

**FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ADMINISTRATIVE OFFICES OF THE  
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.  
JUNE 30, 2006 AND 2005**

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

**JUNE 30, 2006 AND 2005**

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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, 2006 and 2005, 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, 2006 and 2005. The effect on the financial statements, as of and for the years ended June 30, 2006 and 2005, 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, 2006 and 2005, 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.

*Gallagher, Flynn & Company, LLP*

September 12, 2006

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

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30,**

	<u>2006</u>	<u>2005*</u>
<b>A S S E T S</b>		
Cash and cash equivalents	\$ 421,141	\$ 207,191
Pledges receivable	519,268	197,795
Receivables	406,187	402,774
Due from other funds	-	190,276
Prepaid expenses	18,740	127,711
Notes receivable, net	1,401,584	1,210,291
Marketable securities	11,607,384	18,612,280
Investment cash and cash equivalents	289,314	425,760
Property and equipment, net	2,542,201	2,589,322
Restricted cash	336,094	340,912
Total assets	<u>\$ 17,541,913</u>	<u>\$ 24,304,312</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Note payable	\$ 965,000	\$ 250,000
Funds held for others	431,722	388,370
Accounts payable	489,187	573,630
Accrued liabilities	3,968,822	2,895,553
Due to affiliated organizations	82,790	-
Long-term debt:		
Related parties	1,198,183	1,225,703
Bank	286,399	-
Funds held for others - investments	573,732	4,076,280
Defined benefit retirement and post-retirement liabilities	5,169,462	9,215,559
Total liabilities	<u>13,165,297</u>	<u>18,625,095</u>
<b>NET ASSETS</b>		
Unrestricted	1,114,807	2,733,881
Temporarily restricted	722,478	406,005
Permanently restricted	2,539,331	2,539,331
Total net assets	<u>4,376,616</u>	<u>5,679,217</u>
Total liabilities and net assets	<u>\$ 17,541,913</u>	<u>\$ 24,304,312</u>

\* Restated, see Note K.

