

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

FINANCIAL STATEMENTS

December 31, 2005

The Diocese of Rhode Island
Providence, Rhode Island 02903

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of The Diocese of Rhode Island (a not-for-profit organization) as of December 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Diocese of Rhode Island as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

April 28, 2006

THE DIOCESE OF RHODE ISLAND
Providence, Rhode IslandSTATEMENT OF FINANCIAL POSITION
December 31, 2005

ASSETS

CASH AND CASH EQUIVALENTS (Notes 2 and 11)		\$ 2,203,128
RECEIVABLES:		
Apportionment – net of allowance for uncollectibles of \$138,000	\$ 34,020	
Pledges - net of allowance for uncollectibles of \$11,832 (Note 3)	21,973	
Loans (Note 4)	532,585	
Other	<u>18,262</u>	
Total receivables		606,840
INVESTMENTS (Note 5)		17,901,931
PROPERTY AND EQUIPMENT, Net (Note 6)		<u>1,545,779</u>
TOTAL ASSETS		<u>\$22,257,678</u>

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE AND ACCRUED EXPENSES		\$ 79,567
NET ASSETS:		
Unrestricted:		
Undesignated	\$4,394,969	
Designated for specific purposes	<u>5,629,266</u>	
Total unrestricted		\$10,024,235
Temporarily restricted (Note 7)	6,795,157	
Permanently restricted (Note 8)	<u>5,358,719</u>	
TOTAL NET ASSETS (EXHIBIT B)		<u>22,178,111</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$22,257,678</u>

See accompanying notes to financial statements.

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

STATEMENT OF ACTIVITIES
For the year ended December 31, 2005

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
OPERATING REVENUE AND OTHER SUPPORT:				
Apportionment	\$ 1,814,550	\$ -0	\$ -0	\$ 1,814,550
Contributions	-0	629,268	5,156	634,424
Program services revenue	324,364	-0	-0	324,364
Investment income	309,156	582,681	-0	891,837
Realized and unrealized gains on investments	111,226	292,244	140,081	543,551
Gain on sales of property	6,240	-0	-0	6,240
Other income	150,514	-0	-0	150,514
Net assets released from restrictions (Note 9)	<u>1,140,299</u>	<u>(1,140,299)</u>	<u>-0</u>	<u>-0</u>
Total operating revenue and other support	<u>\$ 3,856,349</u>	<u>\$ 363,894</u>	<u>\$ 145,237</u>	<u>\$ 4,365,480</u>
OPERATING EXPENSES:				
Program expenses (Schedule I)	\$ 2,154,489	\$ -0	\$ -0	\$ 2,154,489
Support services	755,065	-0	-0	755,065
Episcopal Charities granted to Non- Diocesan programs	416,963	-0	-0	416,963
Fundraising	<u>183,142</u>	<u>-0</u>	<u>-0</u>	<u>183,142</u>
Total operating expenses	<u>\$ 3,509,659</u>	<u>\$ -0</u>	<u>\$ -0</u>	<u>\$ 3,509,659</u>
CHANGES IN NET ASSETS	\$ 346,690	\$ 363,894	\$ 145,237	\$ 855,821
NET ASSETS, January 1, 2005	<u>9,677,545</u>	<u>6,431,263</u>	<u>5,213,482</u>	<u>21,322,290</u>
NET ASSETS, December 31, 2005	<u>\$10,024,235</u>	<u>\$6,795,157</u>	<u>\$5,358,719</u>	<u>\$22,178,111</u>

See accompanying notes to financial statements.

