



# Annual Financial Report of the Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence 2002-2003



My brothers and sisters in Christ,

Stewardship is a way of life by which we give thanks to God for the many blessings entrusted to us. Our gratitude to God is expressed by sharing our time, talents and treasure, as well as by how we manage our entire lives. It includes being accountable and responsible as wise and honest caretakers of God's many gifts. As Catholics our expression of thanks takes shape in liturgy and prayer, in opportunities to grow in our faith, in advocating for peace and justice, and in extending the compassion and generosity of Christ to all in need. More recently we have been challenged to better protect children, to prove our resolve and restore trust in leadership and healing to all harmed.

Today I present to you my seventh Annual Audited Financial Report for Diocesan Central Administration. This is the 10th year in which an audit has been done of our Diocesan Central Administration. I also wish to note that a similar thorough diocesan financial report has been published and widely distributed for each of the past 30 years. This present audited report was reviewed and accepted by the Diocesan Finance Council, in accord with the universal law of the Church. While its format is dictated by national accounting and reporting standards, an easy-to-read financial report summary will be available in a January issue of *The Providence Visitor* and on the diocesan website [www.dioceseofprovidence.org](http://www.dioceseofprovidence.org).

I am indebted to the many Catholic lay men and women, as well as clergy and religious, who serve on the various working committees of the Diocesan Finance Council, offering their time and expertise in the fields of research and planning, stewardship and development, accounting and auditing, investments, insurance, human resources, real estate and property management, diocesan cemeteries and the inter-parish revolving deposit and loan fund group. Their active role in dealing with each of these areas is essential to our diocesan administration and assures a high level of accountability.

This year's report includes the sale of the Watch Hill house for approximately \$7 million to partially repay a \$12 million diocesan loan from two local financial institutions. It is financing a diocesan obligation of approximately \$15 million and other related legal costs to pay mediated settlements with 37 defendants in clergy misconduct cases involving 11 priests over the past 30+ years (who are now either deceased or no longer serving in active ministry). The remaining balance of this loan will be repaid from insurance providers and the sale of other diocesan-owned real estate holdings not presently serving a pastoral need. Provision is also being made to our ongoing commitment to assist victims of clergy sexual abuse with needed therapy.

Financial priorities for the upcoming fiscal year include: (1) control over increasing operational deficits in both the General Fund and the Catholic Charity Fund, caused primarily by reduced investment income, continuing higher health insurances costs and limited funding sources, and (2) to pay down the diocesan debt. Streamlining will entail a series of further control and consolidation steps presently being studied. Every effort is being made to reduce administrative expenses while maintaining or enhancing pastoral services. As I pledged to you before, none of these funds or future Catholic Charity Funds will be utilized to pay for any of the \$15 million obligation.

Our network of parishes, schools, agencies and programs in the Diocese of Providence, serving hundreds of thousands of Rhode Islanders, regardless of creed, and the dedicated service of our clergy, religious and laity, are strong witness to the abiding faith and trust we place in our Church and in its capacity to serve and to serve well!

I pledge to you my continued best efforts to serve you as a good and wise steward. I thank you for your enduring faith commitment in these challenging times and for your readiness to share your gifts of time, talents and treasure with your parish and with the diocese.

Together, let us pray and work ceaselessly for the reform and renewal of our hearts, our Church and our world.

Sincerely yours in Christ,

(Most Rev.) Robert E. Mulvee  
Bishop of Providence

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Mr. John W. Flynn  
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Most Rev. Robert J. McManus  
Rev. Msgr. William I. Varsanyi  
Rev. John J. Darcy  
Rev. Msgr. William J. McCaffrey  
Mr. Michael F. Sabatino  
Mr. Anthony T. Gwiazdowski

## Report of Independent Auditors

The Most Reverend Robert E. Mulvee  
Bishop of Providence

We have audited the accompanying combined statements of financial position of the Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence as of June 30, 2003 and 2002, and the related combined statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Diocesan management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States. 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.

As discussed in Note 13 to the financial statements, the Catholic Umbrella Pool was unable to provide sufficient evidential matter regarding the provision and reserve for unpaid claims and claim

expenses due to a lack of historical loss experience given the limited number of claims. The Catholic Umbrella Pool is an equity method investee for which the combined statements of financial position and statements of activities and changes in net assets of the Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence reflect an equity investment of \$827,465 and \$890,453 as of June 30, 2003 and 2002, respectively, and equity in losses of that investee of \$62,988 and \$147,063 for the years ended June 30, 2003 and 2002.

In our opinion, except for the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence at June 30, 2003 and 2002, and the combined changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

September 26, 2003,  
except as to the matter discussed in Note 14,  
as to which the date is November 10, 2003

### Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence

#### Combined Statements of Financial Position

	June 30			June 30	
	2003	2002		2003	2002
<b>Assets</b>			<b>Liabilities and net assets</b>		
Cash and cash equivalents	\$ 12,605,448	\$ 7,175,643	Accounts payable	\$ 607,830	\$ 663,716
Cash and cash equivalents designated or restricted for long-term purposes (Note 2)	6,113,195	6,379,523	Accrued expenses and other liabilities	7,432,460	5,747,893
Interest and accounts receivable, net of allowances of \$1,028,211 and \$852,613 at 2003 and 2002 (Note 6)	2,466,371	2,352,505	Accrued settlement expense (Note 13)	850,000	15,000,000
Pledges receivable, net of allowances of \$3,439,122 and \$3,604,088 at 2003 and 2002 (Notes 4 and 6)	1,920,097	1,942,350	Line of credit (Note 14)	11,730,584	-
Loans receivable from parishes and agencies, net of allowances of \$1,250,000 at 2003 and 2002 (Notes 5 and 6)	11,324,532	11,472,820	Loans payable to parishes and agencies (Note 5)	21,063,121	17,225,591
Investments (Note 7)	65,354,170	61,074,893	Total liabilities	41,683,995	38,637,200
Land and buildings held for interments	622,004	757,411	Contingencies (Note 13)		
Land held for parish development	1,973,098	2,094,911	Net assets		
Land, buildings and equipment, net (Note 8)	4,653,228	4,713,528	Unrestricted:		
Other assets designated or restricted for long-term purposes (Note 12)	1,168,305	1,212,395	Internally designated for:		
Total assets	\$108,200,448	\$99,175,979	Insurance	5,357,797	4,984,407
			Modernization and Support	4,706,014	4,703,095
			Unrestricted	11,105,996	5,778,303
			Total unrestricted	21,169,807	15,465,805
			Temporarily restricted (Note 16)	21,457,400	22,353,088
			Permanently restricted (Note 17)	23,889,246	22,719,886
			Total net assets	66,516,453	60,538,779
			Total liabilities and net assets	\$108,200,448	\$99,175,979

*See accompanying notes.*

### Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence

#### Combined Statements of Activities and Changes in Net Assets

	Year ended June 30, 2003				Year ended June 30, 2002			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Restricted	Permanently Restricted			Restricted	Permanently Restricted	
<b>Revenues</b>								
Interest and dividend income	\$ 1,348,033	\$ 1,061,836	\$ -	\$ 2,409,869	\$ 1,590,045	\$ 1,240,536	\$ -	\$ 2,830,581
Gifts and bequests	11,604	71,900	-	83,504	293,481	50,320	-	343,801
Trust income	14,851	106,996	-	121,847	500	105,163	-	105,663
Realized gain (loss) on investments, net	(831,170)	(2,122,574)	278,145	(2,675,599)	(610,942)	(548,575)	139,420	(1,020,097)

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**Central Administration Funds and Diocesan Cemetery Operations  
of the Diocese of Providence**