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>
<b>REVENUES AND GAINS</b>				
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:				
Net realized and unrealized gains on investments	393,004	-	-	393,004
Gains on sales of properties	197,395	-	-	197,395
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>
<b>EXPENSES</b>				
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
Insurance, legal and related expenditures	3,531,094	-	-	3,531,094
Total program services	<u>8,378,363</u>	<u>-</u>	<u>-</u>	<u>8,378,363</u>
Supporting services:				
Development	131,726	-	-	131,726
Diocesan administration	1,258,450	-	-	1,258,450
Chancery	132,148	-	-	132,148
Total supporting services	<u>1,522,324</u>	<u>-</u>	<u>-</u>	<u>1,522,324</u>
Total expenses	<u>9,900,687</u>	<u>-</u>	<u>-</u>	<u>9,900,687</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>(1,619,074)</u>	<u>316,473</u>	<u>-</u>	<u>(1,302,601)</u>
<b>NET ASSETS, beginning of year</b>	<u>2,733,881</u>	<u>406,005</u>	<u>2,539,331</u>	<u>5,679,217</u>
<b>NET ASSETS, end of year</b>	<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.**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND GAINS</b>				
Revenues:				
Bishop's Fund, net of distributions to parishes of \$128,477	\$ 2,199,071	\$ 197,795	\$ -	\$ 2,396,866
Diocesan assessments	1,258,746	-	-	1,258,746
Insurance premiums charged to parishes and other affiliates	1,166,152	-	-	1,166,152
Imputed rental and administrative services charged to affiliated organization	1,308,224	-	-	1,308,224
Program revenue	342,139	-	-	342,139
Gifts and bequests	596,242	-	-	596,242
Interest and dividend income	475,798	-	-	475,798
Other revenue	67,534	-	-	67,534
Total revenues	<u>7,413,906</u>	<u>197,795</u>	<u>-</u>	<u>7,611,701</u>
Gains and reclassifications:				
Net realized and unrealized gains on investments	506,870	-	-	506,870
Net assets released from restrictions	162,927	(162,927)	-	-
Total gains and reclassifications	<u>669,797</u>	<u>(162,927)</u>	<u>-</u>	<u>506,870</u>
Total revenues and gains	<u>8,083,703</u>	<u>34,868</u>	<u>-</u>	<u>8,118,571</u>
<b>EXPENSES</b>				
Program services:				
Social services - Vermont Catholic Charities, Inc.	1,936,179	-	-	1,936,179
Social services - other	400,806	-	-	400,806
School subsidies	363,677	-	-	363,677
School office	241,321	-	-	241,321
Religious education	365,816	-	-	365,816
Vocations/Priest Educational/Liturgical	376,931	-	-	376,931
Priests' Benefit Fund	762,000	-	-	762,000
Communications	157,856	-	-	157,856
Tribunal	75,473	-	-	75,473
Insurance, legal and related expenditures	2,039,166	-	-	2,039,166
Total program services	<u>6,719,225</u>	<u>-</u>	<u>-</u>	<u>6,719,225</u>
Supporting services:				
Development	182,577	-	-	182,577
Diocesan administration	1,217,148	-	-	1,217,148
Chancery	127,568	-	-	127,568
Total supporting services	<u>1,527,293</u>	<u>-</u>	<u>-</u>	<u>1,527,293</u>
Total expenses	<u>8,246,518</u>	<u>-</u>	<u>-</u>	<u>8,246,518</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>(162,815)</u>	<u>34,868</u>	<u>-</u>	<u>(127,947)</u>
<b>NET ASSETS, beginning of year</b>				
As originally stated	2,424,859	842,974	2,539,331	5,807,164
Adjustment to prior period	471,837	(471,837)	-	-
As restated	<u>2,896,696</u>	<u>371,137</u>	<u>2,539,331</u>	<u>5,807,164</u>
<b>NET ASSETS, end of year</b>	<u>\$ 2,733,881</u>	<u>\$ 406,005</u>	<u>\$ 2,539,331</u>	<u>\$ 5,679,217</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>2006</u>	<u>2005</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (1,302,601)	\$ (127,947)
Noncash items included in decrease in net assets:		
Depreciation and amortization	144,114	120,873
Net realized and unrealized gains on investments	(393,004)	(506,870)
Gains on sales of properties	(197,395)	-
Provision for uncollectible accounts and pledges	(16,348)	30,137
Changes in assets and liabilities:		
Receivables	(308,538)	(44,583)
Due from affiliated organizations	273,066	65,715
Prepaid expenses	108,971	(111,815)
Funds held for others	43,352	84,548
Accounts payable and accrued liabilities	988,826	887,069
Defined benefit and post-retirement liabilities	(227,368)	(458,415)
	<u>415,676</u>	<u>66,659</u>
Net cash used in operating activities	<u>(886,925)</u>	<u>(61,288)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital acquisitions	(96,993)	(336,213)
Proceeds from sales of properties	197,395	-
Proceeds from sale of marketable securities	16,196,764	16,528,683
Purchases of marketable securities	(16,321,593)	(15,947,470)
Funds held for others - investments, net	201,452	36,220
Advances on notes receivable - related parties	(538,398)	(202,000)
Principal payments received on notes receivable - related parties	347,105	171,452
Net cash provided by (used in) investing activities	<u>(14,268)</u>	<u>250,672</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (payments) on short-term borrowings	715,000	(250,000)
Proceeds from borrowings under long-term debt	461,399	628,680
Principal payments on long-term debt	(202,520)	(99,500)
Net cash provided by financing activities	<u>973,879</u>	<u>279,180</u>
Net increase in cash and cash equivalents	72,686	468,564
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>973,863</u>	<u>505,299</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 1,046,549</u>	<u>\$ 973,863</u>
<b><u>Supplemental Disclosures of Cash Flows Information</u></b>		
Cash paid during the year for interest expense	<u>\$ 71,230</u>	<u>\$ 38,624</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 J). 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 I).

