purposes at June 30:

	<u>2007</u>	<u>2006</u>
Catholic Education	\$ 12,737,035	\$ 12,685,803
Catechetics	2,037,255	2,029,061
Youth Ministry	508,925	506,878
ADEF education scholarships	310,500	310,500
Total	<u>\$ 15,593,715</u>	<u>\$ 15,532,242</u>

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

18. Fair value of financial instruments

Estimated fair values of the Chancery's financial instruments (all of which are held for nontrading purposes) are as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 13,124,459	\$ 13,124,459	\$ 12,783,766	\$ 12,783,766
Investments	\$ 189,534,586	\$ 189,534,586	\$ 165,502,810	\$ 165,502,810
Demand notes and loans receivable	\$ (59,064,337)	\$ (56,758,320)	\$ (60,552,199)	\$ (55,806,427)
DIAL deposits payable	\$ (112,538,330)	\$ (112,538,330)	\$ (100,586,410)	\$ (100,586,410)
Notes payable	\$ (642,590)	\$ (466,388)	\$ (630,814)	\$ (466,381)
Bonds payable	\$ (25,205,000)	\$ (23,871,740)	\$ (25,290,000)	\$ (23,275,468)

The carrying amount approximates fair value of cash, investments and DIAL deposits. The fair value of long-term debt is based on current rates at which the Chancery could borrow funds with similar remaining maturities.

19. Subsequent events

In July 2007, the Chancery revised its risk management program for property and casualty losses. The program continues to be based on a multi-tiered approach designed to provide maximum protection while minimizing costs. The first layer retention level changed from \$100,000 per accident with an annual aggregate of \$350,000 for losses prior to July 1, 2007 to \$150,000 per accident with an annual aggregate of \$500,000. A significant change in the program is the fact that the Diocese is no longer responsible for the losses of other entities such as was the case under the CUP II agreement.

20. Restatement

The Chancery sponsors a postretirement Medicare supplemental plan for retired diocesan priests and lay retirees (Note 10). The plan is noncontributory for diocesan priests. Diocesan priests are also covered by a defined benefit pension plan (Note 9). In prior years these plans were treated as multi-employer plans and amounts were charged to expense as benefits were paid or contributions were made. In 2007, it was determined that the Chancery, as sponsor of the medical plans and the Central office of the Diocese where the priests are incardinated, should also report the unfunded liability associated with the plans.

In 1992, the Arlington Diocese Educational Foundation (ADEF) program was established. This is a program in which various parishes, schools, and the Chancery office maintained funds functioning as endowments for Catholic education. The activity was recorded as unrestricted contributions and earnings and reflected in the unrestricted, but designated, net asset category of "Arlington Diocese

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2007 and 2006

Education Foundation (ADEF).” In 2007, it was determined that the funds held on behalf of parishes and schools should be recorded as liabilities. Additionally certain funds belonging to the Chancery were determined to have donor restrictions requiring the assets to be reflected as permanently or temporarily restricted rather than as unrestricted, designated funds.

The summarized effect of the restatements on the 2006 financial statements are:

	2006		
	Decrease in Total Net Assets, beginning of year	(Increase)/Decrease in Change in Net Assets	Decrease in Total Net Assets, end of year
Arlington Diocese Educational Fund (ADEF)	\$ 1,839,163	\$ 99,256	\$ 1,938,419
Accrued pension liability, priests	2,800,156	(1,158,691)	1,641,465
Postretirement health benefit obligation	7,149,060	(2,118,360)	5,030,700
Total	\$ 11,788,379	\$ (3,177,795)	\$ 8,610,584

The effect of the correction on each line item of the 2006 financial statements is as follows:

	2006		
	Before Restatement	Adjustment	After Restatement
Liabilities:			
ADEF funds held for schools	\$ -	\$ 1,938,419	\$ 1,938,419
Accrued pension liability, priests	\$ -	\$ 1,641,465	\$ 1,641,465
Postretirement health benefit obligation	\$ -	\$ 5,030,700	\$ 5,030,700
Net assets, end of year:			
Unrestricted, current operations	\$ 52,383,891	\$ (6,672,165)	\$ 45,711,726
Unrestricted, ADEF	\$ 3,209,859	\$ (3,209,859)	\$ -
Unrestricted, designated net assets	\$ 5,181,199	\$ 42,815	\$ 5,224,014
Temporarily restricted net assets	\$ 38,193,434	\$ 918,125	\$ 39,111,559
Permanently restricted net assets	\$ 15,221,742	\$ 310,500	\$ 15,532,242
Operating revenues and support:			
Investment income for operations	\$ -	\$ 1,500,000	\$ 1,500,000
Other changes in net assets:			
Investment income	\$ 8,830,794	\$ (2,322,347)	\$ 6,508,447
Change in unfunded pension liability-priests	\$ -	\$ 1,158,691	\$ 1,158,691
Change in unfunded postretirement healthcare obligation-priests	\$ -	\$ 2,118,360	\$ 2,118,360
Change in net assets from operations	\$ 12,629,530	\$ 3,177,795	\$ 15,807,325
Beginning of year net assets			
Unrestricted net assets	\$ 95,088,791	\$ (12,987,404)	\$ 82,101,387
Temporarily restricted net assets	\$ 36,391,556	\$ 888,525	\$ 37,280,081
Permanently restricted net assets	\$ 15,131,350	\$ 310,500	\$ 15,441,850

The adjustments above also include the effect of certain balances that were reclassified to conform with the current year presentation of investment income.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY COMBINING INFORMATION

Most Reverend Paul S. Loverde
Bishop of the Catholic Diocese of Arlington
Arlington, Virginia

Our report on our audit of the basic combined financial statements of the Chancery for 2007 appears on page 1. That audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and changes in net assets of the individual entities. Accordingly, we do not express an opinion on the financial position and changes in net assets of the individual entities. However, the combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion is fairly stated in all material respected in relation to the combined financial statements taken as a whole.

Our report on our compilation of the basic combined financial statements of the Chancery for 2006 appears on page 1. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the financial statements and, accordingly, do not express an opinion or any other form of assurance on them. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and changes in net assets of the individual entities. Such information has been compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the combining information.


LarsonAllen LLP

St. Cloud, Minnesota
November 26, 2007

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combining Statement of Financial Position
As of June 30, 2007

	<u>Chancery</u>	<u>Rooted in Faith~ Forward in Hope</u>	<u>Elimination Entries</u>	<u>Combined</u>
Assets				
Cash and cash equivalents	\$ 12,790,656	\$ 333,803	\$ -	\$ 13,124,459
Accounts receivable, net	2,756,345	216,013	(331,209)	2,641,149
Accrued interest receivable	588,769	137,234	-	726,003
Bishop's Lenten Appeal pledges receivable, net	2,186,088	-	-	2,186,088
Major gifts pledges receivable, net	779,376	-	-	779,376
<i>Rooted in Faith - Forward in Hope, Inc.</i>				
pledges receivable, net	-	15,698,466	-	15,698,466
Investments	158,485,164	31,049,422	-	189,534,586
Prepaid expenses	336,978	-	-	336,978
Unamortized bond costs	442,227	-	-	442,227
Demand notes and loans receivable				
Paul VI High School bond receivable	4,579,917	-	-	4,579,917
Diocesan Investment and Loan (DIAL) program	48,672,004	-	-	48,672,004
200 North Glebe Road, Inc.	5,812,416	-	-	5,812,416
Property, equipment and land, net	37,698,342	-	-	37,698,342
Construction in progress	12,967,393	-	-	12,967,393
Land restricted for high school	14,500,000	-	-	14,500,000
Total assets	<u>\$ 302,595,675</u>	<u>\$ 47,434,938</u>	<u>\$ (331,209)</u>	<u>\$ 349,699,404</u>
Liabilities and Net Assets				
Liabilities				
Deposits held in custody for others	\$ 469,825	\$ -	\$ -	\$ 469,825
Accounts payable and accrued expenses	7,755,349	1,291,227	-	9,046,576
Accrued interest payable	330,280	331,209	(331,209)	330,280
DIAL deposits payable	112,538,330	-	-	112,538,330
Notes payable, net of discount	642,590	-	-	642,590
Amounts due parishes and Catholic Charities	7,577,589	11,413,726	-	18,991,315
Annuity payment liability	213,611	-	-	213,611
ADEF funds held for schools	2,519,216	-	-	2,519,216
Accrued pension liability, priests	1,296,225	-	-	1,296,225
Postretirement health benefit obligation	4,276,849	-	-	4,276,849
Bonds payable	25,205,000	-	-	25,205,000
Total liabilities	<u>162,824,864</u>	<u>13,036,162</u>	<u>(331,209)</u>	<u>175,529,817</u>
Net assets				
Unrestricted				
Current operations	43,237,485	-	-	43,237,485
Invested in property, equipment and land	50,665,735	-	-	50,665,735
Functioning as endowment	8,611,718	-	-	8,611,718
Designated	5,048,333	-	-	5,048,333
Total unrestricted	<u>107,563,271</u>	<u>-</u>	<u>-</u>	<u>107,563,271</u>
Temporarily restricted	21,212,857	29,799,744	-	51,012,601
Permanently restricted	10,994,683	4,599,032	-	15,593,715
Total net assets	<u>139,770,811</u>	<u>34,398,776</u>	<u>-</u>	<u>174,169,587</u>
Total liabilities and net assets	<u>\$ 302,595,675</u>	<u>\$ 47,434,938</u>	<u>\$ (331,209)</u>	<u>\$ 349,699,404</u>

