

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
JUNE 30, 2007 AND 2006**

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

JUNE 30, 2007 AND 2006

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Report of Independent Certified Public Accountants

To Most Reverend Salvatore R. Matano, Bishop
and the Administrative Board
of the Roman Catholic Diocese
of Burlington, Vermont, Inc.

We have audited the accompanying statements of financial position of the Administrative Offices of the Roman Catholic Diocese of Burlington, Vermont, Inc., (RCDB, Inc.) as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the RCDB, Inc., management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Effective with financial statements issued for fiscal years beginning after December 15, 1994, accounting principles generally accepted in the United States of America require that consolidated financial statements be presented for the RCDB, Inc., and affiliated entities for which the RCDB, Inc., meets certain financial interest and control tests. As disclosed in Note A1, certain of these entities have not been consolidated in the financial statements as of June 30, 2007 and 2006. The effect on the financial statements, as of and for the years ended June 30, 2007 and 2006, has not been determined.

In our opinion, except for the effects of not presenting consolidated financial statements with its affiliated entities, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Administrative Offices of the Roman Catholic Diocese of Burlington, Vermont, Inc., as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B to the financial statements, during the year ended June 30, 2007, the RCDB, Inc. adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132*.

Gallagher, Flynn & Company, LLP

September 26, 2007

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

	<u>2007</u>	<u>2006*</u>
ASSETS		
Cash and cash equivalents	\$ 51,644	\$ 421,141
Pledges receivable	575,035	519,268
Receivables	376,720	406,187
Prepaid expenses	2,155	18,740
Notes receivable, net	847,466	1,401,584
Marketable securities	11,455,212	11,896,698
Property and equipment, net	2,484,363	2,542,201
Restricted cash	383,624	336,094
Total assets	<u>\$ 16,176,219</u>	<u>\$ 17,541,913</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Note payable	\$ 728,000	\$ 965,000
Funds held for others	422,377	431,722
Accounts payable	168,479	394,388
Accrued liabilities	4,271,757	4,063,621
Due to affiliated organizations	126,326	82,790
Long-term debt:		
Related parties	-	1,198,183
Bank	-	286,399
Funds held for others - investments	-	573,732
Defined benefit retirement and post-retirement liabilities	2,970,672	5,169,462
Total liabilities	<u>8,687,611</u>	<u>13,165,297</u>
NET ASSETS		
Unrestricted	4,228,532	1,114,807
Temporarily restricted	745,745	722,478
Permanently restricted	2,514,331	2,539,331
Total net assets	<u>7,488,608</u>	<u>4,376,616</u>
Total liabilities and net assets	<u>\$ 16,176,219</u>	<u>\$ 17,541,913</u>

* Reclassified for comparative purposes, see Note E.

The accompanying notes are an integral part of this statement.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND GAINS				
Revenues:				
Bishop's Fund, net of distributions to parishes of \$28,130	\$ 2,269,310	\$ 575,035	\$ -	\$ 2,844,345
Diocesan assessments	1,354,411	-	-	1,354,411
Insurance premiums charged to parishes and other affiliates	1,323,938	-	-	1,323,938
Imputed rental and administrative services charged to affiliated organization	1,360,188	-	-	1,360,188
Program revenue	500,357	-	-	500,357
Gifts and bequests	157,468	-	-	157,468
Interest and dividend income	380,839	-	-	380,839
Other revenue	31,598	-	-	31,598
Total revenues	<u>7,378,109</u>	<u>575,035</u>	<u>-</u>	<u>7,953,144</u>
Gains (losses) and reclassifications:				
Net realized and unrealized gains on investments	1,361,459	-	-	1,361,459
Transfer of net assets to parish	-	-	(25,000)	(25,000)
Net assets released from restrictions	551,768	(551,768)	-	-
Total gains and reclassifications	<u>1,913,227</u>	<u>(551,768)</u>	<u>(25,000)</u>	<u>1,336,459</u>
Total revenues and gains	<u>9,291,336</u>	<u>23,267</u>	<u>(25,000)</u>	<u>9,289,603</u>
EXPENSES				
Program services:				
Social services - Vermont Catholic Charities, Inc.	1,799,192	-	-	1,799,192
Social services - other	367,632	-	-	367,632
School subsidies	367,255	-	-	367,255
School office	244,053	-	-	244,053
Religious education	254,183	-	-	254,183
Vocations/Priest Educational/Liturgical	401,127	-	-	401,127
Priests' Benefit Fund	506,153	-	-	506,153
Communications	183,022	-	-	183,022
Tribunal	93,900	-	-	93,900
Safe Environments	100,278	-	-	100,278
Insurance, legal and related expenditures	1,443,733	-	-	1,443,733
Total program services	<u>5,760,528</u>	<u>-</u>	<u>-</u>	<u>5,760,528</u>
Supporting services:				
Development	124,530	-	-	124,530
Diocesan administration	1,369,423	-	-	1,369,423
Chancery	202,130	-	-	202,130
Total supporting services	<u>1,696,083</u>	<u>-</u>	<u>-</u>	<u>1,696,083</u>
Total expenses	<u>7,456,611</u>	<u>-</u>	<u>-</u>	<u>7,456,611</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE THE EFFECT OF ADOPTION OF SFAS STATEMENT NO. 158				
	1,834,725	23,267	(25,000)	1,832,992
Effect of adoption of recognition provisions of SFAS Statement No. 158 (Note B)	<u>1,279,000</u>	<u>-</u>	<u>-</u>	<u>1,279,000</u>
INCREASE (DECREASE) IN NET ASSETS	3,113,725	23,267	(25,000)	3,111,992
NET ASSETS, beginning of year	<u>1,114,807</u>	<u>722,478</u>	<u>2,539,331</u>	<u>4,376,616</u>
NET ASSETS, end of year	<u>\$ 4,228,532</u>	<u>\$ 745,745</u>	<u>\$ 2,514,331</u>	<u>\$ 7,488,608</u>