**Combined Statements of Activities and Changes in Net Assets (continued)**

	Year ended June 30, 2003				Year ended June 30, 2002			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues (continued)</b>								
Parish assessment	2,800,750	-	-	2,800,750	2,656,985	-	-	2,656,985
Seminary collection – Major Seminarian Program	-	163,640	-	163,640	-	145,340	-	145,340
Program fees	870,941	-	-	870,941	621,527	-	-	621,527
Mission receipts	-	166,441	-	166,441	-	177,389	-	177,389
Human development collection	-	34,961	-	34,961	-	30,812	-	30,812
Communications collection	53,994	-	-	53,994	56,273	-	-	56,273
Program grants/contracts	-	79,121	-	79,121	-	74,996	-	74,996
Catholic Charity Fund Appeal	-	6,527,318	-	6,527,318	-	6,510,728	-	6,510,728
Vision of Hope Fund Appeal (Notes 2 and 3)	-	47,892	-	47,892	-	49,429	-	49,429
Diocesan cemeteries	4,685,558	-	-	4,685,558	4,550,009	-	-	4,550,009
Rental, lease and other income	646,790	-	-	646,790	320,467	-	-	320,467
	9,601,351	6,137,531	278,145	16,017,027	9,478,345	7,836,138	139,420	17,453,903
Net assets released from restrictions (Note 18)	10,532,988	(10,532,988)	-	-	10,091,911	(10,091,911)	-	-
Total operating revenues, gains and other support	20,134,339	(4,395,457)	278,145	16,017,027	19,570,256	(2,255,773)	139,420	17,453,903
<b>Program expenses</b>								
Communications and telecommunications	346,439	-	-	346,439	368,134	-	-	368,134
The Tribunal	379,755	-	-	379,755	365,000	-	-	365,000
Providence Visitor	550,000	-	-	550,000	550,000	-	-	550,000
Director of Religious Priest Council	66,449	-	-	66,449	64,764	-	-	64,764
	1,269	-	-	1,269	596	-	-	596
Spiritual Development	339,459	-	-	339,459	217,144	-	-	217,144
Youth Ministry	610,592	-	-	610,592	562,383	-	-	562,383
Hispanic Ministry	370,607	-	-	370,607	310,932	-	-	310,932
Our Lady of Peace Retreat House	159,245	-	-	159,245	150,198	-	-	150,198
Christian Education	1,011,956	-	-	1,011,956	874,038	-	-	874,038
Campus Ministry	353,024	-	-	353,024	301,294	-	-	301,294
Apostolate for the Handicapped	150,978	-	-	150,978	134,708	-	-	134,708
Diocesan Schools	595,119	-	-	595,119	593,040	-	-	593,040
Community Services and Advocacy	838,401	-	-	838,401	748,983	-	-	748,983
Advocacy and Emergency Shelter	41,577	-	-	41,577	36,012	-	-	36,012
Day Care	354,082	-	-	354,082	450,464	-	-	450,464
Life and Family Ministry	457,636	-	-	457,636	456,023	-	-	456,023
St. Antoine Residence	50,000	-	-	50,000	40,000	-	-	40,000
St. Francis House	38,807	-	-	38,807	57,678	-	-	57,678
St. Clare's Home	30,000	-	-	30,000	14,409	-	-	14,409
Ministries and clergy personnel	825,901	-	-	825,901	720,205	-	-	720,205
Grants:								
National grants	198,235	-	-	198,235	200,458	-	-	200,458
Diocesan grants	709,616	-	-	709,616	546,129	-	-	546,129
Parish grants	55,000	-	-	55,000	63,200	-	-	63,200
Vision of Hope:								
Program and services	355,504	-	-	355,504	342,685	-	-	342,685
Capital needs	880,562	-	-	880,562	499,608	-	-	499,608
Parish share support	32,913	-	-	32,913	151,165	-	-	151,165
Mission support	161,600	-	-	161,600	185,653	-	-	185,653
Contributions and gifts	18,356	-	-	18,356	23,000	-	-	23,000
Restricted Funds expended	1,655,815	-	-	1,655,815	2,207,705	-	-	2,207,705
Seminarian support	715,586	-	-	715,586	805,932	-	-	805,932
Diocesan Cemeteries	4,693,900	-	-	4,693,900	4,345,435	-	-	4,345,435
	17,048,383	-	-	17,048,383	16,386,975	-	-	16,386,975
<b>General and administrative expenses</b>								
Financial affairs	317,587	-	-	317,587	371,810	-	-	371,810
Provision for uncollectible receivables	502,846	-	-	502,846	143,921	-	-	143,921
Administration	1,163,258	-	-	1,163,258	1,087,958	-	-	1,087,958
Support services (Note 2)	762,237	-	-	762,237	536,085	-	-	536,085
Insurance and risk management, net	(581,730)	-	-	(581,730)	(510,539)	-	-	(510,539)
Settlement expense (Note 13)	-	-	-	-	15,000,000	-	-	15,000,000
Property expenses	469,214	-	-	469,214	444,664	-	-	444,664
Depreciation	762,307	-	-	762,307	918,959	-	-	918,959
Interest	1,060,619	-	-	1,060,619	751,058	-	-	751,058
	4,456,338	-	-	4,456,338	18,743,916	-	-	18,743,916

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**Central Administration Funds and Diocesan Cemetery Operations  
of the Diocese of Providence**

**Combined Statements of Activities and Changes in Net Assets (continued)**

	Year ended June 30, 2003				Year ended June 30, 2002			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Fundraising expenses</b>								
Catholic Charity Fund Appeal	651,615	-	-	651,615	587,915	-	-	587,915
Vision of Hope Fund Appeal	118,834	-	-	118,834	135,041	-	-	135,041
	<u>770,449</u>	<u>-</u>	<u>-</u>	<u>770,449</u>	<u>722,956</u>	<u>-</u>	<u>-</u>	<u>722,956</u>
Total expenses	<u>22,275,170</u>	<u>-</u>	<u>-</u>	<u>22,275,170</u>	<u>35,853,847</u>	<u>-</u>	<u>-</u>	<u>35,853,847</u>
Excess (deficiency) of revenues over expenses before capital additions and other income	(2,140,831)	(4,395,457)	278,145	(6,258,143)	(16,283,591)	(2,255,773)	139,420	(18,399,944)
<b>Capital additions and other income</b>								
Gifts and bequests	6,692	1,139,890	534,292	1,680,874	2,954	2,699,295	1,299,431	4,001,680
Transfers from Perpetual Care Fund (Note 9)	285,000	-	-	285,000	247,352	-	-	247,352
Transfers to (from) (Note 19)	43,953	(400,876)	356,923	-	856,537	(412,380)	(444,157)	-
Gain on sale of property	6,728,059	-	-	6,728,059	-	-	-	-
Capital additions	3,036	-	-	3,036	-	-	-	-
Unrealized gain (losses) on investments	778,093	2,760,755	-	3,538,848	(600,470)	(2,813,692)	-	(3,414,162)
Total capital additions and other income	<u>7,844,833</u>	<u>3,499,769</u>	<u>891,215</u>	<u>12,235,817</u>	<u>506,373</u>	<u>(526,777)</u>	<u>855,274</u>	<u>834,870</u>
Increase (decrease) in net assets	<u>5,704,002</u>	<u>(895,688)</u>	<u>1,169,360</u>	<u>5,977,674</u>	<u>(15,777,218)</u>	<u>(2,782,550)</u>	<u>994,694</u>	<u>(17,565,074)</u>
Net assets, beginning of year	<u>15,465,805</u>	<u>22,353,088</u>	<u>22,719,886</u>	<u>60,538,779</u>	<u>31,243,023</u>	<u>25,135,638</u>	<u>21,725,192</u>	<u>78,103,853</u>
Net assets, end of year	<u>\$21,169,807</u>	<u>\$21,457,400</u>	<u>\$23,889,246</u>	<u>\$66,516,453</u>	<u>\$ 15,465,805</u>	<u>\$22,353,088</u>	<u>\$22,719,886</u>	<u>\$ 60,538,779</u>

See accompanying notes.