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combining Statement of Financial Position
As of June 30, 2006

	<u>Chancery</u>	<u>Rooted in Faith- Forward in Hope</u>	<u>Elimination Entries</u>	<u>Combined (Unaudited) (Restated)</u>
Assets				
Cash and cash equivalents	\$ 12,503,827	\$ 279,939	\$ -	\$ 12,783,766
Accounts receivable, net	2,038,659	2,551,865	(343,388)	4,247,136
Accrued interest receivable	365,725	278,786	-	644,511
Bishop's Lenten Appeal pledges receivable, net	2,231,560	-	-	2,231,560
Major gifts pledges receivable, net	1,000,000	-	-	1,000,000
<i>Rooted in Faith - Forward in Hope, Inc.</i>				-
pledges receivable, net	-	32,449,042	-	32,449,042
Investments	121,701,314	43,801,496	-	165,502,810
Prepaid expenses	75,064	-	-	75,064
Unamortized bond costs	458,967	-	-	458,967
Demand notes and loans receivable				
Paul VI High School bond receivable	4,664,917	-	-	4,664,917
Diocesan Investment and Loan (DIAL) program	45,004,866	-	-	45,004,866
200 North Glebe Road, Inc.	10,882,416	-	-	10,882,416
Property, equipment and land, net	37,028,846	-	-	37,028,846
Construction in progress	298,334	-	-	298,334
Total assets	<u>\$ 238,254,495</u>	<u>\$ 79,361,128</u>	<u>\$ (343,388)</u>	<u>\$ 317,272,235</u>
Liabilities and Net Assets				
Liabilities				
Deposits held in custody for others	\$ 564,927	\$ -	\$ -	\$ 564,927
Accounts payable and accrued expenses	3,259,646	1,872,600	(12,179)	5,120,067
Accrued interest payable	331,209	331,209	(331,209)	331,209
DIAL deposits payable	100,586,410	-	-	100,586,410
Notes payable, net of discount	-	630,814	-	630,814
Amounts due parishes and Catholic Charities	-	25,346,730	-	25,346,730
Annuity payment liability	160,851	-	-	160,851
ADEF funds held for schools	1,938,419	-	-	1,938,419
Accrued pension liability, priests	1,641,465	-	-	1,641,465
Postretirement health benefit obligation	5,030,700	-	-	5,030,700
Bonds payable	25,290,000	-	-	25,290,000
Total liabilities	<u>138,803,627</u>	<u>28,181,353</u>	<u>(343,388)</u>	<u>166,641,592</u>
Net assets				
Unrestricted				
Current operations	45,711,726	-	-	45,711,726
Invested in property, equipment and land	37,327,180	-	-	37,327,180
Functioning as endowment	7,723,922	-	-	7,723,922
Designated	5,224,014	-	-	5,224,014
Total unrestricted	95,986,842	-	-	95,986,842
Temporarily restricted	3,153,526	35,958,033	-	39,111,559
Permanently restricted	310,500	15,221,742	-	15,532,242
Total net assets	<u>99,450,868</u>	<u>51,179,775</u>	<u>-</u>	<u>150,630,643</u>
Total liabilities and net assets	<u>\$ 238,254,495</u>	<u>\$ 79,361,128</u>	<u>\$ (343,388)</u>	<u>\$ 317,272,235</u>