The accompanying notes are an integral part of this statement.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND GAINS				
Revenues:				
Bishop's Fund, net of distributions to parishes of \$65,798	\$ 2,618,934	\$ 519,268	\$ -	\$ 3,138,202
Diocesan assessments	1,340,496	-	-	1,340,496
Insurance premiums charged to parishes and other affiliates	1,215,225	-	-	1,215,225
Imputed rental and administrative services charged to affiliated organization	1,331,623	-	-	1,331,623
Program revenue	342,225	-	-	342,225
Gifts and bequests	128,580	-	-	128,580
Interest and dividend income	471,567	-	-	471,567
Other revenue	39,769	-	-	39,769
Total revenues	<u>7,488,419</u>	<u>519,268</u>	<u>-</u>	<u>8,007,687</u>
Gains and reclassifications:				
Gain on sale of property	197,395	-	-	197,395
Net realized and unrealized gains on investments	393,004	-	-	393,004
Net assets released from restrictions	202,795	(202,795)	-	-
Total gains and reclassifications	<u>793,194</u>	<u>(202,795)</u>	<u>-</u>	<u>590,399</u>
Total revenues and gains	<u>8,281,613</u>	<u>316,473</u>	<u>-</u>	<u>8,598,086</u>
EXPENSES				
Program services:				
Social services - Vermont Catholic Charities, Inc.	1,962,856	-	-	1,962,856
Social services - other	330,045	-	-	330,045
School subsidies	361,689	-	-	361,689
School office	275,718	-	-	275,718
Religious education	417,261	-	-	417,261
Vocations/Priest Educational/Liturgical	399,169	-	-	399,169
Priests' Benefit Fund	855,083	-	-	855,083
Communications	162,306	-	-	162,306
Tribunal	83,142	-	-	83,142
Safe Environments	103,997	-	-	103,997
Insurance, legal and related expenditures	3,531,094	-	-	3,531,094
Total program services	<u>8,482,360</u>	<u>-</u>	<u>-</u>	<u>8,482,360</u>
Supporting services:				
Development	131,726	-	-	131,726
Diocesan administration	1,154,453	-	-	1,154,453
Chancery	132,148	-	-	132,148
Total supporting services	<u>1,418,327</u>	<u>-</u>	<u>-</u>	<u>1,418,327</u>
Total expenses	<u>9,900,687</u>	<u>-</u>	<u>-</u>	<u>9,900,687</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(1,619,074)</u>	<u>316,473</u>	<u>-</u>	<u>(1,302,601)</u>
NET ASSETS, beginning of year	<u>2,733,881</u>	<u>406,005</u>	<u>2,539,331</u>	<u>5,679,217</u>
NET ASSETS, end of year	<u>\$ 1,114,807</u>	<u>\$ 722,478</u>	<u>\$ 2,539,331</u>	<u>\$ 4,376,616</u>