EXHIBIT C

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

STATEMENT OF CASH FLOWS
For the year ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$855,821
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	68,751
Realized gains on investments and property	(9,460)
Unrealized gains on investments	(540,331)
Decrease in receivables	1,566
Increase in accounts payable and accrued expenses	<u>19,899</u>
Net cash provided by operating activities	\$ 396,246
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(\$ 22,482)
Proceeds from sale of investments	143,567
Purchase of investments	<u>(144,333)</u>
Net cash used by investing activities	<u>(23,248)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 372,998
CASH AND CASH EQUIVALENTS, January 1, 2005	<u>1,830,130</u>
CASH AND CASH EQUIVALENTS, December 31, 2005	<u>\$2,203,128</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

Note 1. NATURE OF ACTIVITIES

The Diocese of Rhode Island (“Diocese”) is a nonprofit religious corporation established under the laws of the State of Rhode Island. The Diocese is dedicated to establishing, developing, and furthering all aspects of The Episcopal Church in Rhode Island.

The Diocese is supported by apportionment amounts received from member parishes, contributions received from various donors, and endowment income.

Note 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Diocese have been prepared utilizing the accrual basis of accounting.

The Diocese’s financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Diocese is required to report information regarding its financial position and activities according to three classes of net assets. The categories are: unrestricted, temporarily restricted, and permanently restricted. In addition, the Diocese is required to present a statement of cash flows.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Management’s policy requires that the net appreciation in permanently restricted assets be retained permanently in an amount necessary to adjust the historic dollar value of the original gifts by the change in the consumer price index. Any remainder of appreciation is available for appropriation.

Contributions

The Diocese records contributions in accordance with SFAS No. 116, “Accounting for Contributions Received and Contributions Made,” whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of three months or less.

Receivables

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

Investments

The Diocese accounts for its investments in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Missions and other real property in the name of the Diocese at January 1, 1982 were recorded at appraised value. Subsequent acquisitions are carried at cost. Land and building of the Hallworth House are carried at cost. Land and buildings restricted by donors are recorded at appraised value. Equipment and motor vehicles are carried at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Income Tax Status

The Diocese qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Diocese qualifies for the charitable contribution deduction under Section 170(b)(1)(A).

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

Note 3. PLEDGES RECEIVABLE

Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges, net of allowance for uncollectibles, are expected to be collected within the next year.

Total pledges	\$33,805
Less allowance	<u>11,832</u>
Net pledges	<u>\$21,973</u>

Pledges receivable at December 31, 2005 have the following restrictions:

Episcopal Charities	<u>\$21,973</u>
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Note 4. LOANS RECEIVABLE

The Diocese maintains a revolving loan fund for the purpose of granting loans to parishes and missions in need of financial assistance. At December 31, 2005, eleven (11) loans were outstanding totaling \$532,585. Interest is charged on the loan balances at an annual rate ranging from 2.75% to 8.5%. The loans mature at various dates until the year 2027.

Note 5. INVESTMENTS

Investments are carried at market and realized and unrealized gains and losses are reflected in the statement of activities.

Investment securities consisted of the following at December 31, 2005:

	<u>Cost</u>	<u>Carrying Value</u>
Corporate Bonds	\$ 9,996	\$ 16,973
Common Stock	16,567	28,360
Pooled Investments	<u>11,414,243</u>	<u>17,856,598</u>
	<u>\$11,440,806</u>	<u>\$17,901,931</u>

Pooled investments represent funds invested with the Diocesan Investment Trust of the Episcopal Diocese of Rhode Island (DIT), a related entity.

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Land and buildings	\$3,890,555	\$ -0	\$1,060,822	\$4,951,377
Equipment	111,555	-0	-0	111,555
Motor vehicles	<u>115,836</u>	<u>-0</u>	<u>-0</u>	<u>115,836</u>
	\$4,117,946	\$ -0	\$1,060,822	\$5,178,768
Less accumulated depreciation	<u>2,784,331</u>	<u>-0</u>	<u>848,658</u>	<u>3,632,989</u>
	<u>\$1,333,615</u>	<u>\$ -0</u>	<u>\$ 212,164</u>	<u>\$1,545,779</u>

Depreciation expense for 2005 was \$68,751.