**Central Administration Funds and Diocesan Cemetery Operations  
of the Diocese of Providence**

**Combined Statements of Cash Flows**

	Year ended June 30		Year ended June 30	
	2003	2002	2003	2002
<b>Operating activities</b>				
Increase (decrease) in net assets	\$ 5,977,674	\$(17,565,074)		
Adjustments to reconcile to net cash used by operating activities:				
Depreciation	762,307	918,959		
Realized losses on investments	2,675,599	1,020,097		
Unrealized (gains) losses on investments	(3,538,848)	3,414,162		
Settlement expense (Note 13)	-	15,000,000		
Provisions for uncollectible accounts	502,846	506,177		
Gain on sale of property	(6,728,059)	-		
Temporarily restricted cash contributions	(47,892)	(49,429)		
Permanently and temporarily restricted gifts	(1,680,874)	(4,001,680)		
Increase (decrease) resulting from changes in operating assets:				
Interest and accounts receivable	(395,266)	(523,040)		
Pledge receivables, net of discount	(199,193)	351,746		
Land held for interments and development	257,220	(758,886)		
Other assets	44,090	119,710		
Accounts payable	(55,886)	362,599		
Accrued expenses and other liabilities	(12,465,433)	512,646		
Cash used by operating activities	(14,891,715)	(692,013)		
<b>Investing activities</b>				
Purchases of investments			(54,298,540)	(54,428,104)
Proceeds from sales of investments			50,882,512	50,373,903
Plant acquisitions			(904,103)	(376,879)
Proceeds on sale of land			6,930,155	-
Loans disbursed			(2,425,077)	(2,836,241)
Principal repayments on loans receivable			2,573,365	3,093,316
Cash provided (used) by investing activities			2,758,312	(4,174,005)
<b>Financing activities</b>				
Temporarily restricted cash contributions			47,892	49,429
Permanently and temporarily restricted gifts			1,680,874	4,001,680
Loan proceeds			5,984,462	6,192,787
Loan repayments			(2,146,932)	(2,301,606)
Loan payable to Perpetual Care Fund			-	(59,156)
Draws on line of credit			11,730,584	-
Cash provided by financing activities			17,296,880	7,883,134
Net increase in cash and cash equivalents			5,163,477	3,017,116
Cash and cash equivalents at beginning of year:				
Unrestricted			7,175,643	3,514,004
Designated and restricted (Note 2)			6,379,523	7,024,046
			<u>13,555,166</u>	<u>10,538,050</u>
Cash and cash equivalents at end of year:				
Unrestricted			12,605,448	7,175,643
Designated and restricted (Note 2)			6,113,195	6,379,523
			<u>\$18,718,643</u>	<u>\$13,555,166</u>
Supplemental disclosure of cash flow information:				
Cash payments for interest			\$ 1,060,618	\$ 751,058

See accompanying notes.

**Notes to Combined Financial Statements**  
**June 30, 2003**

**1. Description and Basis of Financial Statements Presentation**

The accompanying combined financial statements of the Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence (the Funds) include the following corporations: Diocesan Administration Corporation (DAC) (General Fund); the Catholic Charity Fund (CCF); the Catholic Foundation of Rhode Island (the Foundation); the Catholic Cemeteries (the Cemeteries); the Seminary of Our Lady of Providence (Seminary); the Inter-Parish Loan Fund, Inc. (Loan Fund); the Vision of Hope Fund, Inc. (Capital Campaign Fund), Roman Catholic Bishop of Providence (RCB), a corporation sole; Parish Investment Group (Parish Investment); and the Diocesan Service Corporation (DSC).

The Diocese of Providence (the Diocese) is a canonical organization and consists of over 250 separate corporations through which the Roman Catholic Church conducts a portion of its temporal affairs in Rhode Island. The corporations included in these financial statements are those organizations that, in addition to carrying out a portion of the mission of the Church in this Diocese, provide fund raising and general and administrative support to other organizations. The combined financial statements are not the general purpose financial statements of the Diocese of Providence and do not reflect or include information relating to the other corporations included in the Diocese of Providence, such as parish corporations, institutions, and entities through which various other agencies of the Roman Catholic Church carry on their temporal affairs.

**2. Summary of Significant Accounting Policies**

**Fund Accounting and Net Asset Classifications**

To ensure compliance with restrictions placed on the resources available to the Funds, the Funds' accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purposes. In the financial statements, funds that have similar characteristics have been combined into three net asset categories: permanently restricted, temporarily restricted and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Funds to use, or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Funds to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Funds.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. As reflected in the accompanying statements of financial position, the Funds' Board of Directors has designated the unrestricted net assets of the Self Insurance and Workers' Compensation Self Insurance Funds (the Insurance Funds) for insurance deductibles and claims not covered by insurance policies, and the Modernization and Support Fund for the purposes of supporting the capital and contingent needs of DAC (see Note 1).

**Revenue Recognition**

The Funds record as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services and gifts of long-lived and other assets.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is included in Capital Campaign revenue. The amortization of the discounts reflects changes in estimates regarding the collection of remaining discounted pledges. Conditional contributions are recognized as revenue when the conditions on which

they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts.

**Temporarily Restricted Contributions**

The Funds record contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Once the long-lived assets have been acquired, the Funds reflect the expiration of the donor imposed restriction over the useful life of the long-lived asset as a reclassification included in net assets released from restrictions.

**Permanently Restricted Net Assets**

The Rhode Island state law, with respect to endowment funds, requires that the historical gift amount of endowment gifts plus an annual percentage increase measuring the consumer price index be recognized as permanently restricted. The state law mandates that the purchasing power of the endowment be maintained.

Realized and unrealized appreciation, unless explicitly stated otherwise by the donor, is recognized as temporarily restricted unless the restriction is released in the same accounting period as the appreciation is earned. If the restriction is released in the same accounting period, the appreciation is recognized as unrestricted.

**Investment Income**

The Funds' investments are pooled to facilitate their management. Investment income is allocated among unrestricted, temporarily restricted and permanently restricted net assets, based on donor restrictions or the absence thereof, using the market value unit method.

**Measure of Operations**

The Funds include in their definition of operations all revenues and expenses that are an integral part of their programs and supporting activities. Investment income, including, net realized gains and losses, is recognized as operating income. Net unrealized gains and losses are recorded as other income.

**Cash and Cash Equivalents**

Cash equivalents represent short-term, highly-liquid investments with original maturities of three months or less from the date of purchase.

Cash and cash equivalents designated and restricted for long-term purposes represent cash that due to donor imposed restrictions or Board designation is not available for current use.

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair value.

**Investments**

The fair values of the investments are based upon quoted market prices. Cash and cash equivalents classified as investments represent amounts invested by the Funds in the Catholic Investment Trust, Inc. (CIT) which have not been invested by the CIT at year end, or proceeds on the sales of investments, dividends or interest received on the investments in the pool which have not been reinvested by the CIT at year end.

**Allowance and Provision for Uncollectible Receivables**

The allowance for uncollectible receivables represents amounts available for credit losses. The allowance for uncollectible receivables and the related provision for uncollectible receivables reflect the Funds' ongoing review of their receivables and the evaluation of their potential problem accounts. Receivables are charged off once they are deemed uncollectible, with consideration given to such factors as the financial condition of the parish or institution, current delinquency, and underlying collateral.

## 2. Summary of Significant Accounting Policies (continued)

The Funds discontinue the accrual of interest on Parish loans when collection of principal and interest is considered to be doubtful. Interest income on nonaccrual loans is recognized only to the extent payments are received.

### Land, Buildings and Equipment

Land, buildings and equipment are stated at cost at date of acquisition or fair value at the date of donation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Assets that are owned by RCB, but used by other Diocesan organizations are recorded on the books of the other organizations. Assets no longer used by other organizations are recorded as a capital property addition to RCB.

### Agency Support

The General Fund, Catholic Charity Fund and the Vision of Hope Fund (Capital Campaign) provide support to various Diocesan programs and agencies. The expenditures related to support are recognized at the time the subsidies are provided.

### Annual Appeal

The annual appeal of the Catholic Charity Fund is made in May of each year providing support for various programs and agencies in the following fiscal year. Accordingly, the funds are temporarily restricted by time. All support is considered available for unrestricted use unless specifically restricted by the donor. Pledges are recorded as revenue when the pledge is made, and allowances are provided for amounts estimated to be uncollectible.

### Cemetery Revenues

Sales of graves and crypts are recorded when interment agreements are signed. The cost of graves and crypts is expensed when the sales are recognized.

### Functional Allocation of Expenses

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

Effective July 1, 2001, the DAC began charging the various Diocesan programs and agencies a fee for providing certain services, which has been offset against support expenses during the years ended June 30, 2003 and 2002. Total support expenses before fee offsets totaled \$1,551,972 in 2003 and \$1,316,403 in fiscal 2002.