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, 2006 AND 2005**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES**

**Operations:**

The Roman Catholic Diocese of Burlington (Diocese), established in 1853, is a diocese of the worldwide Roman Catholic Church headquartered at the Vatican City State. 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 may 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 Diocese of Burlington.

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 established in 1896 in order that it might serve the needs and requirements of those entities erected by the Diocesan Bishop while respecting the separate legal structures of said entities. RCDB, Inc., consists of administrative offices, certain program offices conducted at the diocesan level, and three diocesan schools. Certain activities that are separately incorporated as affiliated entities or separately civilly constructed entities are 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 in paragraph one. 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. Separate affiliated corporations for which RCDB, Inc., is the parent corporation, such as The Vermont Catholic Tribune, Resurrection Park Cemetery and Vermont Catholic Charities, Inc., and entities separately created, such as parishes and their associated trusts, have also been excluded. Each of these affiliated 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, 2006 AND 2005**

**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 parishes and other 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:**

The RCDB, Inc., operates a lending program for the benefit of parishes and other Diocesan organizations. Loans to some of these organizations are granted in lieu of subsidies. The program is funded by borrowings from certain parishes plus accumulated earnings on the program.

**Priests' Benefit Fund:**

The RCDB, Inc., sponsors a noncontributory defined benefit retirement plan and a defined benefit post-retirement 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 J).

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

**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 K).

**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 K). Contributions restricted for a specific purpose that is satisfied during the same fiscal year are recorded as unrestricted. Pledges receivable of \$519,268 at June 30, 2006, net of an allowance for uncollectible pledges of \$39,541, and pledges receivable of \$197,795 at June 30, 2005, net of an allowance for uncollectible pledges of \$10,000, 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, 2006 AND 2005**

**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 include resources of the RCDB, Inc., and affiliated organizations pooled into a commingled portfolio. 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 allocable to the RCDB, Inc., are included in the change in net assets. Investment income, gains, losses, and expenses from investment transactions are allocated to the participating organizations in proportion to their respective balances in the pooled fund.

**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. 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, 2006 AND 2005**

**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, 2006 AND 2005**

**B) 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 \$425,760.

**C) RECEIVABLES**

Receivables are comprised of the following:

	<u>2006</u>	<u>2005</u>
Parish receivables	\$ 69,063	\$ 65,215
Diocesan assessments receivable	325,000	310,000
Other	<u>30,500</u>	<u>62,233</u>
	424,563	437,448
Less allowance for doubtful accounts	<u>18,376</u>	<u>34,674</u>
	<u>\$ 406,187</u>	<u>\$ 402,774</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

**D) MARKETABLE SECURITIES**

Investments are 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). A summary of these investments as of June 30, 2006 and 2005, is as follows:

	<u>2006</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Corporate stocks	\$ 6,217,401	\$ 7,169,309	\$ 951,908
U.S. government obligations	2,560,742	2,482,805	(77,937)
Corporate bonds	<u>2,056,636</u>	<u>1,955,270</u>	<u>(101,366)</u>
	<u>\$10,834,779</u>	<u>\$11,607,384</u>	<u>\$ 772,605</u>
	<u>2005</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Corporate stocks	\$ 9,954,265	\$11,445,298	\$ 1,491,033
U.S. government obligations	4,128,781	4,133,920	5,139
Corporate bonds	<u>3,134,726</u>	<u>3,033,062</u>	<u>(101,664)</u>
	<u>\$17,217,772</u>	<u>\$18,612,280</u>	<u>\$ 1,394,508</u>

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>2006</u>	<u>2005</u>
Gains on marketable securities:		
Net realized gains	\$ 972,558	\$ 541,231
Net unrealized gains (losses)	<u>(459,163)</u>	<u>110,865</u>
	513,395	652,096
Investment fees	<u>(120,391)</u>	<u>(145,226)</u>
Net gains	393,004	506,870
Interest and dividend income	<u>402,765</u>	<u>453,206</u>
Total return on investments	<u>\$ 795,769</u>	<u>\$ 960,076</u>

