

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate

**Combined Financial Statements and Combining Information
as of June 30, 2008 and 2007 and Report Thereon**

**Central Administrative Office of the Catholic Diocese
of Arlington and Affiliate**

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June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined statements of financial position of the Central Administrative Office of the Catholic Diocese of Arlington and its affiliate (the "Chancery") as of June 30, 2008 and 2007, and the related combined statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Chancery as of June 30, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

LarsonAllen LLP
LarsonAllen LLP

St. Cloud, Minnesota
October 24, 2008

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
 Combined Statements of Financial Position
 As of June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 16,339,789	\$ 13,124,459
Accounts receivable, net	3,098,085	2,641,149
Accrued interest receivable	592,833	726,003
Bishop's Lenten Appeal pledges receivable, net	2,192,371	2,186,088
Major gifts pledges receivable, net	302,448	779,376
Rooted in Faith - Forward in Hope, Inc. pledges receivable, net	9,051,706	15,698,466
Investments	145,854,315	189,534,586
Prepaid expenses	1,116,504	336,978
Unamortized bond costs	425,486	442,227
Demand notes and loans receivable		
Paul VI High School bond receivable	4,494,917	4,579,917
Diocesan Investment and Loan (DIAL) program	48,472,220	48,672,004
200 North Glebe Road, Inc.	5,812,416	5,812,416
Property, equipment and land, net	44,627,091	37,698,342
Construction in progress and assets not yet placed in service	50,342,364	12,967,393
Land restricted for high school	14,500,000	14,500,000
Total assets	<u>\$ 347,222,545</u>	<u>\$ 349,699,404</u>
Liabilities and Net Assets		
Liabilities		
Deposits held in custody for others	\$ 430,148	\$ 463,975
Accounts payable and accrued expenses	9,959,418	9,046,576
Accrued interest payable	325,194	330,280
Unearned revenue	693,381	5,850
DIAL deposits payable	115,205,902	112,538,330
Notes payable, net of discount	654,366	642,590
Amounts due parishes and Catholic Charities	13,619,446	18,991,315
Annuity payment liability	188,517	213,611
Arlington Diocese Educational Foundation (ADEF) funds held for schools	2,406,456	2,519,216
Accrued pension liability, priests	2,115,661	1,296,225
Postretirement health benefit obligation	3,621,292	4,276,849
Bonds payable	24,740,000	25,205,000
Total liabilities	<u>173,959,781</u>	<u>175,529,817</u>
Net assets		
Unrestricted		
Current operations	41,558,303	55,220,489
Invested in property, equipment and land	71,211,279	38,682,731
Functioning as endowment	8,493,795	8,611,718
Designated	4,762,290	5,048,333
Total unrestricted	<u>126,025,667</u>	<u>107,563,271</u>
Temporarily restricted	31,585,951	51,012,601
Permanently restricted	15,651,146	15,593,715
Total net assets	<u>173,262,764</u>	<u>174,169,587</u>
Total liabilities and net assets	<u>\$ 347,222,545</u>	<u>\$ 349,699,404</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, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues and support				
Bishop's Lenten Appeal	\$ 10,669,374	\$ -	\$ -	\$ 10,669,374
Operational assessment	6,150,339	-	-	6,150,339
Investment income for operations	2,820,000	-	-	2,820,000
Transmittal fees	141,124	-	-	141,124
Contributions, bequests and major gifts	1,324,865	5,328,156	-	6,653,021
Program revenue	1,458,550	-	-	1,458,550
Refugee assistance	-	1,401,441	-	1,401,441
Other revenue and support	5,060	-	-	5,060
Satisfaction of temporary restrictions	5,315,838	(5,315,838)	-	-
	<u>27,885,150</u>	<u>1,413,759</u>	<u>-</u>	<u>29,298,909</u>
Total operating revenues and support				
Operating expenses				
Program services				
Pastoral	5,085,804	-	-	5,085,804
Religious personnel development	1,983,320	-	-	1,983,320
Education	4,107,559	-	-	4,107,559
Social services	2,436,385	-	-	2,436,385
Refugee assistance	1,401,441	-	-	1,401,441
Supporting services				
Diocesan administration and parochial support	9,574,954	-	-	9,574,954
Rooted in Faith - Forward in Hope, Inc.	131,113	-	-	131,113
Bishop's Lenten Appeal	533,464	-	-	533,464
Total operating expenses	<u>25,254,040</u>	<u>-</u>	<u>-</u>	<u>25,254,040</u>
Change in net assets from operations	<u>2,631,110</u>	<u>1,413,759</u>	<u>-</u>	<u>4,044,869</u>
Other changes in net assets				
Investment income less amount included in operations, net	(5,460,119)	1,825,835	-	(3,634,284)
Insurance programs	(220,034)	-	-	(220,034)
Change in unfunded pension liability, priests	(819,436)	-	-	(819,436)
Change in unfunded postretirement health obligation	655,557	-	-	655,557
Net property loss	(7,376)	-	-	(7,376)
Rooted in Faith - Forward in Hope, Inc. contributions, net of bad debt losses	-	82,624	57,431	140,055
Catholic Charities contribution	-	1,793,301	-	1,793,301
DIAL loan interest income	2,580,111	-	-	2,580,111
DIAL deposit interest expense	(5,439,586)	-	-	(5,439,586)
Satisfaction of temporary restrictions	24,542,169	(24,542,169)	-	-
Total other changes in net assets	<u>15,831,286</u>	<u>(20,840,409)</u>	<u>57,431</u>	<u>(4,951,692)</u>
Change in net assets	18,462,396	(19,426,650)	57,431	(906,823)
Net assets, beginning of year	<u>107,563,271</u>	<u>51,012,601</u>	<u>15,593,715</u>	<u>174,169,587</u>
Net assets, end of year	<u>\$ 126,025,667</u>	<u>\$ 31,585,951</u>	<u>\$ 15,651,146</u>	<u>\$ 173,262,764</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)	-	-
	<u>23,619,707</u>	<u>(125,253)</u>	<u>-</u>	<u>23,494,454</u>
Total operating revenues and support				
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
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 programs	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	<u>95,986,842</u>	<u>39,111,559</u>	<u>15,532,242</u>	<u>150,630,643</u>
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 Statements of Cash Flows
 For the years ended June 30, 2008 and 2007**