The accompanying notes are an integral part of this statement.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	<u>2007</u>	<u>2006</u>
INCREASE IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 3,111,992	\$ (1,302,601)
Noncash items included in decrease in net assets:		
Depreciation and amortization	143,823	144,114
Net realized and unrealized gains on investments	(1,361,459)	(393,004)
Gain on sale of property	-	(197,395)
Effect of adoption of recognition and measurement date provisions of FAS Statement No. 158 (Note B)	(1,279,000)	-
Provision for uncollectible accounts and pledges	(20,728)	(16,348)
Changes in assets and liabilities:		
Receivables	(30,570)	(308,538)
Due from affiliated organizations	43,536	273,066
Prepaid expenses	16,585	108,971
Funds held for others	(9,345)	43,352
Accounts payable and accrued liabilities	(17,773)	988,826
Defined benefit and post-retirement liabilities	(919,790)	(227,368)
	<u>(3,434,721)</u>	<u>415,676</u>
Net cash used in operating activities	<u>(322,729)</u>	<u>(886,925)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital acquisitions	(85,985)	(96,993)
Proceeds from sale of property	-	197,395
Proceeds from sale of marketable securities	9,002,188	16,196,764
Purchases of marketable securities	(6,101,345)	(16,321,593)
Funds held for others - investments, net	(573,732)	201,452
Advances on notes receivable - related parties	-	(538,398)
Principal payments received on notes receivable - related parties	579,116	347,105
Net cash provided by (used in) investing activities	<u>2,820,242</u>	<u>(14,268)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) on short-term borrowings	(237,000)	715,000
Proceeds from borrowings under long-term debt	-	461,399
Principal payments on long-term debt	(1,484,582)	(202,520)
Net cash provided by (used in) financing activities	<u>(1,721,582)</u>	<u>973,879</u>
Net increase in cash and cash equivalents	775,931	72,686
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,046,549</u>	<u>973,863</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,822,480</u>	<u>\$ 1,046,549</u>
<u>Supplemental Disclosures of Cash Flows Information</u>		
Cash paid during the year for interest expense	<u>\$ 68,748</u>	<u>\$ 71,230</u>

Noncash investing and financing activities:

In 2006, the RCDB, Inc., transferred investments of approximately \$3,819,000 relative to its defined benefit post-retirement plans (see Notes A1 and K). Additionally, Vermont Catholic Charities, Inc., also transferred investments of approximately \$3,704,000 out of the common investment pool managed by RCDB, Inc., to establish a new trust for the benefit of Vermont Catholic Charities, Inc., resulting in a corresponding decline in the funds held for others (see Note J).

The accompanying notes are an integral part of this statement.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Operations:

The Roman Catholic Diocese of Burlington (the Diocese) was originally established in 1853. As a diocese of the Universal Roman Catholic Church, it is defined according to *The Code of Canon Law*. It is “a portion of the people of God which is entrusted to a bishop for him to shepherd with the cooperation of the presbyterium, so that, adhering to its pastor and gathered by him in the Holy Spirit through the gospel and the Eucharist, it constitutes a particular church in which the one, holy, Catholic, and apostolic Church of Christ is truly present and operative” (*The Code of Canon Law*, canon 369). As such, the Diocesan Bishop is the competent authority to erect parishes, diocesan schools, diocesan cemeteries and other activities in order to propagate the Roman Catholic religion without prejudice to the canons of *The Code of Canon Law* of the Roman Catholic Church and any other legislation promulgated by the Roman Catholic Church and, on the local level, by the Bishop of the Diocese.

The Roman Catholic Diocese of Burlington, Vermont, Inc., (RCDB, Inc.) is a civil corporation ancillary to the canonical structure of the Roman Catholic Diocese of Burlington. It was chartered by the Vermont legislature in 1896, in order that it might serve the needs and requirements of those entities initially established by the first Diocesan Bishop, while at the same time respecting the separate legal structures of said entities and those that were to follow. RCDB, Inc., consists of administrative offices, certain program offices conducted at the diocesan level, and three diocesan schools. Certain activities are conducted by separately incorporated, but affiliated entities or by separate civilly constructed organizations under the pastoral and administrative care of the Diocesan Bishop in accordance with the canons of *The Code of Canon Law* of the Roman Catholic Church and other legislation as noted above. By virtue of being listed in the Official Catholic Directory as a member of the Roman Catholic Church, RCDB, Inc., is exempt from income taxation.

Accounting policies:

1. Scope of financial statements

The accompanying financial statements include the assets, liabilities and financial activities of all administrative offices, program offices and departments of the RCDB, Inc. However, accounts of certain activities of the RCDB, Inc., such as diocesan schools, have been excluded. The Vermont Catholic Tribune, Resurrection Park Cemetery, and Vermont Catholic Charities, Inc., (separate affiliated corporations for which RCDB, Inc., is the parent corporation) have not been included. Each of these entities operates separately and distinctly from the diocesan administrative offices, maintains separate accounts and carries on its own services and programs in accordance with the mission of the Roman Catholic Diocese of Burlington and the Universal Roman Catholic Church.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

1. Scope of financial statements (continued)

These financial statements include the following activities of the RCDB, Inc.:

General operations:

General operations include all accounts and activities of the RCDB, Inc., related to meeting the general and specific operating requirements of the RCDB, Inc. The operating category also includes all accounts related to temporarily and permanently restricted net assets established by a donor for the purpose of producing income for general or specific purposes.

Self-insurance operations:

The RCDB, Inc., is partially self-insured and maintains a self-insurance reserve. Revenue is generated by premiums charged to affiliated organizations, and insurance premiums are paid to a provider for coverage at specified liability limits. Charges are made to operations for claims, settlements, insurance premiums, and legal defense costs.