**ADMINISTRATIVE OFFICES OF THE  
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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

**E) NOTES RECEIVABLE - RELATED PARTIES**

Notes receivable - related parties consists of notes receivable under the Diocesan Deposit and Loan Program. 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>2006</u>	<u>2005</u>
Parishes/schools:			
Blessed Sacrament, Stowe	See below	\$ 286,399	\$ -
Christ the King, Rutland	\$ 6,549	37,627	61,191
Holy Cross, Morrisville	\$ 2,344	46,582	55,059
Immaculate Heart of Mary, Rutland	\$ 2,181	4,881	12,528
Our Lady Queen of Peace, Danville	\$ 4,960	28,494	46,339
Rice Memorial High School, Burlington	See below	511,689	533,697
St. Augustine, Montpelier	\$ 1,636	75,877	102,390
St. Francis Xavier, Winooski	\$ 2,867	73,244	78,943
St. Mary, Springfield	\$ 5,122	301,999	225,000
St. Michael, Brattleboro	\$ 2,867	-	5,629
St. Peter, Rutland	\$ 6,609	-	25,624
St. Andrew, Waterbury	\$ 5,416	-	20,375
St. Joseph, Burlington	\$ 3,671	108,216	115,000
Other		<u>6,576</u>	<u>8,516</u>
Total notes receivable		1,481,584	1,290,291
Less allowance for doubtful accounts		<u>80,000</u>	<u>80,000</u>
		<u>\$1,401,584</u>	<u>\$1,210,291</u>

The note receivable from Blessed Sacrament is receivable with terms equal to a note payable with the Chittenden Bank for the same amount of \$289,399 (see Note H). The note from Rice Memorial High School is noninterest bearing through June 30, 2006, and is due in quarterly principal payments of \$5,502, plus interest at 5%, due June 2029.

Interest income related to the above notes receivable totalled \$59,297 in 2006 and \$22,592 in 2005.

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**F) PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	2006	2005
Buildings and improvements	\$6,058,264	\$5,976,076
Land and land improvements	339,989	339,990
Equipment	1,015,335	1,138,169
Vehicles	176,401	38,761
	7,589,989	7,492,996
Less accumulated depreciation	5,047,788	4,903,674
	<b>\$2,542,201</b>	<b>\$2,589,322</b>

**G) NOTE PAYABLE**

**Line of credit**

Note payable - bank consists of the amount due under an unsecured \$2,000,000 line of credit with the Chittenden Bank, due November 30, 2006. Interest is payable monthly at *The Wall Street Journal* prime rate (8.25% at June 30, 2006), minus .50%. Borrowings outstanding on the line of credit were \$965,000 as of June 30, 2006, and \$250,000 as of June 30, 2005.

**Letter of credit / Restricted cash**

The RCDB, Inc., has a standby letter of credit in the amount of \$326,589 with the Chittenden Bank. 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 2006 or 2005. The letter of credit is secured by a certificate of deposit, the balance of which is classified as "restricted cash" in the amounts of \$336,094 and \$340,912, including accrued interest, at June 30, 2006 and 2005, respectively.

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**NOTES TO FINANCIAL STATEMENTS**

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**H) LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2006</u>	<u>2005</u>
Related party - Diocesan Deposit and Loan Program ("DDL") - Long-term debt under the DDL has no fixed repayment schedules with interest payable semi-annually at 4%:		
Christ the King, Burlington	\$ 285,000	\$ 285,000
Holy Rosary, Richmond	6,000	6,000
Holy Trinity Mission, Danby	10,000	10,000
Our Lady of the Mountains, Killington	427,396	427,396
Our Lady of the Snows, Woodstock	86,264	113,784
Resurrection Park Cemetery, South Burlington	75,000	75,000
St. Anthony, White River Junction	11,607	11,607
St. Jerome, East Dorset	95,500	95,500
St. John, North Bennington	46,416	46,416
St. Mark's, Burlington	55,000	55,000
St. Stanislaus, West Rutland	<u>100,000</u>	<u>100,000</u>
	1,198,183	1,225,703
Chittenden Bank - Unsecured note payable in one installment of \$75,000 on January 31, 2007, plus interest at <i>The Wall Street Journal</i> prime rate (8.25% at June 30, 2006) and one payment of \$211,399, plus interest, due on January 31, 2008.	<u>286,399</u>	<u>-</u>
	<u>\$1,484,582</u>	<u>\$1,225,703</u>

Interest expense charged to operations totalled \$90,378 in 2006 and \$38,624 in 2005.