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combining Statement of Activities
For the year ended June 30, 2007**

	<u>Chancery</u>	<u>Rooted in Faith- Forward in Hope</u>	<u>Elimination Entries</u>	<u>Combined</u>
Unrestricted				
Operating revenues and support				
Bishop's Lenten Appeal	\$ 9,407,843	\$ -	\$ -	\$ 9,407,843
Operational assessment	5,630,515	-	-	5,630,515
Investment income for operations	2,000,000	-	-	2,000,000
Transmittal fees	132,925	-	-	132,925
Contributions, bequests and major gifts	596,615	-	-	596,615
Program revenue	1,131,684	-	-	1,131,684
Diocesan subsidy	-	238,200	(238,200)	-
Other revenue and support	43,402	-	-	43,402
Satisfaction of temporary restrictions	4,676,723	3,335,414	(3,335,414)	4,676,723
Total operating revenues and support	<u>23,619,707</u>	<u>3,573,614</u>	<u>(3,573,614)</u>	<u>23,619,707</u>
Operating expenses				
Program services				
Pastoral	4,036,569	2,777,743	(2,777,743)	4,036,569
Religious personnel development	1,664,844	-	-	1,664,844
Education	2,748,582	557,671	(557,671)	2,748,582
Social services	1,963,695	-	-	1,963,695
Refugee assistance	1,314,887	-	-	1,314,887
Supporting services				
Diocesan administration and parochial support	9,343,127	-	-	9,343,127
<i>Rooted in Faith - Forward in Hope, Inc.</i>	238,200	238,200	(238,200)	238,200
Bishop's Lenten Appeal	508,238	-	-	508,238
Total operating expenses	<u>21,818,142</u>	<u>3,573,614</u>	<u>(3,573,614)</u>	<u>21,818,142</u>
Change in net assets from operations	<u>1,801,565</u>	<u>-</u>	<u>-</u>	<u>1,801,565</u>
Other changes in net assets				
Investment income, less amount included in operations, net	10,952,318	-	-	10,952,318
Insurance income and dividends	207,004	-	-	207,004
Change in unfunded pension liability, priests	345,240	-	-	345,240
Change in unfunded postretirement health obligation	753,851	-	-	753,851
Net property loss	(181)	-	-	(181)
DIAL loan interest income	2,301,102	-	-	2,301,102
DIAL deposit interest expense	(4,784,470)	-	-	(4,784,470)
Total other changes in net assets	<u>9,774,864</u>	<u>-</u>	<u>-</u>	<u>9,774,864</u>
Change in unrestricted net assets	11,576,429	-	-	11,576,429
Unrestricted net assets, beginning of year	95,986,842	-	-	95,986,842
Unrestricted net assets, end of year	<u>\$ 107,563,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,563,271</u>

Continued

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combining Statement of Activities
For the year ended June 30, 2007**