Diocesan Deposit and Loan Program:

In 2007, the RCDB, Inc., terminated the operation of a lending program for the benefit of parishes and other organizations. All funds deposited in the program were returned to the depositing organizations. All existing loans will be maintained with existing amortization schedules. No new loans will be granted.

Priests' Benefit Fund (through February 16, 2006):

The RCDB, Inc., sponsors a noncontributory defined benefit retirement plan and a defined benefit postretirement plan for the benefit of all Roman Catholic Priests who have been incardinated in the Diocese and who have contributed twenty years of service to the Diocese of Burlington, Vermont, and meet certain criteria, as defined in the plans. The plans in the aggregate are commonly known as the "Priests' Benefit Fund." As of February 16, 2006, the RCDB, Inc., established a non-ERISA qualified retirement plan and related trust, and all related assets and liabilities were transferred into the trust (see Note K).

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. Basis of presentation

The accompanying statements have been prepared on the accrual basis of accounting, which means that revenues are recognized when they are earned and expenses are recognized as they are incurred, whether or not cash is received or paid at that time.

The RCDB, Inc., reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (see Note L).

3. Cash and cash equivalents

For purposes of the statements of cash flows, the RCDB, Inc., considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

4. Contributions and promises to give

Contributions are recognized when the donor makes a promise to give to the RCDB, Inc., that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions (see Note L). Contributions restricted for a specific purpose that is satisfied during the same fiscal year are recorded as unrestricted. Pledges receivable, which are primarily related to the Bishop's Fund Appeal of \$575,035 at June 30, 2007, net of an allowance for uncollectible pledges of \$35,702, and pledges receivable of \$519,268 at June 30, 2006, net of an allowance for uncollectible pledges of \$39,541, are expected to be collected in one year.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the RCDB, Inc., reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used its activities).

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

5. Allowance for doubtful collection of receivables

Notes and accounts receivable are stated at the amount the RCDB, Inc., expects to collect. The allowances for doubtful accounts is the RCDB, Inc.'s best estimate of the amount of probable credit losses in the RCDB, Inc.'s existing notes and accounts receivable; however, changes in circumstances relating to notes and accounts receivable may result in a requirement for additional allowances in the future. The RCDB, Inc., determines the allowance based on historical write-off experience, current trends in parish collections and, for larger accounts, the ability to pay outstanding balances. The RCDB, Inc., regularly reviews its allowance for doubtful accounts and maintains general reserves for loan balances and invoices considered to be at risk of collection. In addition, for accounts receivable, past due balances over 90 days and other higher risk amounts are reviewed individually for collectibility. Account balances are charged against the respective allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

6. Marketable securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

7. Funds held for others

Resources from affiliated organizations that specify themselves as the beneficiary of the transferred assets are, in accordance with Statement of Financial Accounting Standards No. 136 (SFAS 136), *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, recorded as liabilities for "funds held for others - investments" in the accompanying statement of financial position. In 2007 all "funds held for others – investments" were returned to the participating organizations.

Resources from donors that are directed toward other specified entities are recorded as liabilities for "funds held for others" in the accompanying statements of financial position.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

8. Contributed services

The value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the RCDB, Inc.

9. Depreciation

Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, using the straight-line method. Leasehold improvements are amortized over the lives of the respective leases, or the service lives of the improvements, whichever is shorter.

10. Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

11. Income taxes

The RCDB, Inc., is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes due to its nature as a religious organization under Section 501(a) of the Code.

12. Use of estimates

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

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

B) ADOPTION OF ACCOUNTING PRINCIPLE

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). The Statement requires employers to fully recognize the overfunded or underfunded positions (the difference between the fair value of plan assets and the benefit obligation) of defined benefit pension, retiree healthcare and other postretirement plans in their balance sheets. Under past accounting standards, information about the current funded status of such plans was reported in the notes to the financial statements. With limited exceptions, SFAS 158 also eliminates the choice of a measurement date prior to fiscal year end which was allowable under past accounting standards and requires that employers measure plan assets and obligations as of the balance sheet date.

The requirement to recognize the overfunded or underfunded position of defined benefit plans for nonpublic entities is for fiscal years ended after June 15, 2007. The effective date of the provision to measure plan assets and obligations as of the balance sheet date is for fiscal years ending after December 15, 2008.

In 2007, RCDB, Inc., adopted the provisions of SFAS 158 for the organization's postretirement defined benefit plans. The impact of recognizing the overfunded or underfunded position of these plans resulted in a one-time increase to unrestricted net assets of \$1,279,000 at June 30, 2007. Since RCDB, Inc., already measures its plan assets and obligations for its defined benefit postretirement plans as of the balance sheet date there was no impact on the financial statements for the implementation of this provision.