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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

**I) FUNDS HELD FOR OTHERS**

**Investments:**

The RCDB, Inc., manages funds for affiliated organizations in a common investment pool. Earnings, gains, expenses and losses are allocated to participant investment balances on a prorated basis. A summary of these balances is as follows:

	<u>2006</u>	<u>2005</u>
Vermont Catholic Charities, Inc.	\$ -	\$3,528,221
Vermont Catholic Tribune Fund	88,735	84,765
Resurrection Park	<u>484,997</u>	<u>463,294</u>
Total investments held for others	<u>\$ 573,732</u>	<u>\$4,076,280</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 \$431,722 at June 30, 2006, and \$388,370 at June 30, 2005.

**J) RETIREMENT AND POST-RETIREMENT 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 \$40,660 in 2006 and \$39,600 in 2005.

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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

**J) RETIREMENT AND POST-RETIREMENT 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 post-retirement 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 post-retirement 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 \$79,882 in 2006 and \$49,177 in 2005.

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

	<u>2006</u>	<u>2005</u>
Accrued benefit cost:		
Benefit obligations	\$ 426,462	\$ 507,559
Fair value of plan assets	<u>-</u>	<u>-</u>
Excess of benefit obligations over plan assets	<u>\$ 426,462</u>	<u>\$ 507,559</u>
Accrued benefit cost	<u>\$ 426,462</u>	<u>\$ 507,559</u>
Weighted average assumptions:		
Discount rate on the benefit obligation	7.00%	7.00%
Inflation rate for Level III housing	4.00%	4.00%
Aggregate third party revenue inflation rate	3.00%	3.00%

**Priests' Benefit Fund of the RCDB, Inc.:**

The RCDB, Inc., sponsors a noncontributory defined benefit retirement plan and a defined benefit post-retirement plan, including medical and long-term 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.

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**JUNE 30, 2006 AND 2005**

**J) RETIREMENT PLAN/POST-RETIREMENT PLANS (continued)**

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

Prior to February 16, 2006, the RCDB, Inc., accounted for the assets set aside for the plan as designated assets and the accrued retirement and post-retirement benefit as a liability. On February 16, 2006, the RCDB, Inc., formed an irrevocable trust entitled, "Priests' Benefit Fund Trust" whose beneficiaries are the participants in the "Priests' Benefit Fund." In connection with its formation, the RCDB, Inc., transferred assets into the trust formerly set aside to fund the retirement and post-retirement plan obligations. The transfer of assets and the related liability to the trust had no effect on the net assets, but resulted in the reduction of investment assets and the retirement and post-retirement liability by approximately \$3,819,000.

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

**Defined benefit plan and post-retirement benefit plans in aggregate at June 30, 2006:**

	Pension <u>Benefit Plan</u>	Post-retirement <u>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

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**JUNE 30, 2006 AND 2005**

**J) RETIREMENT PLAN/POST-RETIREMENT PLANS (continued)**

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

**Defined benefit plan and post-retirement benefit plans** in aggregate at June 30, 2005:

	<u>Pension Benefit Plan</u>	<u>Post-retirement Benefit Plan</u>	<u>Total</u>
Projected/expected benefit obligation:	\$ 6,994,000	\$ 5,190,000	\$12,184,000
Funded status:			
Accumulated benefit obligation	\$ 6,098,000	\$ 4,363,000	\$10,461,000
Unrecognized transition obligation	(460,000)	(543,000)	(1,003,000)
Unrecognized net gain	(368,000)	(382,000)	(750,000)
Fair value of plan assets	-	-	-
Accrued benefit cost	<u>\$ 5,270,000</u>	<u>\$ 3,438,000</u>	<u>\$ 8,708,000</u>