	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (906,823)	\$ 23,538,944
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation of equipment	487,029	461,887
Contributed land restricted for high school	-	(14,500,000)
Increase in allowance for uncollectible accounts receivable	758	125,361
Bad debt losses on BLA pledges receivable	994,372	1,061,623
(Decrease) increase in discount on major gifts pledges receivable	(8,072)	20,624
Bad debt losses in <i>Rooted in Faith-Forward in Hope, Inc.</i> pledges receivable	653,516	4,987,130
Accretion of discount on <i>Rooted in Faith-Forward in Hope, Inc.</i> pledges receivable	(206,566)	(367,674)
Decrease in discount on notes payable	11,776	11,776
Decrease in allowance for DIAL demand loans receivable	-	(300,000)
Unrealized and realized loss (gain) on investments	5,349,445	(10,162,010)
Loss (gain) from disposal of land and equipment	7,376	181
(Decrease) in due to parishes and Catholic Charities	(5,633,061)	(6,549,051)
Decrease in accounts receivable	42,306	1,480,626
Decrease (increase) in accrued interest receivable	133,170	(81,492)
(Increase) in BLA pledges receivable	(1,000,655)	(1,016,151)
Decrease in major gift pledges receivable	485,000	200,000
Decrease in <i>Rooted in Faith-Forward in Hope, Inc.</i> pledges receivable	6,427,894	12,331,038
(increase) in prepaid expenses	(779,526)	(261,914)
Decrease in unamortized bond costs	16,741	16,740
(Decrease) in deposits held in custody for others	(33,827)	(95,102)
Increase (decrease) in accounts payable and accrued expenses	(244,773)	1,182,566
Increase in ADEF funds held for schools	57,479	72,005
(Decrease) in accrued interest payable	(5,086)	(929)
Increase (decrease) in unearned revenue	687,531	(35,479)
Increase (decrease) in accrued pension liability, priests	819,436	(345,240)
(Decrease) in postretirement health benefit obligation	(655,557)	(753,851)
Increase (decrease) in annuity payment liability	(25,094)	52,760
Net cash and cash equivalents provided by operating activities	<u>6,674,789</u>	<u>11,074,368</u>
Cash flows from investing activities		
Purchases of buildings and land	(7,055,963)	(856,538)
Purchases of equipment	(231,595)	(256,818)
Payments made for construction in progress	(36,352,952)	(9,907,845)
Decrease in 200 North Glebe Road loan receivable	-	5,070,000
Advance to parish	(500,000)	-
DIAL demand loans made	(7,992,874)	(9,416,104)
Repayments on DIAL demand loans	8,192,658	6,048,966
Purchases of investments	(235,801,984)	(373,030,775)
Sales of investments	273,995,679	359,663,519
Net cash and cash equivalents used in investing activities	<u>(5,747,031)</u>	<u>(22,685,595)</u>
Cash flows from financing activities		
Deposits into DIAL deposits payable	36,492,960	36,325,988
Withdrawals of DIAL deposits	(33,825,388)	(24,374,068)
Decrease in Paul VI High School loan receivable	85,000	85,000
Repayments of bonds payable	(465,000)	(85,000)
Net cash and cash equivalents provided by financing activities	<u>2,287,572</u>	<u>11,951,920</u>
Net increase in cash and cash equivalents	3,215,330	340,693
Cash and cash equivalents, at beginning of year	13,124,459	12,783,766
Cash and cash equivalents, at end of year	<u>\$ 16,339,789</u>	<u>\$ 13,124,459</u>
Supplement cash flow information		
Interest paid on debt	\$ 1,319,961	\$ 1,322,978
Equipment and construction in progress purchases in accounts payable	\$ 3,938,579	\$ 2,780,964
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, 2008 and 2007**

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, the various Campus Ministries, and the Spirituality Center.
- 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.

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007**

1. Nature of operations (continued)

Rooted in Faith ~ Forward in Hope, Inc. (the Campaign) (continued)

The Campaign's goal was to raise a minimum of \$75 million for five specific needs, as follows:

- \$15 million for parish needs
- \$25 million for Catholic education projects
- \$15 million for establishment of tuition assistance, faculty development, catechetics and youth ministry endowment funds
- \$5 million for creation of a priests' retirement home
- \$5 million for creation of a diocesan spirituality center
- \$5 million for establishment of a Catholic Charities endowment fund
- \$5 million for the creation of Catholic Charities' emergency shelter projects

Funds raised in excess of the goal of \$60 million for non-parish needs have been placed in a separate temporarily restricted fund (allocation 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.

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.

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007**

2. Basis of presentation and summary of significant accounting policies (continued)

Basis of presentation and combination (continued)

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, 2008 and 2007**

2. Basis of presentation and summary of significant accounting policies (continued)

Unrestricted net assets (continued)

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, net of outstanding bonds and accounts payable used for these investments.

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 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. It is the general policy of the Chancery to capitalize all expenditures for property and equipment in excess of \$5,000.

Investments

Investments consist of money market funds, mutual funds, government and government-sponsored enterprises' securities, corporate, foreign and municipal 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.

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007

2. Basis of presentation and summary of significant accounting policies (continued)

Unearned Revenue

Income from program activities received in advance is deferred and recognized in the period the event is held.

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 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, 2008 and 2007, the following amounts were recorded as due to the related entities and not as contribution revenue of the Chancery:

	<u>2008</u>	<u>2007</u>
Parishes	\$ 4,490,896	\$ 7,999,866
Catholic Charities	<u>9,128,550</u>	<u>10,991,449</u>
Total	<u>\$ 13,619,446</u>	<u>\$ 18,991,315</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 to the current year financial statement presentation. These reclassifications had no effect on total net asset categories.

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007**

2. Basis of presentation and summary of significant accounting policies (continued)

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. Cash on deposit with financial institutions exceeded the federally insured limit by \$4,250,441 at June 30, 2008. The Chancery also invests excess funds (\$13,645,458 as of June 30, 2008) in overnight investment agreements and money market funds which are not federally insured but are collateralized by U.S. treasuries or mortgage-backed securities of US government-sponsored enterprises. The DIAL demand notes and loans receivable are from parishes or other related entities in the Diocese. Pledges receivable, which have been adjusted for doubtful accounts, are due from individuals, corporations, and foundations. To date, no losses have been experienced due to concentration 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.

The Chancery has adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109*, ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements as a result of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of FIN 48 had no impact on the Chancery's financial statements.