C) CONCENTRATIONS OF CREDIT RISK

The RCDB, Inc., maintains bank account balances which, at times, may exceed federally insured limits. The RCDB, Inc., has not experienced any losses with these accounts. Management believes the RCDB, Inc., is not exposed to any significant credit risk on cash.

The RCDB, Inc., also maintains cash balances in its investment account related to transactions with securities. These are invested in money market funds at licensed investment and brokerage firms and are insured by the Securities Investor Protection Corporation (SIPC) for up to \$500,000. In addition, some of those firms provide protection in excess of SIPC coverage to securities customers in amounts ranging from \$5 million to \$50 million. Funds held in investment money market funds insured by SIPC total \$1,387,212 at June 30, 2007 and \$289,314 at June 30, 2006.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

D) RECEIVABLES

Receivables are comprised of the following:

	2007	2006
Parish receivables	\$ 31,029	\$ 69,063
Diocesan assessments receivable	345,000	325,000
Other	24,391	30,500
	400,420	424,563
Less allowance for doubtful accounts	23,700	18,376
	<u>\$ 376,720</u>	<u>\$ 406,187</u>

E) MARKETABLE SECURITIES

In 2006, investments were comprised of a pool of investments for the RCDB, Inc.'s purposes and funds held for other affiliated organizations under agreements accounted for in accordance with SFAS 136 (see Note A7). In 2007, all "funds held for others – investments" were returned to the participating organizations. A summary of these investments as of June 30, 2007 and 2006, is as follows:

	2007		
	Cost	Fair Value	Unrealized Gain (Loss)
Cash	\$ 1,387,212	\$ 1,387,212	\$ -
Corporate stocks	4,391,212	5,645,874	1,254,662
U.S. government obligations	2,310,209	2,266,592	(43,617)
Corporate bonds	2,215,608	2,155,534	(60,074)
	<u>\$10,304,241</u>	<u>\$11,455,212</u>	<u>\$ 1,150,971</u>
	2006		
	Cost	Fair Value	Unrealized Gain (Loss)
Cash	\$ 289,314	\$ 289,314	\$ -
Corporate stocks	6,217,401	7,169,309	951,908
U.S. government obligations	2,560,742	2,482,805	(77,937)
Corporate bonds	2,056,636	1,955,270	(101,366)
	<u>\$11,124,093</u>	<u>\$11,896,698</u>	<u>\$ 772,605</u>

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

E) MARKETABLE SECURITIES (continued)

The following schedule summarizes the total investment returns (all unrestricted), net of amounts allocated to investments held for others, and their classifications in the statements of activities during the years ended June 30:

	<u>2007</u>	<u>2006</u>
Gains on marketable securities:		
Net realized gains	\$1,135,231	\$ 972,558
Net unrealized gains (losses)	<u>327,371</u>	<u>(459,163)</u>
	1,462,602	513,395
Investment fees	<u>(101,143)</u>	<u>(120,391)</u>
Net gains	1,361,459	393,004
Interest and dividend income	<u>367,194</u>	<u>402,765</u>
Total return on investments	<u>\$1,728,653</u>	<u>\$ 795,769</u>

**ADMINISTRATIVE OFFICES OF THE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

F) NOTES RECEIVABLE

Amounts are due in quarterly installments including interest at 5% unless otherwise noted. Notes receivable consists of the following at June 30:

	<u>Quarterly Payment</u>	<u>2007</u>	<u>2006</u>
Parish Charitable Trusts:			
Blessed Sacrament, Stowe	Paid in Full	\$ -	\$ 286,399
Christ the King, Rutland	\$ 6,549	12,856	37,627
Holy Cross, Morrisville	\$ 2,344	43,019	46,582
Immaculate Heart of Mary, Rutland	Paid in Full	-	4,881
Our Lady Queen of Peace, Danville	\$ 4,960	9,736	28,494
St. Augustine, Montpelier	\$ 2,122*	71,536	75,877
St. Francis Xavier, Winooski	\$ 2,867	65,306	73,244
St. Mary, Springfield	\$ 2,191*	195,783	301,999
St. Joseph, Burlington	Paid in Full	-	108,216
Other:			
Rice Memorial High School, Burlington	\$ 8,896	498,384	511,689
Other		<u>5,847</u>	<u>6,576</u>
Total notes receivable		902,467	1,481,584
Less allowance for doubtful accounts		<u>55,001</u>	<u>80,000</u>
		<u>\$ 847,466</u>	<u>\$1,401,584</u>

* These amounts are due in monthly, rather than quarterly, installments.