	<u>Chancery</u>	<u>Rooted in Faith- Forward in Hope</u>	<u>Elimination Entries</u>	<u>Combined</u>
Temporarily restricted				
Operating revenues and support				
Contributions, bequests and major gifts	\$ 6,571,997	\$ -	\$ (3,335,414)	\$ 3,236,583
Refugee assistance	1,314,887	-	-	1,314,887
Miscellaneous income	-	-	-	-
Satisfaction of temporary restrictions	<u>(4,676,723)</u>	<u>(3,335,414)</u>	<u>3,335,414</u>	<u>(4,676,723)</u>
Total operating revenues and support	<u>3,210,161</u>	<u>(3,335,414)</u>	<u>-</u>	<u>(125,253)</u>
Operating expenses				
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets from operations	<u>3,210,161</u>	<u>(3,335,414)</u>	<u>-</u>	<u>(125,253)</u>
Other changes in net assets				
Investment income, net	349,170	1,660,374	-	2,009,544
<i>Rooted in Faith - Forward in Hope, Inc.</i> contributions, net of bad debt losses	-	(4,483,249)	-	(4,483,249)
Contributed land restricted for high school	<u>14,500,000</u>	<u>-</u>	<u>-</u>	<u>14,500,000</u>
Total other changes in net assets	<u>14,849,170</u>	<u>(2,822,875)</u>	<u>-</u>	<u>12,026,295</u>
Change in temporarily restricted net assets	18,059,331	(6,158,289)	-	11,901,042
Temporarily restricted net assets, beginning of year	<u>3,153,526</u>	<u>35,958,033</u>	<u>-</u>	<u>39,111,559</u>
Temporarily restricted net assets, end of year	<u>\$ 21,212,857</u>	<u>\$ 29,799,744</u>	<u>\$ -</u>	<u>\$ 51,012,601</u>
Permanently restricted				
<i>Rooted in Faith - Forward in Hope, Inc.</i>				
contributions	\$ -	\$ 61,473	\$ -	\$ 61,473
Transfers of endowment	<u>10,684,183</u>	<u>(10,684,183)</u>	<u>-</u>	<u>-</u>
Total operating revenues and support	<u>10,684,183</u>	<u>(10,622,710)</u>	<u>-</u>	<u>61,473</u>
Change in permanently restricted net assets	10,684,183	(10,622,710)	-	61,473
Permanently restricted net assets, beginning of year	<u>310,500</u>	<u>15,221,742</u>	<u>-</u>	<u>15,532,242</u>
Permanently restricted net assets, end of year	<u>\$ 10,994,683</u>	<u>\$ 4,599,032</u>	<u>\$ -</u>	<u>\$ 15,593,715</u>
Total change in net assets	40,319,943	(16,780,999)	-	23,538,944
Net assets, beginning of year	<u>99,450,868</u>	<u>51,179,775</u>	<u>-</u>	<u>150,630,643</u>
Net assets, end of year	<u>\$ 139,770,811</u>	<u>\$ 34,398,776</u>	<u>\$ -</u>	<u>\$ 174,169,587</u>

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combining Statement of Activities
For the year ended June 30, 2006**