3. Bishop's Lenten Appeal pledges receivable

As of June 30, 2008 and 2007, contributors to the Bishop's Lenten Appeal (BLA) have unconditionally promised to give \$3,034,007 and \$2,963,409. The promised contributions are due as follows as of June 30:

	<u>2008</u>	<u>2007</u>
Within one year	\$ 3,034,007	\$ 2,963,409
Less: allowance for doubtful accounts	<u>(841,636)</u>	<u>(777,321)</u>
Net BLA contributions receivable	<u>\$ 2,192,371</u>	<u>\$ 2,186,088</u>

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Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007**

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

Campaign pledges receivable at June 30 are:

	<u>2008</u>	<u>2007</u>
Receivables due in one year or less	\$ 16,787,937	\$ 21,446,935
Receivables due in one to five years	-	4,253,109
Total unconditional promises to give	<u>16,787,937</u>	<u>25,700,044</u>
Less: discount to present value	(36,333)	(470,982)
Less: allowance for doubtful accounts	<u>(7,699,898)</u>	<u>(9,530,596)</u>
Pledges receivable, net	<u>\$ 9,051,706</u>	<u>\$ 15,698,466</u>

Bad debt losses for the years ended June 30, 2008 and 2007 were \$653,516 and \$4,987,130, respectively. The collectibility of outstanding pledges was re-evaluated during the years ended June 30, 2008 and 2007, respectively. 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 percent to 5.21 percent. Included in contributions is the accretion of the discount to present value on pledge receivable amounts received in prior years. Amounts of \$206,566 and \$367,674 were accreted into contributions for the years ended June 30, 2008 and 2007, 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 and high schools 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 percent 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 percent of the total construction costs on deposit in DIAL before a loan can be approved; new parishes, 30 percent. Parishes and high schools pay interest monthly at an annual rate of 6.5 percent on the outstanding balance of the loan while construction progresses. When the project is completed, the loan is amortized and the borrower begins making monthly principal and interest payments. The loans bear interest at 6.5 percent with maturity dates ranging from 2008 to 2028. The term of the loan is determined by the total amount borrowed. Loans are not collateralized.

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5. Diocesan Investment and Loan (DIAL) Program (Continued)

Expected repayments on loans receivable for the years through 2013 and thereafter are as follows:

2009	\$ 4,180,816
2010	3,629,466
2011	3,679,217
2012	3,547,455
2013	3,175,329
Thereafter	<u>30,259,937</u>
Total	<u>\$ 48,472,220</u>

6. Property, equipment and land, net

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

	<u>2008</u>	<u>2007</u>
Operating properties-buildings	\$ 21,017,086	\$ 17,688,507
Operating properties-land	23,764,028	23,167,212
Operating properties-improvements	2,143,505	1,272,033
Land held for future projects and parishes	11,583,338	9,197,222
Office furniture and equipment	875,340	937,080
Computer hardware	273,592	426,592
Computer software	641,732	2,284,422
Vehicles	354,179	318,108
Leasehold improvements	<u>91,329</u>	<u>91,329</u>
Total property, equipment and land	60,744,129	55,382,505
Less: accumulated depreciation	<u>(16,117,038)</u>	<u>(17,684,163)</u>
Property, equipment and land, net	<u>\$ 44,627,091</u>	<u>\$ 37,698,342</u>

Depreciation expense was \$487,029 and \$461,887 during the years ended June 30, 2008 and 2007, respectively. Of the total assets listed above, \$12,435,569 and \$14,154,235 were fully depreciated at June 30, 2008 and 2007, 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 percent 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 such time this restriction expires.

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For the years ended June 30, 2008 and 2007

6. Property, equipment and land, net (continued)

As of June 30, 2008, the Chancery was in the process of constructing a high school in Prince William County (site of the donated land) and several other projects. Construction in progress on these projects and assets not yet placed in service was \$50,342,364 and \$12,967,393 as of June 30, 2008 and 2007, respectively. Subsequent to year end, the school opened and assets were placed in service with an approximate value of \$50,000,000.

Construction of the high school in Prince William County (Pope John Paul the Great 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, 2008 was:

	<u>2008</u>	<u>2007</u>
Net amount capitalized, beginning of year	\$ (131,631)	\$ -
Interest costs	1,059,555	1,072,024
Less: interest earned on bonds	163,100	1,203,655
Net amount capitalized, end of year	<u>\$ 764,824</u>	<u>\$ (131,631)</u>

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, 2008 and 2007 consist of the following:

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
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7. Investments (continued)

	Current Operations			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 1,418,290	\$ 1,418,289	\$ 17,326,906	\$ 17,328,280
U.S. Government and sponsored enterprises securities	4,894,843	5,020,764	4,316,497	4,249,707
Corporate bonds	1,684,788	1,641,592	2,117,437	2,047,986
Equities	3,436,264	4,504,356	9,368,122	12,276,529
Total	<u>\$ 11,434,185</u>	<u>\$ 12,585,001</u>	<u>\$ 33,128,962</u>	<u>\$ 35,902,502</u>
	Functioning as Endowment and ADEF			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 276,197	\$ 276,197	\$ 350,099	\$ 350,099
U.S. Government and sponsored enterprises securities	1,173,245	1,190,691	1,144,053	1,118,556
Corporate bonds	525,625	523,297	523,612	521,939
Equities	8,073,364	10,243,744	7,422,881	10,526,402
Total	<u>\$ 10,048,431</u>	<u>\$ 12,233,929</u>	<u>\$ 9,440,645</u>	<u>\$ 12,516,996</u>
	Restricted Endowments			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 3,090,722	\$ 3,090,412	\$ 1,528,841	\$ 1,528,841
U.S. Government and sponsored enterprises securities	5,579,147	5,639,795	1,218,320	1,210,741
Corporate and municipal bonds	8,889,417	8,794,068	11,961,327	11,826,363
Total	<u>\$ 17,559,286</u>	<u>\$ 17,524,275</u>	<u>\$ 14,708,488</u>	<u>\$ 14,565,945</u>

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7. Investments (continued)

	DIAL Fund			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 31,683,950	\$ 31,683,950	\$ 36,222,848	\$ 36,222,848
U.S. Government and sponsored enterprises securities	2,449,236	2,492,212	4,321,852	4,206,012
Corporate bonds	11,351,493	11,024,877	8,688,325	8,453,179
Equities	37,888,629	40,727,833	36,251,669	45,127,887
Limited Partnerships	1,026,710	1,598,506	1,145,666	1,489,795
Total	<u>\$ 84,400,018</u>	<u>\$ 87,527,378</u>	<u>\$ 86,630,360</u>	<u>\$ 95,499,721</u>