Interest income related to the above notes receivable totaled \$67,317 in 2007 and \$59,297 in 2006.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

G) PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30:

	2007	2006
Buildings and improvements	\$6,117,102	\$6,058,264
Land and land improvements	339,989	339,989
Equipment	1,014,265	1,015,335
Vehicles	119,657	176,401
	7,591,013	7,589,989
Less accumulated depreciation	5,106,650	5,047,788
	<u>\$2,484,363</u>	<u>\$2,542,201</u>

H) NOTE PAYABLE

Line of credit

Note payable consists of the amount due under a \$2,000,000 line of credit with the Chittenden Bank, due November 30, 2007. Interest is payable monthly at *The Wall Street Journal* prime rate (7.75% at June 30, 2007), minus .50%. Secured by marketable securities, borrowings outstanding on the line of credit were \$728,000 as of June 30, 2007, and \$965,000 as of June 30, 2006.

Letter of credit / Restricted cash

The RCDB, Inc., has a standby letter of credit in the amount of \$368,500 with the Chittenden Bank, expiring September 2007. This letter of credit is a requirement of Liberty Mutual Insurance Company, which provides the RCDB, Inc., with workers' compensation insurance. Payment is due, along with interest and commissions, in the amount and at the time of each drawing. Interest is payable at a rate deemed appropriate by the bank. There were no funds drawn down on this standby letter of credit during 2007 or 2006. The letter of credit is secured by a certificate of deposit, the balance of which is classified as "restricted cash" in the amounts of \$383,624 and \$336,094, including accrued interest, at June 30, 2007 and 2006, respectively.

**ADMINISTRATIVE OFFICES OF THE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

I) LONG-TERM DEBT

Related parties - Diocesan Deposit and Loan Program

Long-term debt – related parties consists of unsecured notes due to parishes under the Diocesan Deposit and Loan program requiring interest to be paid semi-annually at an annual rate of 4%. All balances were fully repaid during 2007. At June 30, 2006, the balance consisted of the following:

Christ the King, Burlington	\$ 285,000
Holy Rosary, Richmond	6,000
Holy Trinity Mission, Danby	10,000
Our Lady of the Mountains, Killington	427,396
Our Lady of the Snows, Woodstock	86,264
Resurrection Park Cemetery, South Burlington	75,000
St. Anthony, White River Junction	11,607
St. Jerome, East Dorset	95,500
St. John, North Bennington	46,416
St. Mark's, Burlington	55,000
St. Stanislaus, West Rutland	100,000
	<u>\$1,198,183</u>

Bank – Chittenden Bank

Long-term debt – bank consists of amounts due to the Chittenden Bank under an unsecured note requiring interest to be paid monthly at 8.25%. The balance of \$286,399 was repaid during 2007.

Interest expense charged to operations totalled \$68,748 in 2007 and \$90,378 in 2006.

**ADMINISTRATIVE OFFICES OF THE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

J) FUNDS HELD FOR OTHERS

Investments:

Prior to 2007, the RCDB, Inc., managed funds for other organizations in a common investment pool. Earnings, gains, expenses and losses were allocated to participant investment balances on a prorated basis. A summary of these balances as of June 30, 2006 is as follows:

Vermont Catholic Tribune Fund	\$ 88,735
Resurrection Park	<u>484,997</u>
	<u>\$ 573,732</u>

Other:

The RCDB, Inc., also acts as an agent for parishes for general collections that are designated for specific related and unrelated organizations. Total amounts held in connection with these collections were \$422,377 at June 30, 2007, and \$431,722 at June 30, 2006.

K) RETIREMENT AND POSTRETIREMENT PLANS

Employees of the RCDB, Inc.:

The RCDB, Inc., maintains a qualified salary savings plan (the Diocesan Plan) that covers employees who are 20½ years of age and have two years of service. The Diocesan Plan provides a matching contribution of 3 - 7% of each employee's eligible compensation, based upon years of service. Employer and employee contributions are fully vested at the time of contribution. Contributions charged to operations approximated \$40,500 in 2007 and \$40,660 in 2006.

**ADMINISTRATIVE OFFICES OF THE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

K) RETIREMENT AND POSTRETIREMENT PLANS (continued)

Sisters of Saint Joseph Society, Inc.:

In connection with its merger with the Sisters of Saint Joseph Society, Inc., in 2001, the RCDB, Inc., assumed responsibility for certain retirement and postretirement obligations payable to, or on behalf of, the Sisters who were members of the Society as of July 1, 2001 (the Sisters Plan). The Sisters Plan requires the RCDB, Inc., to provide postretirement health and Level III residential and nursing care for qualified individuals until such time as Level III care is no longer adequate to meet the individual's needs. The RCDB, Inc., is providing such care through Vermont Catholic Charities, Inc. The RCDB, Inc., has recorded a liability in an amount that represents the estimated excess of the actual costs of care provided by Vermont Catholic Charities, Inc., over the related reimbursements provided by third-party insurers and governmental programs. Total amounts paid by the RCDB, Inc., to Vermont Catholic Charities, Inc., in connection with this agreement were \$57,617 in 2007 and \$79,882 in 2006.