### Income Taxes

Each of the corporations included in the combined financial statements is a religious organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates made by management include the allowance for losses on interest and accounts receivable, loans receivable, and pledges receivable (Notes 4, 5 and 6), the present value of pledges receivable (Note 4) and contingencies (Note 13). Actual results could differ from these estimates.

### Reclassification

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

## 3. Vision of Hope Fund (Capital Campaign)

The Diocese has substantially completed a multi-year capital campaign on behalf of the related parishes and other religious organizations associated with the Diocese. A separate corporation, Vision of Hope Fund, Inc., was established to ensure that funds raised from the campaign will be utilized only for purposes outlined in the campaign case statement. The proceeds from the campaign are to fund certain major capital improvements, endowments, and fund start-up costs for programs developed by the Diocesan Strategic Plan. The active solicitation phase of the campaign came to an end on June 30, 2002. The remaining temporary restricted funds will continue to be allocated according to the guidelines established under the Vision of Hope Fund Case Statement.

### 4. Pledges Receivable

Pledges receivable, all of which are expected to be collected within one year, and the allowance for pledge losses at June 30, are as follows:

	2003	2002
Pledges receivable	\$ 5,359,219	\$ 5,546,438
Allowance for losses	<u>(3,439,122)</u>	<u>(3,604,088)</u>
Pledges receivable, net	<u>\$ 1,920,097</u>	<u>\$ 1,942,350</u>

### 5. Loan Program

The Funds include the Inter-Parish Loan Fund, Inc. This corporation provides a source of financing for capital additions for both parishes and related institutions and the loans are payable on demand. The Loan Fund obtains funds to lend from participating parishes and, in turn, lends funds to the other parishes. Loans receivable are primarily unsecured and secured capital improvement loans, which earn interest at 5%, and are due on demand. Loans payable are unsecured and carry similar terms as loans receivable, and carry an interest rate of 4%.

### 6. Allowance for Losses

An analysis of the allowance for losses is as follows:

	Interest and Accounts Receivable	Pledges Receivable	Parish Loans Receivable
<b>2003</b>			
Balance at beginning of year	\$ 852,613	\$3,604,088	\$1,250,000
Provision for losses	281,400	377,396	-
Recovery from collected pledges	-	(155,950)	-
Charge-offs, net	<u>(105,802)</u>	<u>(386,412)</u>	-
Balance at end of year	<u>\$1,028,211</u>	<u>\$3,439,122</u>	<u>\$1,250,000</u>
<b>2002</b>			
Balance at beginning of year	\$717,303	\$4,255,795	\$1,250,000
Provision for losses	228,470	277,707	-
Recovery from collected pledges	-	(362,256)	-
Charge-offs, net	<u>(93,160)</u>	<u>(567,158)</u>	-
Balance at end of year	<u>\$852,613</u>	<u>\$3,604,088</u>	<u>\$1,250,000</u>

At June 30, 2003 and 2002, the Funds had parish (and institution) loans totaling \$12,574,532 and \$12,722,820, respectively, of which approximately \$1.4 million and \$1.7 million were considered impaired at June 30, 2003 and 2002, respectively, under SFAS No. 114, as amended. The allowance for loan losses related to impaired loans was \$1,250,000 for both June 30, 2003 and 2002. The average recorded investment in impaired loans during the year was approximately \$1.55 million.

### 7. Investments

The majority of the investments are maintained in the Catholic Investment Trust, Inc. (the Trust) pool in which the participating funds invest. Income, gains, and losses are allocated to participating funds based upon their units. The participating funds purchase units based upon a per unit value at the time of purchase. The fund tracks separate investment unit values based upon the type of investment (fixed or equity). The fixed and equity values per unit at June 30, 2003, were \$11.25 and \$8.44, respectively, and at June 30, 2002, were \$10.53 and \$7.89, respectively.

## 7. Investments (continued)

The Funds' pro-rata shares (based on units held at June 30) of investments held by the Trust along with investments held directly by the Funds are as follows:

	June 30, 2003		June 30, 2002	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$13,381,204	\$13,381,204	\$ 8,970,573	\$ 8,970,573
Government obligations	2,912,883	3,024,889	2,574,088	2,638,906
Mutual Funds	24,608,486	24,635,703	25,118,296	23,238,935
Corporate and foreign bonds	4,794,305	5,166,021	9,671,742	8,999,452
Common stock	16,800,222	16,964,702	15,263,718	14,520,901
Preferred stock	51,845	25,657	51,693	26,347
Real Estate Investment Trust	1,973,370	2,155,994	2,131,777	2,679,779
	<u>\$64,522,315</u>	<u>\$65,354,170</u>	<u>\$63,781,887</u>	<u>\$61,074,893</u>

Components of investment return related to the above investments for the years ended June 30, are as follows:

	2003	2002
Interest and dividends (operating income)	\$ 2,409,869	\$ 2,830,581
Net realized gains (losses) (operating income)	(2,675,599)	(1,020,097)
Net unrealized gains (losses) (other income/expense)	<u>3,538,848</u>	<u>(3,414,162)</u>
	<u>\$ 3,273,118</u>	<u>\$(1,603,678)</u>

## 8. Land, Buildings and Equipment

Land, buildings and equipment of the Funds are comprised of the following at June 30:

	2003	2002
Land and improvements	\$ 3,918,541	\$ 3,806,845
Buildings and improvements	7,208,326	7,392,607
Construction in progress	277,539	-
Furniture and fixtures	396,304	335,245
Equipment	4,803,941	4,537,343
	<u>16,604,651</u>	<u>16,072,040</u>
Less accumulated depreciation	<u>(11,951,423)</u>	<u>(11,358,512)</u>
	<u>\$ 4,653,228</u>	<u>\$ 4,713,528</u>

During the years ended June 30, 2003 and 2002, depreciated assets were disposed of totaling \$169,396 and \$61,918, respectively.

## 9. Perpetual Care Fund

The Catholic Cemeteries maintains the Diocesan Cemeteries in accordance with the State Cemetery Act. The Cemeteries collect and pay into a perpetual care fund twenty percent (20%) of the gross sales price of each plot. The Perpetual Care Fund is not controlled by the Cemetery Fund and, accordingly, is not included in the financial statements.

During the year 2000, an actuarial study was performed for the Perpetual Care Fund indicating an estimated unfunded liability of \$21.6 million for developed and undeveloped cemetery land. Although there is no direct obligation to do so, the Catholic Cemeteries intend to fund the liability over a 30-year period. At June 30, 2003, this estimated unfunded liability increased to \$23.0 million due to unrealized losses.

During 2003 and 2002, restricted operating funds (investment income) of the Perpetual Care Fund of \$285,000 and \$247,352, respectively, were transferred to the Catholic Cemeteries to assist in support of its operating deficits.

## 10. Lay Pension Plans

The Funds participate in the Diocesan noncontributory defined benefit pension program for lay employees (a multi-employer plan) and in a multi-employer plan for unionized cemetery workers. The Funds made annual contributions of \$214,433 and \$186,696 to the lay employee plan

and \$167,764 and \$146,980 to the cemetery union plan during 2003 and 2002, respectively.

## 11. Clergy Benefits Fund

The Funds participate in Our Lady Queen of the Clergy (OLQC), a separate corporation, which maintains both the Clergy Retirement Plan and the Clergy Medical Programs, (multi-employer plans), within the Clergy Benefits Fund. These plans are noncontributory defined pension and medical benefit plans for clergy working at the administrative offices and throughout other diocesan organizations.

The Funds, with their separate offices and programs, made contributions of \$291,399 and \$267,363 to Our Lady Queen of the Clergy (OLQC) during 2003 and 2002, respectively. In addition, contributions made from the Central Administration Funds were \$280,000 and \$245,000 during 2003 and 2002, respectively.