	<i>Rooted in Faith - Forward in Hope, Inc.</i>			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 1,966,017	\$ 1,966,017	\$ 1,929,739	\$ 1,929,739
U.S. Government and sponsored enterprises securities	7,540,296	7,509,803	2,145,219	2,145,167
Corporate and municipal bonds	6,562,212	6,507,912	27,144,042	26,974,516
Total	<u>\$ 16,068,525</u>	<u>\$ 15,983,732</u>	<u>\$ 31,219,000</u>	<u>\$ 31,049,422</u>

	Total			
	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 38,435,176	\$ 38,434,865	\$ 57,358,433	\$ 57,359,807
U.S. Government and sponsored enterprises securities	21,636,767	21,853,265	13,145,941	12,930,183
Corporate and municipal bonds	29,013,535	28,491,746	50,434,743	49,823,983
Equities	49,398,257	55,475,933	53,042,672	67,930,818
Limited Partnerships	1,026,710	1,598,506	1,145,666	1,489,795
Total	<u>\$ 139,510,445</u>	<u>\$ 145,854,315</u>	<u>\$ 175,127,455</u>	<u>\$ 189,534,586</u>

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007

7. Investments (continued)

Also included in investments at June 30, 2008 and 2007 is \$189,989 and \$213,611, respectively, representing the fair market value of assets held under split interest agreements for which the Chancery is the trustee. Quarterly or semiannual distributions are made to the donors. The ultimate beneficiaries are the Chancery, Catholic Charities and parishes. The proceeds are expected to be received in five to eighteen years, based on published actuarial tables, and are calculated using discount rates which represent the risk-free rates in existence at the date of the gift. Amounts due to annuitants and related parties are disclosed as annuity payment liability in the accompanying combined statements of financial position.

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

	<u>2008</u>	<u>2007</u>
For operations	\$ 2,820,000	\$ 2,000,000
In Other changes in net assets	<u>(3,634,284)</u>	<u>12,961,862</u>
Net investment income - Chancery	<u>\$ (814,284)</u>	<u>\$ 14,961,862</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, 2008 and 2007, respectively, consists of the following:

	<u>2008</u>	<u>2007</u>
Chancery		
Interest and dividends	\$ 5,326,827	\$ 5,542,250
Realized gains and losses, net	2,554,930	6,519,782
Unrealized gains and losses, net	(7,904,376)	3,642,228
Less - investment management expenses	<u>(791,665)</u>	<u>(742,398)</u>
Net investment income - Chancery	(814,284)	14,961,862
Funds held for Diocesan entities		
Investment income allocated to Diocesan entities	<u>404,537</u>	<u>624,929</u>
Total net investment income - Chancery and funds held for Diocesan entities	<u>\$ (409,747)</u>	<u>\$ 15,586,791</u>

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007**

7. Investments (continued)

The Chancery invests in a variety of investment securities and therefore, is subject to various risks such as interest rate, credit and overall market volatility risk. Subsequent to June 30, 2008, equity holdings within the Chancery investments experienced significant decline in values proportionate to the decline that occurred in the overall financial market. Due to continuing market risk and fluctuations, it is reasonably possible that significant changes in investment values will occur in the near term that could materially affect the amounts reported in the statement of financial position and the results of operations.

8. Related-party transactions

The following is a description of material transactions with related parties as of and for the years ended June 30, 2008 and 2007, 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 \$1,086,869 and \$991,019 in fiscal years 2008 and 2007, respectively. The Chancery made an additional contribution of \$24,227 to Catholic Charities in the year ended June 30, 2007 to 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 \$-0- and \$24,816 as of June 30, 2008 and 2007, 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 \$700,338 and \$539,219 in the years ended June 30, 2008 and 2007, respectively. The amount due from Catholic Charities for these expenses was \$79,040 and 38,140 at June 30, 2008 and 2007, respectively. Catholic Charities subleases office space from the Chancery which leases offices space from 200 North Glebe Road, Inc., also a related party. Rent expense was \$91,130 and \$101,439 for the years ended June 30, 2008 and 2007, respectively. In addition, Catholic Charities had \$1,834,015 and \$2,901,003 in DIAL deposits with the Chancery as of June 30, 2008 and 2007, respectively. Further, under the terms of the Campaign, Catholic Charities will receive a portion of the proceeds. Catholic Charities received \$2,382,955 and \$0 during the years ended June 30, 2008 and 2007 respectively in support of Campaign related initiatives, and is due \$9,128,550 and \$10,991,449 as of June 30, 2008 and 2007, respectively. As of June 30, 2008 and 2007, the amount due includes \$4,662,824 and \$3,816,980 respectively in endowment funds held by the Chancery at the request of Catholic Charities. In 2008, included in Campaign initiatives was a contribution to the Chancery in the amount of \$1,793,301 for acquisition of a family shelter. The Chancery will join with Catholic Charities in providing temporary housing and counseling services by providing use of this facility and distributions from the Campaign.

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8. Related-party transactions (continued)

Arlington Catholic Herald (Herald) – The Herald had \$932,492 and \$942,699 in DIAL deposits with the Chancery as of June 30, 2008 and 2007, 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 \$328,548 and \$255,441 in the years ended June 30, 2008 and 2007, respectively. The amount due from the Herald related to accounts receivable transactions and reimbursements were \$ 4,430 and \$69,789 at June 30, 2008 and 2007, 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 \$96,858 and \$107,809 for the years ended June 30, 2008 and 2007, respectively. Various offices within the Chancery frequently advertise in the Herald. Total advertising expense to the Herald was \$138,946 and \$115,819 for the years ended June 30, 2008 and 2007, respectively. Amounts payable to the Herald for advertising were \$6,469 and \$3,732 at June 30, 2008 and 2007, respectively. Amounts payable for advertising collected on behalf of Herald were \$15,483 and \$0 for the years ended June 30, 2008 and 2007, 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 August 2008.

Bishop O’Connell High School – This high school had \$2,068,989 and \$2,491,831 in DIAL deposits with the Chancery as of June 30, 2008 and 2007, respectively. In addition, the high school has a DIAL loan payable to the Chancery. The balance was \$34,207 and \$77,579 as of June 30, 2008 and 2007, respectively. Under the terms of the loan, payments of principal and interest at 6.5 percent 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.