The following amounts relate to the Sisters Plan as of June 30:

	<u>2007</u>	<u>2006</u>
Accrued benefit cost:		
Benefit obligations	\$ 450,672	\$ 426,462
Fair value of plan assets	<u>-</u>	<u>-</u>
Excess of benefit obligations over plan assets	<u>\$ 450,672</u>	<u>\$ 426,462</u>
Accrued benefit cost	<u>\$ 450,672</u>	<u>\$ 426,462</u>
Weighted average assumptions:		
Discount rate on the benefit obligation	6.25%	7.00%
Inflation rate for Level III housing	5.00%	4.00%
Aggregate third party revenue inflation rate	6.00%	3.00%
Estimated percentage of covered participants who will utilize Level III care	45%	67%

Priests' Benefit Fund of the RCDB, Inc.:

The RCDB, Inc., sponsors a noncontributory defined benefit retirement plan and a defined health benefit postretirement plan, which provides medical care, commonly known as the "Priests' Benefit Fund". The plans provide benefits to all Roman Catholic Priests who have been incardinated in the Diocese, have contributed twenty years of service to the Diocese, and meet certain criteria, as defined in the plans.

**ADMINISTRATIVE OFFICES OF THE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

K) RETIREMENT PLAN/POSTRETIREMENT PLANS (continued)

Priests' Benefit Fund of the RCDB, Inc. (continued):

A summary of the defined benefit plan and postretirement health benefit plans for the priests and the pension cost for the RCDB, Inc., is as follows:

Defined benefit plan and postretirement health benefit plans in aggregate at June 30, 2007:

	<u>Pension Benefit Plan</u>	<u>Postretirement Benefit Plan</u>	<u>Total</u>
Projected/expected benefit obligation:	<u>\$5,958,000</u>	<u>\$1,921,000</u>	<u>\$7,879,000</u>
Funded status:			
Accumulated benefit obligation	\$5,958,000	\$1,573,000	\$7,531,000
Unrecognized transition obligation	398,000	-	398,000
Unrecognized amendment amount	457,000	-	457,000
Unrecognized net gain	(460,000)	(1,674,000)	(2,134,000)
Fair value of plan assets	(5,010,000)	-	(5,010,000)
SFAS158 adjustment	<u>(395,000)</u>	<u>1,674,000</u>	<u>1,279,000</u>
Accrued benefit cost	<u>\$ 948,000</u>	<u>\$1,573,000</u>	<u>\$2,521,000</u>
Significant activities during the year ended June 30, 2007:			
Benefit cost	\$ 181,000	\$ 21,000	\$ 202,000
Benefits paid by the plan	\$ 489,000	\$ 110,000	\$ 599,000

**ADMINISTRATIVE OFFICES OF THE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

K) RETIREMENT PLAN/POSTRETIREMENT PLANS (continued)

Priests' Benefit Fund of the RCDB, Inc. (continued):

Defined benefit plan and postretirement health benefit plans in aggregate at June 30, 2006:

	<u>Pension Benefit Plan</u>	<u>Postretirement Benefit Plan</u>	<u>Total</u>
Projected/expected benefit obligation:	<u>\$6,178,000</u>	<u>\$1,834,000</u>	<u>\$8,012,000</u>
Funded status:			
Accumulated benefit obligation	\$5,424,000	\$1,519,000	\$6,943,000
Unrecognized transition obligation	(428,000)	-	(428,000)
Unrecognized net gain	354,000	1,817,000	2,171,000
Fair value of plan assets	<u>(3,943,000)</u>	<u>-</u>	<u>(3,943,000)</u>
Accrued benefit cost	<u>\$1,407,000</u>	<u>\$3,336,000</u>	<u>\$4,743,000</u>
Significant activities during the year ended June 30, 2006:			
Benefit cost	\$ 377,000	\$ 4,000	\$ 381,000
Benefits paid	\$ 439,000	\$ 106,000	\$ 545,000

Weighted-average assumptions used to determine the net periodic benefit cost consisted of the following at June 30:

	<u>Pension Benefit Plan</u>		<u>Post-retirement Benefit Plan</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected rate of return on plan assets	7.50%	7.50%	N/A	N/A

Additional information related to the **defined benefit pension plan** is as follows:

The overall expected long-term rate of return on plan assets represents a weighted-average composite rate based on the expected rates of return for the following individual asset categories which are estimated by adjusting historical results for each category of investment for anticipated market movement.