## 12. Other Assets

Other assets consist of the following at June 30:

	2003	2002
Equity investment in the Catholic Umbrella Pool	\$ 827,465	\$ 890,453
Cash surrender value of donated life insurance policies	285,670	252,680
Other	55,170	69,262
	<u>\$1,168,305</u>	<u>\$1,212,395</u>

The following condensed information, relating to the Catholic Umbrella Pool (Pool), was audited by an independent accounting firm (see discussion of their report below in Note 13). The Pool is a self-insurance liability pool of thirty-two Dioceses and Archdioceses throughout the United States, and such condensed information is as follows at June 30:

	2003	2002
	<i>(In Thousands)</i>	
<b>Assets</b>		
Investments	\$20,220	\$21,664
Cash and cash equivalents	2,806	1,014
Other	908	849
	<u>\$23,934</u>	<u>\$23,527</u>
<b>Liabilities and equity</b>		
Estimated unpaid claims and expenses	\$ 2,877	\$ 2,425
Other	1,463	283
Dividends payable to participants	3,000	3,000
Term loan	450	750
Participants' equity	16,144	17,069
	<u>\$23,934</u>	<u>\$23,527</u>

## 13. Contingencies

The Funds are a participant in the Catholic Umbrella Pool that provides liability coverages for its membership for the following:

Liability	\$3,700,000 in excess of \$1,300,000 per claim for years prior to July 1, 1988
Liability	\$3,500,000 in excess of \$1,500,000 per claim for the period July 1, 1988 to June 30, 2002
Liability	46% of \$3,500,000 in excess of \$1,500,000 per claim for the period July 1, 2002 to June 30, 2003
Mortality	\$150,000 in the aggregate per participant per year in excess of \$100,000 for years prior to July 1, 1990
Mortality	\$150,000 in the aggregate per occurrence per year in excess of \$850,000 for years beginning July 1, 1998
Mortality	\$150,000 in the aggregate per occurrence per year in excess of \$500,000 for years beginning July 1, 1990 through June 30, 1998

In addition to the above, effective for the period July 1, 2002 to June 30, 2003, the Pool has a 10% participation for coverage in excess of \$1,500,000 up to \$5,000,000 for mortality certificates and up to \$20,000,000 for liability certificates. This coverage is placed through the Catholic Mutual Relief Society of America.

Effective July 1, 1999, the Pool had transferred its liability in the \$3,500,000 in excess of \$1,500,000 layer to commercial reinsurers. Effective July 1, 2002, the Pool has retained 46% of this layer, with 54%

### 13. Contingencies (continued)

remaining with commercial reinsurers; however, it remains contingently liable. Participants in the Pool are liable for any losses beyond the Pool's ability to fund such losses. There is a lack of a significant amount of experience as to whether the Pool's actual losses and the loss adjustment expenses will conform to the assumptions inherent in the determination of the liability of the Pool. As a result, the Pool's auditors were unable to obtain sufficient evidential matter regarding the reserve for claims and claims expenses. Accordingly, the ultimate settlement of the losses and related loss adjustment expenses of the Pool may vary significantly from the estimated amounts included in the Pool's financial statements and the ultimate liability would require the Funds to participate in the funding of such additional amounts, if any.

RCB is contingently liable as guarantor of two financing arrangements in order to facilitate needed construction by two related corporations.

The guarantees are as follows:

	<u>2003</u>	<u>2002</u>
Saint Antoine Residence	\$8,070,581	\$8,070,581
The Frassati Residence	1,500,000	1,500,000
Total	<u>\$9,570,581</u>	<u>\$9,570,581</u>

The Roman Catholic Bishop of Providence was the defendant in several litigation matters relating to the alleged misconduct of priests. On September 9, 2002, the Roman Catholic Bishop of Providence announced that it had settled the majority of outstanding litigation related to the misconduct of priests. As a result, a charge of \$15 million was reflected in the combined statement of activity for the year ended June 30, 2002, of which \$14.2 million was paid in fiscal 2003. As of June 30, 2003, the Funds have a remaining accrual of approximately \$850,000 on the combined statement of financial position. The accrual represents the balance on claims settled, expected to be settled and legal costs incurred or expected to be incurred. Management believes that the amount accrued is the best estimate of probable losses based upon the current facts and circumstances. It is possible, however, that future results of activities may be materially affected by changes in circumstances regarding these matters.

### 14. Line of Credit

On November 1, 2002, the RCB entered into a Line of Credit financing agreement with a commercial bank. The funds obtained were used to fund the legal settlement expenses of the RCB (Note 13). The agreement consisted of a three-year revolving credit facility in the amount of \$14,000,000. The Line of Credit has an optional three (3) year renewal feature.

The proposed initial term is three years from closing. The note offers an option of an annual one year renewal provision as each additional year is reviewed. As of June 30, 2003, the outstanding principal balance under the loan was \$11,730,584 and payment of principal, except to the extent previously paid, is due at the initial expiration date of October 31, 2005.

The loan is secured by a first mortgage against the property located on Warwick Neck Avenue, Warwick, Rhode Island and certain additional investments totaling \$5.1 million. Interest is charged at LIBOR plus 150 basis points (2.75% as of June 30, 2003). Amounts borrowed under this agreement are guaranteed by real estate designated for sale by RCB. Interest on the loan is payable monthly in arrears on the first day of each month. The Line of Credit requires that the RCB maintain certain financial ratios with regard to a minimum debt service coverage and a minimum liquidity ratio.

On November 10, 2003, the Funds made a principal payment of \$5,000,000 on the loan, with proceeds obtained from the sale of excess property during fiscal 2003. No other changes were made to the terms of the agreement.

### 15. Related Parties

The Funds provide support to many of the related parishes and other religious organizations that make up the Catholic community in Rhode Island. It also collects assessments from the parishes.

### 16. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2003</u>	<u>2002</u>
Vision of Hope Fund	\$ 5,419,509	\$ 6,906,904
Catholic Charity Fund	4,642,569	4,907,860
Catholic Foundation of Rhode Island	8,757,842	7,752,126
Cutting Trust	1,226,587	1,224,211
Davey Trust	166,929	161,117
Seminary of Our Lady of Providence	<u>1,243,964</u>	<u>1,400,870</u>
	<u>\$21,457,400</u>	<u>\$22,353,088</u>

A description of each purpose is provided in the Other Financial Information section of the report.

### 17. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The income is expendable to support the following:

	<u>2003</u>	<u>2002</u>
Catholic Foundation of Rhode Island	\$21,594,416	\$20,454,462
Cutting Trust	271,569	269,135
Seminary of Our Lady of Providence	1,357,588	1,341,115
Mission Fund	<u>665,673</u>	<u>655,174</u>
	<u>\$23,889,246</u>	<u>\$22,719,886</u>

### 18. Net Assets Released From Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	<u>2003</u>	<u>2002</u>
Vision of Hope Fund programs	\$ 1,241,862	\$ 783,884
Catholic Charity Fund programs	7,106,535	6,463,629
Catholic Foundation of Rhode Island	1,535,554	2,192,809
Cutting Trust	74,022	7,967
Davey Trust	4,472	5,843
Mission Fund	166,441	177,389
Ecclesiastical Fund	163,640	145,340
Seminary of Our Lady of Providence	<u>240,462</u>	<u>315,050</u>
	<u>\$10,532,988</u>	<u>\$10,091,911</u>

### 19. Transfers To (From)

In fiscal 2003, \$356,923 was transferred from temporarily restricted net assets to permanently restricted net assets in order to properly reflect donor imposed restrictions on assets collected by and allocated from the Capital Campaign Fund.

In fiscal 2002, a net amount of \$444,157 was transferred from permanently restricted net assets to temporarily restricted net assets, including a \$501,773 transfer to increase temporarily restricted funds and decrease permanently restricted funds. This transfer results from current documentation associated with an endowment that was improperly reflected as permanently restricted funds in past years.