Paul VI High School – This high school had \$2,143,849 and \$1,378,356 in DIAL deposits with the Chancery as of June 30, 2008 and 2007, respectively. In addition, the high school has a DIAL loan payable to the Chancery. The balance was \$200,526 and \$295,928 as of June 30, 2008 and 2007, respectively. Under the terms of the loan, payments of principal and interest at 6.5 percent 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 16) for renovations and additions and has agreed to repay the Chancery this amount and related interest. The balance was \$4,494,917 and \$4,579,917 as of June 30, 2008 and 2007, respectively. Under the terms of the bond, payments of principal and interest at rates ranging from 4.375 percent to 5.550 percent 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.

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8. Related-party transactions (continued)

Bishop Ireton High School – This high school had \$833,649 and \$1,075,450 in DIAL deposits with the Chancery as of June 30, 2008 and 2007, respectively. In addition, the high school had four DIAL loans payable to the Chancery. The loans were consolidated in 2007. The balance totaled \$2,003,416 and \$2,060,346 as of June 30, 2008 and 2007, respectively. Under the terms of the loan, payments of principal and interest at 6.5 percent 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.

Pope John Paul the Great High School – This high school was under construction as of June 30, 2008, to be opened in August 2008. Construction in progress and assets not yet placed in service as of June 30, 2008 includes \$45,221,160 related to this project. Start up costs of \$449,156 for the year ended June 30, 2008 is included in operating expenses. The Chancery has collected tuition and other fees on behalf of the high school. The amount due to the high school for fees collected on its behalf was \$183,068 as of June 30, 2008.

Parishes – All parishes are required to deposit excess cash into the DIAL program. Three parishes have deposits in excess of 5 percent of the deposit balance in DIAL. These parishes make up 25 percent of the total deposits. Certain parishes have DIAL loans payable to the Chancery. The carrying values of these loans payable approximate fair value. Five parishes have loans in excess of 5 percent of the loans payable balance in DIAL. These parishes make up 66 percent 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, 2008 and 2007 include \$ 2,406,456 and \$2,519,216, respectively, in ADEF endowment funds held by the Chancery on behalf of participating parishes.

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>2008</u> <u>Distributions</u>	<u>2007</u> <u>Distributions</u>	<u>2008</u> <u>Amount Due</u>	<u>2007</u> <u>Amount Due</u>
Parishes	\$ 3,026,859	\$ 4,583,909	\$ 4,490,896	\$ 7,999,866

In 2008 and 2007 respectively, the amount due to parishes was also decreased by allocated contribution revenue net of bad debt losses in the amount of \$496,308 and \$2,241,044 and increased by investment income allocated in the amount of \$14,197 and \$9,750.

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8. Related-party transactions (continued)

Included in accounts receivable as of June 30, 2008, is \$500,000 representing an advance on the sale of parish property. Settlement on the sale occurred subsequent to year end and the advance was repaid in full.

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 \$1,474,529 and \$1,595,031 in 2008 and 2007, respectively. In addition, the Chancery has a demand note receivable from 200 N Glebe with no stated maturity date. The balance was \$5,812,416 as of June 30, 2008 and 2007, respectively. The Chancery has waived interest on this note and accepts payments as cash is available, without a fixed schedule. The fair value of this note, based on quoted market rates, is \$3,519,796 and \$3,506,399 at June 30, 2008 and 2007, respectively. There is no allowance for uncollectibility associated with this note. 200 N Glebe Road, Inc. had \$1,857,366 and \$2,593,120 in DIAL deposits with the Chancery as of June 30, 2008 and 2007, respectively.

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 percent of each eligible participant's annual earnings. The amount contributed to the lay retirement plan and charged to expense for the Chancery was \$482,286 and \$362,751 for the years ended June 30, 2008 and 2007, 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 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.

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9. Pension expense (continued)

Pension Plan – Priests (continued)

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

	<u>2008</u>	<u>2007</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,180,749	\$ 7,912,198
Service cost	324,373	307,479
Interest cost	497,001	480,235
Actuarial (gain) loss	311,718	35,853
Benefits paid	<u>(444,744)</u>	<u>(555,016)</u>
Benefit obligation at end of year	<u>8,869,097</u>	<u>8,180,749</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	6,884,524	6,270,733
Return on plan assets	(122,680)	736,807
Employer contributions	436,336	432,000
Benefits paid	<u>(444,744)</u>	<u>(555,016)</u>
Fair value of plan assets at end of year	<u>6,753,436</u>	<u>6,884,524</u>
Accrued pension liability, priests	<u>\$ 2,115,661</u>	<u>\$ 1,296,225</u>

Assumptions used to determine the year-end benefit obligation:

	<u>2008</u>	<u>2007</u>
Discount rate on the benefit obligation	7.00%	6.25%
Rate of expected return on plan assets	7.00%	7.00%
Rate of priests' compensation increase	2.00%	2.00%

The expected return assumption was developed as the weighted average of expected returns determined under a forward looking approach and a historical approach using the plan's target asset assumption. The forward looking assumption was developed based on a market analysis applied to the plan's investment mix. The historical return assumption was developed from a proprietary database of prior investment returns.

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9. Pension expense (continued)

Pension Plan – Priests (continued)

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

	<u>2008</u>	<u>2007</u>
Fair value, June 30:		
Equity securities	42.30%	46.21%
Debt securities	48.50%	45.72%
Other	9.20%	8.07%
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. In general, the Diocese’s goal is to maintain the following allocation ranges:

Equity securities	25% - 50%
Fixed income securities	45% - 55%
Short term cash/money market	5% - 20%

The Diocese expects to contribute approximately \$539,600 to the plan in 2009. Benefits expected to be paid by the plan during the ensuing five years and thereafter are approximately as follows:

2009	\$ 477,578
2010	486,810
2011	495,832
2012	524,798
2013	528,857
Thereafter	2,989,420

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 percent 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.