	<u>Chancery</u>	<u>Rooted in Faith- Forward in Hope</u>	<u>Elimination Entries</u>	<u>Combined (Unaudited) (Restated)</u>
Unrestricted				
Operating revenues and support				
Bishop's Lenten Appeal	\$ 8,680,571	\$ -	\$ -	\$ 8,680,571
Operational assessment	5,226,910	-	-	5,226,910
Investment income for operations	1,500,000	-	-	1,500,000
Transmittal fees	160,036	-	-	160,036
Contributions, bequests and major gifts	1,383,005	-	-	1,383,005
Program revenue	1,402,439	-	-	1,402,439
Diocesan subsidy	-	265,049	(265,049)	-
Other revenue and support	27,590	-	-	27,590
Satisfaction of temporary restrictions	4,037,858	2,045,602	-	6,083,460
	<u>22,418,409</u>	<u>2,310,651</u>	<u>(265,049)</u>	<u>24,464,011</u>
Total operating revenues and support				
Operating expenses				
Program services				
Pastoral	3,641,019	132,552	-	3,773,571
Religious personnel development	1,434,512	58,738	-	1,493,250
Education	2,588,259	1,854,312	-	4,442,571
Social services	1,753,954	-	-	1,753,954
Refugee assistance	1,311,298	-	-	1,311,298
Supporting services				
Diocesan administration and parochial support	8,422,178	-	-	8,422,178
<i>Rooted in Faith - Forward in Hope, Inc.</i>	265,049	265,049	(265,049)	265,049
Bishop's Lenten Appeal	469,557	-	-	469,557
	<u>19,885,826</u>	<u>2,310,651</u>	<u>(265,049)</u>	<u>21,931,428</u>
Total operating expenses				
Change in net assets from operations	<u>2,532,583</u>	<u>-</u>	<u>-</u>	<u>2,532,583</u>
Other changes in net assets				
Investment income less amount included in operations, net	5,312,078	-	-	5,312,078
Insurance income and dividends	915,742	-	-	915,742
Change in unfunded pension liability, priests	1,158,691	-	-	1,158,691
Change in unfunded postretirement health obligation	2,118,360	-	-	2,118,360
Net property gains	3,616,876	-	-	3,616,876
DIAL loan interest income	2,491,638	-	-	2,491,638
DIAL deposit interest expense	(4,260,513)	-	-	(4,260,513)
Total other changes in net assets	<u>11,352,872</u>	<u>-</u>	<u>-</u>	<u>11,352,872</u>
Change in unrestricted net assets	13,885,455	-	-	13,885,455
Unrestricted net assets, beginning of year	82,101,387	-	-	82,101,387
Unrestricted net assets, end of year	<u>\$ 95,986,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,986,842</u>

Continued

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combining Statement of Activities
For the year ended June 30, 2006**

	<u>Chancery</u>	<u>Rooted in Faith- Forward in Hope</u>	<u>Elimination Entries</u>	<u>Combined (Unaudited) (Restated)</u>
Temporarily restricted				
Operating revenues and support				
Contributions, bequests and major gifts	\$ 4,057,952	\$ -	\$ -	\$ 4,057,952
Refugee assistance	1,311,298	-	-	1,311,298
Satisfaction of temporary restrictions	<u>(4,037,858)</u>	<u>(2,045,602)</u>	-	<u>(6,083,460)</u>
Total operating revenues and support	<u>1,331,392</u>	<u>(2,045,602)</u>	-	<u>(714,210)</u>
Operating expenses				
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets from operations	<u>1,331,392</u>	<u>(2,045,602)</u>	-	<u>(714,210)</u>
Other changes in net assets				
Investment income, net	30,676	1,165,693	-	1,196,369
<i>Rooted in Faith - Forward in Hope, Inc.</i> contributions, net of bad debt losses	-	1,349,319	-	1,349,319
Total operating expenses	<u>30,676</u>	<u>2,515,012</u>	-	<u>2,545,688</u>
Change in temporarily restricted net assets	1,362,068	469,410	-	1,831,478
Temporarily restricted net assets, beginning of year	<u>1,791,458</u>	<u>35,488,623</u>	-	<u>37,280,081</u>
Temporarily restricted net assets, end of year	<u>\$ 3,153,526</u>	<u>\$ 35,958,033</u>	<u>\$ -</u>	<u>\$ 39,111,559</u>
Permanently restricted				
<i>Rooted in Faith - Forward in Hope, Inc.</i>				
contributions	<u>\$ -</u>	<u>\$ 90,392</u>	<u>\$ -</u>	<u>\$ 90,392</u>
Change in permanently restricted net assets	-	90,392	-	90,392
Permanently restricted net assets, beginning of year	<u>310,500</u>	<u>15,131,350</u>	-	<u>15,441,850</u>
Permanently restricted net assets, end of year	<u>\$ 310,500</u>	<u>\$ 15,221,742</u>	<u>\$ -</u>	<u>\$ 15,532,242</u>
Total change in net assets	15,247,523	559,802	-	15,807,325
Net assets, beginning of year	<u>84,203,345</u>	<u>50,619,973</u>	-	<u>134,823,318</u>
Net assets, end of year	<u>\$ 99,450,868</u>	<u>\$ 51,179,775</u>	<u>\$ -</u>	<u>\$ 150,630,643</u>