Independent Auditors' Report on  
Other Financial Information

The Most Reverend Robert E. Mulvey  
Bishop of Providence

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining statement of financial position of the Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence as of June 30, 2003, and the related combining statement of activities, for the year then ended are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Ernst + Young LLP*

September 26, 2003



**Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence**  
**Combining Statement of Financial Position**  
**June 30, 2003**  
**(with comparative totals as of June 30, 2002)**

	General	Catholic Charity Fund	Cemetery	Vision of Hope	Other	Fiduciary Fund	Endowment Fund	Plant Fund	Total 2003	Total 2002
<b>Assets</b>										
Cash and cash equivalents	\$1,673,686	\$ -	\$61,456	\$ -	\$ -	\$10,870,306	\$ -	\$ -	\$12,605,448	\$ 7,175,643
Cash and cash equivalents designated or restricted for long-term purposes	-	3,079,807	-	1,156	3,002,708	-	29,524	-	6,113,195	6,379,523
Interest and accounts receivable, net	540,756	25,212	393,591	-	1,397,475	100,659	8,678	-	2,466,371	2,352,505
Pledges receivable, net	-	1,790,264	-	129,833	-	-	-	-	1,920,097	1,942,350
Loans receivable from parishes and agencies	-	-	-	-	-	11,324,532	-	-	11,324,532	11,472,820
Due from (to) other funds	(935,144)	(27,994)	(313,871)	(45,121)	994,533	503,148	(175,551)	-	-	-
Investments	-	31,167	73,647	5,214,230	20,032,694	4,344,001	35,658,431	-	65,354,170	61,074,893
Land and buildings held for interments	-	-	622,004	-	-	-	-	-	622,004	757,411
Land held for parish development	-	-	-	-	-	-	-	1,973,098	1,973,098	2,094,911
Land, buildings and equipment, net	130,520	46,470	2,408,185	-	285,802	-	83,213	1,699,038	4,653,228	4,713,528
Other assets designated or restricted for long-term purposes	12,756	5,002	-	137,671	864,876	-	148,000	-	1,168,305	1,212,395
<b>Total assets</b>	<b>\$1,422,574</b>	<b>\$4,949,928</b>	<b>\$3,245,012</b>	<b>\$5,437,769</b>	<b>\$26,578,088</b>	<b>\$27,142,646</b>	<b>\$35,752,295</b>	<b>\$3,672,136</b>	<b>\$108,200,448</b>	<b>\$99,175,979</b>
<b>Liabilities and net assets</b>										
Accounts payable	\$ 209,843	\$ 90,703	\$ 178,375	\$ 18,260	\$ 104,014	\$ -	\$ 6,635	\$ -	\$ 607,830	\$ 663,716
Accrued expenses and other liabilities	503,020	216,021	363,621	-	1,432,435	42	21,450	-	2,536,589	2,639,896
Accrued settlement expense	-	-	-	-	850,000	-	-	-	850,000	15,000,000
Deferred income	835	635	-	-	25,840	-	-	-	27,310	21,917
Institutional deposits	-	-	-	-	1,402,400	3,466,161	-	-	4,868,561	3,086,080
Line of credit	-	-	-	-	11,730,584	-	-	-	11,730,584	-
Loans payable to parishes and agencies	-	-	-	-	-	21,063,121	-	-	21,063,121	17,225,591
<b>Total liabilities</b>	<b>713,698</b>	<b>307,359</b>	<b>541,996</b>	<b>18,260</b>	<b>15,545,273</b>	<b>24,529,324</b>	<b>28,085</b>	<b>-</b>	<b>41,683,995</b>	<b>38,637,200</b>
<b>Contingencies</b>										
<b>Net assets</b>										
Unrestricted	708,876	-	2,703,016	-	11,032,815	2,613,322	439,642	3,672,136	21,169,807	15,465,805
Temporarily restricted	-	4,642,569	-	5,419,509	-	-	11,395,322	-	21,457,400	22,353,088
Permanently restricted	-	-	-	-	-	-	23,889,246	-	23,889,246	22,719,886
<b>Total net assets</b>	<b>708,876</b>	<b>4,642,569</b>	<b>2,703,016</b>	<b>5,419,509</b>	<b>11,032,815</b>	<b>2,613,322</b>	<b>35,724,210</b>	<b>3,672,136</b>	<b>66,516,453</b>	<b>60,538,779</b>
<b>Total liabilities and net assets</b>	<b>\$1,422,574</b>	<b>\$4,949,928</b>	<b>\$3,245,012</b>	<b>\$5,437,769</b>	<b>\$26,578,088</b>	<b>\$27,142,646</b>	<b>\$35,752,295</b>	<b>\$3,672,136</b>	<b>\$108,200,448</b>	<b>\$99,175,979</b>

See accompanying note.

**Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence**  
**Combining Statement of Activities and Changes in Net Assets**  
**Year ended June 30, 2003**  
**(with comparative totals for the year ended June 30, 2002)**

	General	Catholic Charity Fund	Cemetery	Vision of Hope	Other	Fiduciary Fund	Endowment Fund	Plant Fund	Total 2003	Total 2002
<b>Revenues</b>										
Interest and dividend income	\$ 17,462	\$ 20,947	\$ 1,222	\$ 179,289	\$ 517,796	\$ 790,154	\$ 882,999	\$ -	\$ 2,409,869	\$ 2,830,581
Gifts and bequests	6,544	71,900	-	-	5,060	-	-	-	83,504	343,801
Trust income	14,851	106,996	-	-	-	-	-	-	121,847	105,663
Realized loss on investments	-	-	-	(492,536)	(720,221)	(65,412)	(1,397,430)	-	(2,675,599)	(1,020,097)
Parish assessment	2,800,750	-	-	-	-	-	-	-	2,800,750	2,656,985

The segregation of revenues by category (unrestricted, temporarily restricted and permanently restricted) has not been presented.

(continued on next page)

**Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence**

**Combining Statement of Activities and Changes in Net Assets (continued)**

Year ended June 30, 2003  
(with comparative totals for the year ended June 30, 2002)

	General	Catholic Charity Fund	Cemetery	Vision of Hope	Other	Fiduciary Fund	Endowment Fund	Plant Fund	Total 2003	Total 2002
<b>Seminarian collection—</b>										
Major Seminarian Program	-	-	-	-	-	-	163,640	-	163,640	145,340
Program fees	415,109	348,120	-	-	-	-	107,712	-	870,941	621,527
Mission receipts	-	-	-	-	-	-	166,441	-	166,441	177,389
Human development collection	-	34,961	-	-	-	-	-	-	34,961	30,812
Communications collection	53,994	-	-	-	-	-	-	-	53,994	56,273
Program grants/contracts	-	79,121	-	-	-	-	-	-	79,121	74,996
Catholic Charity Fund Appeal	-	6,527,318	-	-	-	-	-	-	6,527,318	6,510,728
Vision of Hope Fund Appeal	-	-	-	47,892	-	-	-	-	47,892	49,429
Diocesan cemeteries	-	-	4,685,558	-	-	-	-	-	4,685,558	4,550,009
Rental, lease and other income	420,684	222,126	-	-	-	-	3,980	-	646,790	320,467
<b>Total revenues</b>	<b>3,729,394</b>	<b>7,411,489</b>	<b>4,686,780</b>	<b>(265,355)</b>	<b>(197,365)</b>	<b>724,742</b>	<b>(72,658)</b>	<b>-</b>	<b>16,017,027</b>	<b>17,453,903</b>
<b>Program expenses</b>										
Communications and telecommunications	346,439	-	-	-	-	-	-	-	346,439	368,134
The Tribunal	379,755	-	-	-	-	-	-	-	379,755	365,000
Providence Visitor	550,000	-	-	-	-	-	-	-	550,000	550,000
Director of Religious	66,449	-	-	-	-	-	-	-	66,449	64,764
Priest Council	1,269	-	-	-	-	-	-	-	1,269	596
Spiritual Development	110,144	229,315	-	-	-	-	-	-	339,459	217,144
Youth Ministry	-	610,592	-	-	-	-	-	-	610,592	562,383
Hispanic Ministry	-	370,607	-	-	-	-	-	-	370,607	310,932
Our Lady of Peace Retreat House	-	159,245	-	-	-	-	-	-	159,245	150,198
Christian Education	-	1,011,956	-	-	-	-	-	-	1,011,956	874,038
Campus Ministry	-	353,024	-	-	-	-	-	-	353,024	301,294
Apostolate for the Handicapped	-	150,978	-	-	-	-	-	-	150,978	134,708
Diocesan Schools	-	595,119	-	-	-	-	-	-	595,119	593,040
Community Services and Advocacy	-	838,401	-	-	-	-	-	-	838,401	748,983
Advocacy and Emergency Shelter	-	41,577	-	-	-	-	-	-	41,577	36,012
Day Care	-	354,082	-	-	-	-	-	-	354,082	450,464
Life and Family Ministry	-	457,636	-	-	-	-	-	-	457,636	456,023
St. Antoine Residence	-	50,000	-	-	-	-	-	-	50,000	40,000
St. Francis House	-	38,807	-	-	-	-	-	-	38,807	57,678
St. Clare Home	-	30,000	-	-	-	-	-	-	30,000	14,409
Ministries and clergy personnel	455,133	370,768	-	-	-	-	-	-	825,901	720,205
<b>Grants:</b>										
National grants	198,235	-	-	-	-	-	-	-	198,235	200,458
Diocesan grants	273,532	436,084	-	-	-	-	-	-	709,616	546,129
Parish grants	-	55,000	-	-	-	-	-	-	55,000	63,200
<b>Vision of Hope Grants:</b>										
Program and services	-	-	-	355,504	-	-	-	-	355,504	342,685
Capital needs	-	-	-	880,562	-	-	-	-	880,562	499,608
Parish share support	-	-	-	32,913	-	-	-	-	32,913	151,165
Mission support	-	-	-	-	-	-	161,600	-	161,600	185,653
Contributions and gifts	18,356	-	-	-	-	-	-	-	18,356	23,000
Restricted Funds expended	-	-	-	-	-	-	1,655,815	-	1,655,815	2,207,705
Seminarian support	112,679	100,000	-	-	-	-	502,907	-	715,586	805,932
Diocesan Cemeteries	-	-	4,693,900	-	-	-	-	-	4,693,900	4,345,435
<b>Total program expenses</b>	<b>2,511,991</b>	<b>6,253,191</b>	<b>4,693,900</b>	<b>1,268,979</b>	<b>-</b>	<b>-</b>	<b>2,320,322</b>	<b>-</b>	<b>17,048,383</b>	<b>16,386,975</b>
<b>General and administrative expenses</b>										
Financial affairs	317,587	-	-	-	-	-	-	-	317,587	371,810
Provision for uncollectible receivables	120,000	377,396	-	(155,950)	161,400	-	-	-	502,846	143,921
Administration	865,594	297,664	-	-	-	-	-	-	1,163,258	1,087,958
Support services	192,286	44,191	-	-	328,602	197,158	-	-	762,237	536,085
Insurance and risk management, net	-	-	-	10,000	(591,730)	-	-	-	(581,730)	(510,539)
Settlement expense	-	-	-	-	-	-	-	-	-	15,000,000
Property expenditures	432,846	36,368	-	-	-	-	-	-	469,214	444,664
Depreciation expense	46,033	16,355	279,215	-	-	-	13,765	406,939	762,307	918,959
Interest	-	-	-	-	196,299	864,320	-	-	1,060,619	751,058
<b>Total general and administrative expenses</b>	<b>1,974,346</b>	<b>771,974</b>	<b>279,215</b>	<b>(145,950)</b>	<b>94,571</b>	<b>1,061,478</b>	<b>13,765</b>	<b>406,939</b>	<b>4,456,338</b>	<b>18,743,916</b>