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007

10. Postretirement Benefits (continued)

The following amounts relate to the postretirement health obligation:

	<u>2008</u>	<u>2007</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 4,276,849	\$ 5,030,700
Service cost	156,674	215,432
Interest cost	264,042	310,091
Employee contributions	190,834	136,791
Actuarial (gain) loss	(935,430)	(1,241,283)
Benefits paid	(265,611)	(174,882)
Plan curtailments	(66,066)	-
Benefit obligation at end of year	3,621,292	4,276,849
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	74,777	38,091
Employee contributions	190,834	136,791
Benefits paid	(265,611)	(174,882)
Fair value of plan assets at end of year	-	-
Post retirement health benefit obligation	<u>\$ 3,621,292</u>	<u>\$ 4,276,849</u>

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>2008</u>	<u>2007</u>
Discount rate on the benefit obligation	7.00%	6.25%

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

The Diocese expects to contribute approximately \$113,563 to the plan in 2009. Benefits expected to be paid by the plan during the ensuing five years and thereafter are approximately as follows:

2009	\$ 113,563
2010	127,914
2011	146,584
2012	157,137
2013	178,275
Thereafter	1,093,235

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007**

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 percent of expected claims, or about \$9,100,000 in plan year 2007 -2008, are self-insured. Losses exceeding these amounts are covered by stop-loss insurance policies up to an annual limit on aggregate losses of \$1,000,000. Incurred but not reported health claims are estimated to be \$1,436,000 and \$1,089,950 at June 30, 2008 and 2007, respectively.

In July 2007, the Chancery revised its risk management program for property and casualty losses. The Diocese continues to maintain a multi-tiered approach to its risk financing program which includes both risk retention and risk transferring strategies.

Workers' compensation coverage is 100 percent 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 self-insured retention level has changed from \$100,000 per accident with an annual aggregate of \$350,000 for losses prior to July 2007 to \$150,000 per accident with an annual aggregate of \$500,000. The retention amount applies cumulatively to property and liability exposures. The Chancery's estimated exposure for future payments of this layer is \$327,313 and \$327,055 at June 30, 2008 and 2007, respectively. Amounts in excess of self insured retention levels are covered up to \$1,000,000 per line of coverage.

Prior to July 2007, the second layer of coverage was retained by the Catholic Umbrella Pool II (CUP II) which is a risk retention pool consisting of member Dioceses of which Arlington is included. This coverage provided \$5,500,000 excess of \$1,500,000. 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 has averaged 3 percent of the total contributions to the Pool. 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.

In July 2007, the Diocese obtained several layers of excess coverage from various carriers beyond the self-insured retention level. The amount of excess coverage differs based on the given line of coverage, and at a minimum provides \$1,000,000 of additional insurance.

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007

11. Insurance programs (continued)

Included in accounts payable and accrued expenses are the following:

	<u>2008</u>	<u>2007</u>
Incurred but not reported estimated health claims	\$ 1,436,000	\$ 1,089,950
Estimated property and general liability claims	\$ 327,313	\$ 327,055

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, and health and property insurance. 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, 2008 and 2007, respectively, the Chancery had the following accounts receivable:

	<u>2008</u>	<u>2007</u>
Parishes	\$ 727,168	\$ 542,675
Schools	767,538	629,985
Advance on sale of parish property	500,000	-
Employee advances	12,569	21,700
Federal and state grants receivable	345,228	299,543
Due from investment sales	581,114	826,756
Due from brokers	113,295	138,814
Miscellaneous	205,596	335,341
Total accounts receivable	<u>3,252,508</u>	<u>2,794,814</u>
Less: allowance for doubtful accounts	<u>(154,423)</u>	<u>(153,665)</u>
Total accounts receivable, net	<u>\$ 3,098,085</u>	<u>\$ 2,641,149</u>

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007

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 percent 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, 2008 and 2007 is as follows:

	2008	2007
Office space	\$ 1,474,529	\$ 1,595,031
Sublease office rental (related entities)	(187,988)	(209,247)
Net expense	\$ 1,286,541	\$ 1,385,784

At June 30, 2008, future minimum lease payments are as follows:

	Total Lease	Sublease	Net Lease
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	1,591,815	203,961	1,387,854
2014 and thereafter	7,008,801	898,069	6,110,732
Total future minimum lease payments	\$ 14,518,083	\$ 1,860,171	\$ 12,657,912

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:

	June 30, 2008		June 30, 2007	
	Total Available	Outstanding	Total Available	Outstanding
Operating needs	\$ 15,000,000	\$ -	\$ 15,000,000	\$ -
Building improvement programs	\$ -	\$ 11,729,003	\$ 14,250,000	\$ 12,438,954
Standby letters of credit for various construction projects	\$ 15,000,000	\$ 6,765,716	\$ 15,000,000	\$ 9,416,752

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007**

13. Commitments and contingencies (continued)

Leases (continued)

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, 2008 and 2007. The line of credit is scheduled to expire in January, 2009. The building improvement programs have interest rates ranging from 5.95 percent to 6.78 percent for the years ended June 30, 2008 and 2007. The issuance fee for standby letters of credit for various parish and Chancery construction projects was 1.5 percent per annum with a minimum of \$200 for the years ended June 30, 2008 and 2007.

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 \$333,462. 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 excess insurance coverage. When applicable, reserves have been established for those cases where the potential liability is estimable and probable. In instances where a loss is reasonably possible, but the amount is not estimable no reserve is established. There was no reserve for 2008 and 2007.

Purchase and construction agreements

In connection with the construction of Pope John Paul the Great High School 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, 2008 is \$7,660,272. In connection with other construction projects, the Chancery is committed under contracts with remaining amounts of \$2,971,684.

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 as accounts receivable. Amounts receivable from pass-through agents were \$345,228 and \$299,543 as of June 30, 2008 and 2007, respectively.

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007

15. Notes payable

The Chancery has two demand promissory notes to outside parties in the face amount of \$705,000 at June 30, 2008 and 2007 (stated value of \$654,366 and \$642,590; respectively; fair value of \$581,792 and \$466,388, respectively). The fair value is based on an imputed interest rate of 5.00 percent and 8.25 percent as of June 30, 2008 and 2007, 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 percent per annum. The total unamortized discount of \$50,634 at June 30, 2008 is based on an imputed interest rate of 4.01 percent.

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 \$23,734,038 and \$23,871,740 at June 30, 2008 and 2007, 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 percent to 5.500 percent. 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 (\$1,789,656 at June 30, 2008) 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, 2008 is \$24,740,000. Maturities on the bonds payable annually for the years through 2013 and thereafter are as follows:

2009	\$ 490,000
2010	510,000
2011	535,000
2012	555,000
2013	580,000
Thereafter	22,070,000
Total	<u>\$ 24,740,000</u>

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007

17. Restricted net asset activity

Costs incurred in association with construction of Pope John Paul the Great High School, the priests' retirement home and the spirituality center resulted in a release of restricted net assets which is included in other changes in net assets. Expenses incurred for program activities such as seminarian education, educational programs, refugee assistance and communications resulted in a release of restricted net assets which is included in operations.