Significant activities during the year ended June 30, 2005:

Benefit cost	\$ 429,000	\$ 333,000	\$ 762,000
Benefits paid	\$ 470,700	\$ 578,500	\$ 1,049,200

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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Discount rate	6.25%	5.50%	6.25%	5.50%
Expected rate of return on plan assets	7.50%	N/A	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%

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**JUNE 30, 2006 AND 2005**

**J) RETIREMENT PLAN/POST-RETIREMENT PLANS (continued)**

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

	<u>2006</u>	<u>2005</u>
Equity securities	59%	N/A
Debt securities	39%	N/A
Real estate	2%	N/A

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:

2007	\$ 491,000
2008	\$ 471,000
2009	\$ 432,000
2010	\$ 378,000
2011	\$ 329,000

Additional information related to the **post-retirement 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 2006 and thereafter. A one-percentage-point change in the assumed rates of increase in health care costs would have the following effects relative to 2006 amounts included in the above for other benefit plans:

	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost components	\$ 18,000	\$ (13,000)
Effect on accumulated post-retirement benefit obligation	\$ 195,000	\$ (163,000)

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

2007	\$ 117,000
2008	\$ 120,000
2009	\$ 122,000
2010	\$ 126,000
2011	\$ 128,000

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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

**K) NET ASSETS / PRIOR PERIOD ADJUSTMENT**

Net assets are temporarily restricted for the following purposes:

	<u>2006</u>	<u>2005</u>
Poor and needy parishes	\$ 148,373	\$ 153,373
Bishop's Fund - pledges received to be used during the succeeding fiscal year	519,268	197,795
Priest support fund	<u>54,837</u>	<u>54,837</u>
Total	<u>\$ 722,478</u>	<u>\$ 406,005</u>

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

	<u>2006</u>	<u>2005</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 - former Turk fund	478,637	478,637
Maguire fund for St. Genevieve, Shoreham	<u>25,000</u>	<u>25,000</u>
	<u>\$2,539,331</u>	<u>\$2,539,331</u>

**Prior period adjustment**

The financial statements for 2005 have been adjusted for an error in recording temporarily restricted revenues related to the Bishop's Fund Appeal. The effect of the adjustment was to increase unrestricted net assets and decrease temporarily restricted net assets at July 1, 2004, by \$471,837, and decrease temporarily restricted revenues and gains and increase unrestricted revenues and gains by \$133,276 for the year ended June 30, 2005.

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**L) 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 RCDB, Inc., has engaged in negotiations for settlement of various suits and has offered nonbinding mediation in an effort to settle these matters. Outside counsel has advised that it is not possible to estimate the likelihood of unfavorable outcome of these actions. The RCDB, Inc., established a reserve, included in accrued liabilities, in the amount of \$3,600,000 at June 30, 2006, and \$2,765,250 at June 30, 2005, related to potential settlement costs in connection with these cases. Charges to operations in connection with establishing and replenishing these reserves were \$1,881,000 in 2006 and \$865,700 in 2005. The RCDB, Inc., intends to defend its position in any of these matters should they result in litigation.

**M) RELATED PARTY TRANSACTIONS**

The RCDB, Inc., contributes cash and in kind contributions to Vermont Catholic Charities, Inc., (VCCI), 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 RCDB, Inc.-owned facilities. These subsidies were comprised of the following during the years ended June 30:

	<u>2006</u>	<u>2005</u>
Cash subsidies for use in general operations	<u>\$ 598,872</u>	<u>\$ 600,000</u>
In kind subsidies:		
Administrative services	121,541	98,142
Rent-free use of facilities for Homes	1,210,082	1,210,082
Allocation of administrative facilities cost	<u>32,361</u>	<u>27,955</u>
Total in kind subsidies	<u>1,363,984</u>	<u>1,336,179</u>
	<u>\$1,962,856</u>	<u>\$1,936,179</u>