The segregation of revenues and expenditures by category (unrestricted, temporarily restricted and permanently restricted) has not been presented.

(continued on next page)

**Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence**

**Combining Statement of Activities and Changes in Net Assets (continued)**

Year ended June 30, 2003  
(with comparative totals for the year ended June 30, 2002)

	General	Catholic Charity Fund	Cemetery	Vision of Hope	Other	Fiduciary Fund	Endowment Fund	Plant Fund	Total 2003	Total 2002
<b>Fundraising expenses</b>										
Catholic Charity Fund Appeal	-	651,615	-	-	-	-	-	-	651,615	587,915
Vision of Hope Fund Appeal	-	-	-	118,834	-	-	-	-	118,834	135,041
Total fund raising expenses	-	651,615	-	118,834	-	-	-	-	770,449	722,956
Total expenses	4,486,337	7,676,780	4,973,115	1,241,863	94,571	1,061,478	2,334,087	406,939	22,275,170	35,853,847
Excess (deficiency) of revenues over expenses before capital additions and other income	(756,943)	(265,291)	(286,335)	(1,507,218)	(291,936)	(336,736)	(2,406,745)	(406,939)	(6,258,143)	(18,399,944)
<b>Capital additions and other income</b>										
Gifts and bequests	-	-	-	-	-	-	1,680,874	-	1,680,874	4,001,680
Transfers from Perpetual Care Fund	-	-	285,000	-	-	-	-	-	285,000	247,352
Transfers from (to)	493,142	-	-	(316,000)	(382,138)	-	272,047	(67,051)	-	-
Gain on sale of land	-	-	-	-	6,728,059	-	-	-	6,728,059	-
Capital additions	-	-	-	-	3,036	-	-	-	3,036	-
Unrealized gains (losses) on investments	-	-	-	335,823	637,972	86,844	2,478,209	-	3,538,848	(3,414,162)
Total capital additions and other income	493,142	-	285,000	19,823	6,986,929	86,844	4,431,130	(67,051)	12,235,817	834,870
Increase (decrease) in net assets	(263,801)	(265,291)	(1,335)	(1,487,395)	6,694,993	(249,892)	2,024,385	(473,990)	5,977,674	(17,565,074)
Net assets, beginning of year	972,677	4,907,860	2,704,351	6,906,904	4,337,822	2,863,214	33,699,825	4,146,126	60,538,779	78,103,853
Net assets, end of year	\$ 708,876	\$ 4,642,569	\$ 2,703,016	\$ 5,419,509	\$ 11,032,815	\$ 2,613,322	\$ 35,724,210	\$ 3,672,136	\$ 66,516,453	\$ 60,538,779

See accompanying note.

The segregation of expenditures by category (unrestricted, temporarily restricted and permanently restricted) has not been presented.

**Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence**

**Other Financial Information Note**

**June 30, 2003 and 2002**

The assets, liabilities, and net assets of the Central Administration Funds and Diocesan Cemetery Operations of the Diocese of Providence are reported in self-balancing fund groups as follows:

The General Fund operations were transferred from RCB to the Diocesan Administration Corporation on January 1, 2000. All assets remained with RCB. However, DAC borrowed \$991,769 from RCB for working capital needs. The General Fund continues to record the daily unrestricted operating activities.

The Catholic Charity Fund which raises funds that are used for the support of a broad range of community services and programs run by other organizations and entities.

The Cemetery Fund which accounts for the operations of the Catholic Cemeteries.

The Capital Campaign Fund (Vision of Hope) which records the donations received from and the support provided by a multi-year fund raising effort. The Capital Campaign will provide capital improvements for various parishes and institutions, establish endowments, and fund start-up costs for programs developed by the Diocesan Strategic Plan.

Other Funds. These Funds and a description of their operations follows:

The Insurance Funds: These funds are Board restricted for Diocesan insurance deductibles and for a partial self-insured workers' compensation program for the parishes and various institutions, and for claims not covered by insurance policies.

The Diocesan Service Corporation, a separate legal entity, was established for the purposes of providing administrative, bookkeeping and other support services to various corporations organized to conduct temporal affairs for the Roman Catholic Church in the Diocese of Providence.

The Ecclesiastical Student Fund assists seminarians during their study years to pay, in part, the cost of education. This Fund has been combined and transferred on July 1, 2002, into the Seminary of Our Lady of Providence Fund.

Modernization and Support Fund and RCB, which are restricted by the Board to support the capital and contingent needs of DAC.

The Fiduciary Funds: These funds account for money received from other funds, parishes and institutions that are held in a Trustee capacity. These funds include:

The Loan Fund, a fund that acts as a revolving loan fund for participating parishes and institutions. Loans are made for capital improvement needs and are funded by loans from parishes.

The Trustee Fund accounts for the transactions of the Parishioner Loan Program and other custodial funds received from parishes and institutions.

The Parish Investment Group represents assets of Parishes and Institutions which are in excess of short-term operating needs and are invested for the longer term in various managed equity and fixed income pools.

The Endowment and Similar Funds: These represent funds that are subject to restrictions of gift instruments requiring that the principal be invested and the income only be used. They also include funds that are functioning as endowments and have been so designated by appropriate internal authority. These funds include:

Catholic Foundation, whose endowments are restricted to support specific parishes, Catholic education, certain agencies, programs, and services.

Seminary of Our Lady of Providence fund whose endowment supports seminarians and vocation efforts.