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

	<u>2008</u>	<u>2007</u>
Donated land restricted for high school	\$ 14,500,000	\$ 14,500,000
Priest retirement home	5,946,905	5,757,989
Catholic education	3,356,309	21,597,331
Allocation funds	2,478,230	2,435,726
Retired priests' needs	2,016,464	-
Diocesan spirituality center	1,099,683	3,820,910
ADEF education scholarships	1,003,806	1,054,059
Continuing formation fund	181,225	161,803
Major gifts pledges receivable for future period use	165,000	779,376
Project Rachel and Gabriel	117,510	121,377
Tuition assistance	112,295	38,842
Diocesan work camp	94,516	50,874
Campaign for human development	85,719	168,249
Refugee assistance	72,812	63,498
Youth ministry	61,012	37,045
Permanent diaconate	57,990	39,676
Black and Indian mission	52,379	52,379
Msgr Roeltgen memorial	24,047	53,053
Hurricane relief	-	132,806
Others	160,049	147,608
Total	<u>\$ 31,585,951</u>	<u>\$ 51,012,601</u>

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

	<u>2008</u>	<u>2007</u>
Catholic education	\$ 12,784,947	\$ 12,737,035
Catechetics	2,044,909	2,037,255
Youth ministry	510,790	508,925
ADEF education scholarships	310,500	310,500
Total	<u>\$ 15,651,146</u>	<u>\$ 15,593,715</u>

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Notes to Combined Financial Statements
For the years ended June 30, 2008 and 2007**

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:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 16,339,789	\$ 16,339,789	\$ 13,124,459	\$ 13,124,459
Investments	\$ 145,854,315	\$ 145,854,315	\$ 189,534,586	\$ 189,534,586
Demand notes and loans receivable	\$ 58,779,553	\$ 56,486,933	\$ 59,064,337	\$ 56,758,320
DIAL deposits payable	\$ 115,205,902	\$ 115,205,902	\$ 112,538,330	\$ 112,538,330
Notes payable	\$ 654,366	\$ 581,792	\$ 642,590	\$ 466,388
Bonds payable	\$ 24,740,000	\$ 23,734,038	\$ 25,205,000	\$ 23,871,740

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. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued FASB No. 157. *Fair Value Measurements* (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement. The implementation of this standard is required to be adopted in financial statements for periods beginning after November 15, 2007. The Chancery plans to adopt this standard in its financial statements for the year ending June 30, 2009. Management is currently evaluating the implications this adoption will have on the Chancery’s financial statements.

In August 2008, the FASB released FASB Staff Position 117-1 (FSP 117-1) which provides guidance on the classification of endowment fund net assets for states that have enacted versions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhances the disclosures for endowment funds. UPMIFA became law in the Commonwealth of Virginia effective July 1, 2008. FSP 117-1 will be effective for the Chancery for the year ending June 30, 2009. Management is currently evaluating the impact FSP 117-1 will have on the Chancery’s financial statements.

**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 2008 and 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 respects in relation to the combined financial statements taken as a whole.

LarsonAllen LLP
LarsonAllen LLP

St. Cloud, Minnesota
October 24, 2008

Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combining Statement of Financial Position
As of June 30, 2008

	<u>Chancery</u>	<i>Rooted in Faith~ Forward in Hope</i>	<u>Elimination Entries</u>	<u>Combined</u>
Assets				
Cash and cash equivalents	\$ 16,066,524	\$ 273,265	\$ -	\$ 16,339,789
Accounts receivable, net	6,774,592	19,703	(3,696,210)	3,098,085
Accrued interest receivable	529,252	63,581	-	592,833
Bishop's Lenten Appeal pledges receivable, net	2,192,371	-	-	2,192,371
Major gifts pledges receivable, net	302,448	-	-	302,448
<i>Rooted in Faith - Forward in Hope, Inc.</i>				
pledges receivable, net	-	9,051,706	-	9,051,706
Investments	129,870,583	15,983,732	-	145,854,315
Prepaid expenses	1,116,504	-	-	1,116,504
Unamortized bond costs	425,486	-	-	425,486
Demand notes and loans receivable				
Paul VI High School bond receivable	4,494,917	-	-	4,494,917
Diocesan Investment and Loan (DIAL) program	48,472,220	-	-	48,472,220
200 North Glebe Road, Inc.	5,812,416	-	-	5,812,416
Property, equipment and land, net	44,627,091	-	-	44,627,091
Construction in progress and assets not yet placed in service	50,342,364	-	-	50,342,364
Land restricted for high school	14,500,000	-	-	14,500,000
Total assets	<u>\$ 325,526,768</u>	<u>\$ 25,391,987</u>	<u>\$ (3,696,210)</u>	<u>\$ 347,222,545</u>
Liabilities and Net Assets				
Liabilities				
Deposits held in custody for others	\$ 430,148	\$ -	\$ -	\$ 430,148
Accounts payable and accrued expenses	9,959,268	3,696,360	(3,696,210)	9,959,418
Accrued interest payable	325,194	-	-	325,194
Unearned revenue	693,381	-	-	693,381
DIAL deposits payable	115,205,902	-	-	115,205,902
Notes payable, net of discount	654,366	-	-	654,366
Amounts due parishes and Catholic Charities	6,802,556	6,816,890	-	13,619,446
Annuity payment liability	188,517	-	-	188,517
ADEF funds held for schools	2,406,456	-	-	2,406,456
Accrued pension liability, priests	2,115,661	-	-	2,115,661
Postretirement health benefit obligation	3,621,292	-	-	3,621,292
Bonds payable	24,740,000	-	-	24,740,000
Total liabilities	<u>167,142,741</u>	<u>10,513,250</u>	<u>(3,696,210)</u>	<u>173,959,781</u>
Net assets				
Unrestricted				
Current operations	41,558,303	-	-	41,558,303
Invested in property, equipment and land	71,211,279	-	-	71,211,279
Functioning as endowment	8,493,795	-	-	8,493,795
Designated	4,762,290	-	-	4,762,290
Total unrestricted	<u>126,025,667</u>	<u>-</u>	<u>-</u>	<u>126,025,667</u>
Temporarily restricted	19,803,677	11,782,274	-	31,585,951
Permanently restricted	12,554,683	3,096,463	-	15,651,146
Total net assets	<u>158,384,027</u>	<u>14,878,737</u>	<u>-</u>	<u>173,262,764</u>
Total liabilities and net assets	<u>\$ 325,526,768</u>	<u>\$ 25,391,987</u>	<u>\$ (3,696,210)</u>	<u>\$ 347,222,545</u>