Equity securities	7.5 – 10%
Debt securities	5.5 – 6.5%

**ADMINISTRATIVE OFFICES OF THE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

K) RETIREMENT PLAN/POSTRETIREMENT PLANS (continued)

The allocation of plan assets by category at plan year-end is as follows:

	<u>2007</u>	<u>2006</u>
Equity securities	56%	59%
Debt securities	44%	39%
Real estate	0%	2%

The RCDB, Inc.'s overall strategy to fund the defined benefit retirement plan is to invest in high-grade securities and other assets with a minimum risk of market value fluctuation. In general, the RCDB, Inc.'s goal is to maintain the following allocation ranges:

Equity securities	60%
Debt securities and other fixed income	40%

Benefits expected to be paid by the plan during the ensuing five years are approximately as follows for the years ending June 30:

2008	\$ 520,000
2009	\$ 519,000
2010	\$ 516,000
2011	\$ 524,000
2012	\$ 530,000

Additional information related to the **postretirement health benefit plans** is as follows:

For measurement purposes, at the end of the years included in the foregoing tables, a 5% rate of increase in the cost of covered health care benefits was assumed for 2007 and thereafter. A one-percentage-point change in the assumed rates of increase in health care costs would have the following effects relative to 2007 amounts included in the above for other benefit plans:

	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost components	\$ 19,000	\$ (15,000)
Effect on accumulated post-retirement benefit obligation	\$ 205,000	\$ (172,000)

Benefits expected to be paid by the plan during the ensuing five years are approximately as follows for the years ending June 30:

2008	\$ 100,000
2009	\$ 108,000
2010	\$ 115,000
2011	\$ 124,000
2012	\$ 133,000

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

L) NET ASSETS

Net assets are temporarily restricted for the following purposes:

	<u>2007</u>	<u>2006</u>
Poor and needy parishes	\$ 138,373	\$ 148,373
Bishop's Fund - pledges received to be used during the succeeding fiscal year	575,035	519,268
Priest support fund	<u>32,337</u>	<u>54,837</u>
Total	<u>\$ 745,745</u>	<u>\$ 722,478</u>

Net assets are permanently restricted for investment in perpetuity, the income from which is expendable to support the following:

	<u>2007</u>	<u>2006</u>
Nolin-Mooney fund for seminary education	\$ 951,876	\$ 951,876
Buckley fund for Priests' Benefit Fund	541,909	541,909
Buckley fund for charity, care of the poor and support of vocations	541,909	541,909
Roman Catholic schools and charities of the City of Burlington - Turk fund	478,637	478,637
Maguire fund for St. Genevieve, Shoreham	<u>-</u>	<u>25,000</u>
Total	<u>\$2,514,331</u>	<u>\$2,539,331</u>

During 2007, the funds held by the RCDB, Inc., in the Maguire fund for St. Genevieve, Shoreham, were transferred to the St. Genevieve parish at the direction of the donor. The amount of \$25,000 is included as a reduction of permanently restricted net assets in 2007.

M) COMMITMENTS AND CONTINGENT LIABILITIES

The RCDB, Inc., may be contingently liable as a co-maker or guarantor on certain obligations for which parishes or other Catholic organizations have primary responsibility. These obligations are not reflected on the statements of financial position.

The RCDB, Inc., has been named in several lawsuits and other potential claims related to alleged actions by certain Diocesan personnel, for which damages cannot be determined. The Diocese has engaged in negotiations for settlement to settle various suits or claims, and has offered nonbinding mediation in an effort to settle other such matters. Outside counsel has advised that it is not possible to reliably estimate the likelihood or amounts of unfavorable outcomes of these actions.

**ADMINISTRATIVE OFFICES OF THE
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

M) COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The RCDB, Inc., established a reserve, included in accrued liabilities, in the amount of \$3,600,000 at June 30, 2007 and 2006, related to potential settlement costs in connection with these cases. Charges to operations in connection with establishing and replenishing these reserves net of certain reimbursements noted below, were \$155,000 in 2007 and \$1,881,000 in 2006. The RCDB, Inc., intends to defend its position in any of these matters should they result in litigation.

During 2007, and as a result of negotiations with insurance carriers, RCDB, Inc., negotiated a partial repayment of legal costs (approximately \$295,000) which were incurred and charged to operations in prior periods. This amount is included as a reduction to current insurance, legal and related expenditures in 2007. Legal counsel has advised that negotiations continue with an insurance carrier regarding issues related to coverage for costs and indemnity payments related to pending claims.

N) RELATED-PARTY TRANSACTIONS

The RCDB, Inc., contributes cash and in-kind contributions to Vermont Catholic Charities, Inc., of which the RCDB, Inc., is the parent company. These contributions are charged to operations and included in social services expense. In-kind contributions include the provision of certain administrative services and the rent-free use of facilities owned by RCDB, Inc. These subsidies were comprised of the following during the years ended June 30:

	<u>2007</u>	<u>2006</u>
Cash subsidies for use in general operations	\$ 400,000	\$ 598,872
In-kind subsidies:		
Administrative services	125,188	121,541
Rent-free use of facilities for Homes	1,235,000	1,210,082
Allocation of administrative facilities cost	<u>39,004</u>	<u>32,361</u>
Total in-kind subsidies	<u>1,399,192</u>	<u>1,363,984</u>
	<u>\$1,799,192</u>	<u>\$1,962,856</u>