The Mission Fund, whose endowment is used for the support of the missionary efforts of the Church of Providence.

Davey Trust, which holds a remainder trust.

The Cutting Trust holds an endowment for the Saint Clare Home, a separate corporation.

The Plant Fund: This fund accounts for expenditures for land, buildings, furniture, and equipment used by the Central Administration Funds.

Prior to July 1, 1997, property, plant and equipment for the Funds, exclusive of Catholic Cemeteries, were accounted for in the Plant Fund. Subsequent to that date, all capital additions have been recorded in the specific funds that acquired them, along with the related depreciation expense for each period.

## Charitable Gift Annuities are worth considering as your charitable investment in this interest rate climate.

By Karen R. Cooper

Those who depend upon interest earnings for living expenses are experiencing challenging times with interest rates at an all-time low. It is not unheard of for CD and money market accounts to pay as little as 3% (or even lower) which makes it especially difficult to meet an increased cost of living. As a result, creative ways to secure income at higher rates are attractive to many. People enjoy the benefits of Charitable Gift Annuities because they CAN increase their income AND make generous gifts in support of their parishes and other Catholic charities. Those age 50 and older are attracted by **the rates** (5.3% – 11.3%), **the charitable deduction** they are entitled to and most notably **the wonderful gift** they can give.

*Example 1:*

Ms. McHugh, a retired teacher at 73, wanted to make a gift to her parish but didn't think it was possible since she was so dependent on the shrinking earnings from her savings. After learning about the benefits of a charitable gift annuity, she established an annuity with \$10,000 through the Catholic Foundation. She receives a fixed payout of \$ 680 (6.8%) for the rest of her life and is entitled to a charitable income tax deduction of over \$4,000. At the end of the annuity (when she passes away) what remains in her annuity-it could be as much as the original \$10,000, is earmarked for her parish in memory of her husband and herself. By acting upon her charitable wishes now she is able to guarantee her parish, St. Joseph, Newport, the gift she so faithfully intended and help herself with a higher income.

*Example 2:*

John and Sally Santini, 55 and 54 respectively, are looking forward to retirement and are seeking ways to supplement their retirement investments. They became intrigued by the idea that they can secure a fixed payment during their retirement years AND make a gift to Catholic education, a cause close to their heart and an enduring testament of their faith. They opt to establish a charitable gift annuity with \$25,000 and to defer receiving payments until John reaches age 65. They qualify for a rate of almost 9% guaranteed every year for the rest of BOTH of their lives. Over \$100,000, a gift larger than they ever thought possible, will be left for a fund that provides tuition assistance.

Even though the payments are deferred, the couple can claim a charitable deduction of over \$5,000 for this gift in the year they make the gift. The couple chose to endow their gift to provide financial assistance to students throughout Rhode Island who attend Catholic schools.

*Example 3:*

Fernando Lopez, 80, a widower, is concerned about the dividends that his stock is earning, only about 2.5% or \$1,250 per year on the \$50,000 value of his stock. He relies on this income to support himself but selling the securities is not a particularly good option since it will result in his paying capital gains on the stock's appreciated value. In addition, he is perplexed and anxious about the risk of investing the proceeds, if he did sell the stock, to earn more than what he is currently getting. He is disappointed that his year-end gifts to feed the hungry can not be as large as he hopes based on his low income. At his age, he learns that he could more than triple his current annual income to \$4,000 (8%) by setting up a charitable gift annuity with his stock. His charitable income tax deduction will be over \$23,000. Because a portion of his annuity payments is reportable as capital gain income, a portion as tax-free and only the balance is taxed as regular income, he would have to earn almost 12% on an alternative investment to receive the same after tax income. He is now assured of making a substantial gift of over \$44,000 that will perpetually take care of those in need well beyond his lifetime.

Charitable gift annuities are easy to set up. You receive a guaranteed payout for life and upon your death whatever remains of your original gift can be designated to any charitable cause within the church. In today's market, gift annuities offer you a meaningful way to leave a legacy in support of the mission of the church. Stewarding gifts of treasure prudently and responsibly, according to our means, is what we are called to do in living out our lives as disciples of Christ.

To receive a confidential illustration of how a charitable gift annuity can work for you or to discuss any aspect of estate planning, please contact, Karen Cooper at the Catholic Foundation, 943-6550, or [kcooper@dioceseofprovidence.org](mailto:kcooper@dioceseofprovidence.org).

### Frequently Asked Questions about Charitable Gift Annuities

*What is the minimum needed to establish a gift annuity with the Catholic Foundation?*  
\$10,000. Gifts may be made in cash or by transferring appreciated securities.

*If I set up a gift annuity can I withdraw the funds later?*  
No. It is an irrevocable agreement that must be a permanent transfer in order to qualify for the attractive tax benefits that result from making your gift this way.

*How often will I receive my annuity payments?*  
Payments must be taken at least annually and more frequent distributions on a quarterly or semi-annual basis are also available.

*I'm not sure exactly when I'll need the income, can I set up a gift annuity with a flexible start date?*  
Yes. You can select a range of years when you think you may want to begin receiving payments. The charitable deduction calculation for the gift will always default to the first possible year that you may elect to receive payments.

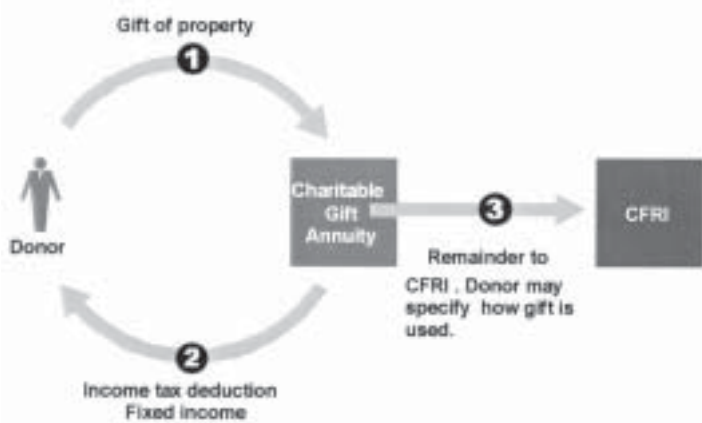
*Does the rate fluctuate with stock market or interest rates?*  
No. The payment amount is set permanently when you make the gift.

*Can I add to my gift annuity once I establish it?*  
No. The agreement and payments are fixed at the time of the gift but there is no limit to the number of gift annuities you can establish.

*Can a gift annuity be a good way to provide an income for a surviving spouse?*  
Yes. Many couples enter into gift annuities that will make payments for as long as either of them lives.

*Is there a difference between the two-life gift and the one-life gift annuity rate?*  
The rate is slightly lower when two persons receive payments for life since more than one person will benefit.

### CHARITABLE GIFT ANNUITY CATHOLIC FOUNDATION OF RHODE ISLAND



**How it works**

- 1 You transfer cash, securities, or other property to CFRI.
- 2 You receive an income tax deduction and may save capital gains tax.  
CFRI pays a fixed amount each year to you or to anyone you name for life. Typically, a portion of these payments is tax-free.
- 3 When the gift annuity ends, its remaining principal passes to CFRI. Donors may designate gifts to any charitable cause within the church (parishes, schools, ministries etc.)

#### Rates for Single Life Annuities

Age	Rate (%)	Deduction %
50	5.3	17.6
55	5.5	21.8
60	5.7	27.1
65	6.0	32.3
70	6.5	36.9
75	7.1	42.3
80	8.0	47.5
85	9.5	51.4
90+	11.3	56.4

*Note: The values in this table and in the article are for illustration purposes only. Actual Figures depend on the precise value and timing of the gift.*

The Saint Katharine Drexel Legacy Society honors individuals who have made gift intentions known to the Catholic Foundation of Rhode Island. Gifts of the past have helped perpetuate our ministry and service to those in need. Your gift is a reflection of your faith and values and brings the presence of Jesus Christ and the light of the Gospel into all areas of human life. Stewardship of your estate assets is diverse with gifts through wills, trusts, retirement plans, life insurance, life income gifts and others. Help us to secure the financial future with your thoughtful gift. Please let us know so we may include you in our special circle of friends in the Saint Katharine Drexel Legacy Society.