**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
	<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	\$ 463,975	\$ -	\$ -	\$ 463,975
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
Unearned revenue	5,850	-	-	5,850
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
	<u>162,824,864</u>	<u>13,036,162</u>	<u>(331,209)</u>	<u>175,529,817</u>
Net assets				
Unrestricted				
Current operations	55,220,489	-	-	55,220,489
Invested in property, equipment and land	38,682,731	-	-	38,682,731
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 Activities
For the year ended June 30, 2008**

	<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	\$ 10,669,374	\$ -	\$ -	\$ 10,669,374
Operational assessment	6,150,339	-	-	6,150,339
Investment income for operations	2,820,000	-	-	2,820,000
Transmittal fees	141,124	-	-	141,124
Contributions, bequests and major gifts	1,324,865	-	-	1,324,865
Program revenue	1,458,550	-	-	1,458,550
Diocesan subsidy	-	131,113	(131,113)	-
Other revenue and support	5,060	-	-	5,060
Satisfaction of temporary restrictions	5,315,838	19,200,000	(19,200,000)	5,315,838
	<u>27,885,150</u>	<u>19,331,113</u>	<u>(19,331,113)</u>	<u>27,885,150</u>
Operating expenses				
Program services				
Pastoral	5,085,804	-	-	5,085,804
Religious personnel development	1,983,320	-	-	1,983,320
Education	4,107,559	19,200,000	(19,200,000)	4,107,559
Social services	2,436,385	-	-	2,436,385
Refugee assistance	1,401,441	-	-	1,401,441
Supporting services				
Diocesan administration and parochial support	9,574,954	-	-	9,574,954
<i>Rooted in Faith - Forward in Hope, Inc.</i>	131,113	131,113	(131,113)	131,113
Bishop's Lenten Appeal	533,464	-	-	533,464
Total operating expenses	<u>25,254,040</u>	<u>19,331,113</u>	<u>(19,331,113)</u>	<u>25,254,040</u>
Change in net assets from operations	<u>2,631,110</u>	<u>-</u>	<u>-</u>	<u>2,631,110</u>
Other changes in net assets				
Investment income, less amount included in operations, net	(5,460,119)	-	-	(5,460,119)
Insurance programs	(220,034)	-	-	(220,034)
Change in unfunded pension liability, priests	(819,436)	-	-	(819,436)
Change in unfunded postretirement health obligation	655,557	-	-	655,557
Net property loss	(7,376)	-	-	(7,376)
DIAL loan interest income	2,580,111	-	-	2,580,111
DIAL deposit interest expense	(5,439,586)	-	-	(5,439,586)
Satisfaction of temporary restrictions	24,542,169	-	-	24,542,169
Total other changes in net assets	<u>15,831,286</u>	<u>-</u>	<u>-</u>	<u>15,831,286</u>
Change in unrestricted net assets	18,462,396	-	-	18,462,396
Unrestricted net assets, beginning of year	107,563,271	-	-	107,563,271
Unrestricted net assets, end of year	<u>\$ 126,025,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,025,667</u>

Continued

**Central Administrative Office of the Catholic Diocese of Arlington and Affiliate
Combining Statement of Activities
For the year ended June 30, 2008**

	<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	\$ 24,528,156	\$ -	\$ (19,200,000)	\$ 5,328,156
Refugee assistance	1,401,441	-	-	1,401,441
Satisfaction of temporary restrictions	<u>(5,315,838)</u>	<u>-</u>	<u>-</u>	<u>(5,315,838)</u>
Total operating revenues and support	<u>20,613,759</u>	<u>-</u>	<u>(19,200,000)</u>	<u>1,413,759</u>
Operating expenses				
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets from operations	<u>20,613,759</u>	<u>-</u>	<u>(19,200,000)</u>	<u>1,413,759</u>
Other changes in net assets				
Investment income, net	725,929	1,099,906	-	1,825,835
<i>Rooted in Faith - Forward in Hope, Inc.</i>				
contributions, net of bad debt losses	-	82,624	-	82,624
Catholic Charities contribution	1,793,301	-	-	1,793,301
Satisfaction of temporary restrictions	<u>(24,542,169)</u>	<u>(19,200,000)</u>	<u>19,200,000</u>	<u>(24,542,169)</u>
Total other changes in net assets	<u>(22,022,939)</u>	<u>(18,017,470)</u>	<u>19,200,000</u>	<u>(20,840,409)</u>
Change in temporarily restricted net assets	(1,409,180)	(18,017,470)	-	(19,426,650)
Temporarily restricted net assets, beginning of year	21,212,857	29,799,744	-	51,012,601
Temporarily restricted net assets, end of year	<u>\$ 19,803,677</u>	<u>\$ 11,782,274</u>	<u>\$ -</u>	<u>\$ 31,585,951</u>
Permanently restricted				
<i>Rooted in Faith - Forward in Hope, Inc.</i>				
contributions	\$ -	\$ 57,431	\$ -	\$ 57,431
Transfers of endowment	<u>1,560,000</u>	<u>(1,560,000)</u>	<u>-</u>	<u>-</u>
Total operating revenues and support	<u>1,560,000</u>	<u>(1,502,569)</u>	<u>-</u>	<u>57,431</u>
Change in permanently restricted net assets	1,560,000	(1,502,569)	-	57,431
Permanently restricted net assets, beginning of year	10,994,683	4,599,032	-	15,593,715
Permanently restricted net assets, end of year	<u>\$ 12,554,683</u>	<u>\$ 3,096,463</u>	<u>\$ -</u>	<u>\$ 15,651,146</u>
Total change in net assets	18,613,216	(19,520,039)	-	(906,823)
Net assets, beginning of year	139,770,811	34,398,776	-	174,169,587
Net assets, end of year	<u>\$ 158,384,027</u>	<u>\$ 14,878,737</u>	<u>\$ -</u>	<u>\$ 173,262,764</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
	<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 programs	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	14,500,000	-	-	14,500,000
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>