Note 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available to support the following purposes at December 31, 2005:

Parish Endowment Fund	\$ 377,051
Old Narragansett Church	20,055
Supplemental Retirement Benefits & Assistance	1,361,661
Episcopate	1,984,558
Bishop's Discretionary Fund	140,633
A.A. Gammell	79,862
Elmer R. Shippee Fund	1,900,654
Episcopal Charities	809,444
Airport Chapel	1,681
Missions	106,429
Commission on Ministry	6,780
City Camp	<u>6,349</u>
	<u>\$6,795,157</u>

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisting of property and investments are restricted in perpetuity, the income from which is available to support the following purposes at December 31, 2005:

Missions	\$ 566,517
Episcopal Conference Center	233,669
Old Narragansett Church	73,976
Supplemental Retirement Benefits & Assistance	540,525
Episcopate	1,094,376
Edwards Homes	90,039
Bishop's Discretionary Fund	168,044
Episcopal Charities	2,390,923
Parish Endowment Fund	13,807
Congregational Development	<u>186,843</u>
	<u>\$5,358,719</u>

Note 9. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donor.

Purpose restrictions accomplished:

Episcopal Charities	\$ 567,250
Supplemental Retirement Benefits & Assistance	52,891
Bishop's Discretionary Fund	43,091
Elmer R. Shippee Fund	66,258
Episcopate	144,552
Episcopal Conference Center	159,173
Missions	18,817
Old Narragansett Church	3,736
Ministry and Chaplaincy	9,046
Parish Endowment Fund	16,417
Dunning Trust	5,253
City Camp	28,002
Airport Chapel	2,500
Congregational Development	20,038
Other Outreach and Support	<u>3,275</u>
	<u>\$1,140,299</u>

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 10. PENSION PLANS

The Diocese has a defined benefit pension plan covering its retired lay employees. Benefits are based on years of service and the employee's average earnings for the highest five (5) consecutive years. The Diocese's funding policy is to annually contribute the amount required under the minimum funding standards.

The Diocese did not contribute to this plan in 2005. An actuary's statement shows that no contribution was needed to keep the plan funded in accordance with the minimum funding standards of ERISA.

The Diocese also has a defined contribution plan sponsored by the National Church. The plan covers the Diocese's active lay employees. Contributions are made by the Diocese at a minimum of five percent of an employees salary to a maximum of nine percent. The Diocese contributed \$41,070 to this plan in 2005.

The Diocese also contributed \$69,444 to a plan sponsored by the National Church covering clergy employed by the Diocese.

Note 11. CONCENTRATION OF CREDIT RISK

At times throughout the year the Diocese maintains certain bank accounts in excess of the FDIC insured limits.

The Diocese of Rhode Island
Providence, Rhode Island 02903

INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION

Our report on our audit of the basic financial statements of The Diocese of Rhode Island as of December 31, 2005 appears on Page 2. That audit was for the purpose of forming an opinion on the basic financial

statements taken as a whole. The schedule of program expenses is presented for purposes of additional analysis and is 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.

April 28, 2006

SCHEDULE I

THE DIOCESE OF RHODE ISLAND
Providence, Rhode Island

SCHEDULE OF PROGRAM EXPENSES
For the year ended December 31, 2005

	Non-	Total
Apportionment	Apportionment	Program

	<u>Funded</u>	<u>Funded</u>	<u>Expenses</u>
Leadership & Pastoral Support			
Office of the Bishop	\$ 212,307	\$160,886	\$ 373,193
Support of the Bishop	176,746	-0	176,746
Clergy Development/Deployment	67,803	5,471	73,274
Other Leadership & Support	<u>59,470</u>	<u>1,037</u>	<u>60,507</u>
Total leadership & pastoral support	<u>\$ 516,326</u>	<u>\$167,394</u>	<u>\$ 683,720</u>
Outreach, Advocacy & Service			
Episcopal Conference Center & City Camp	\$ 504,985	\$ 27,904	\$ 532,889
National Church Assessment	393,245	-0	393,245
Ministry to Higher Education	28,436	-0	28,436
Chaplaincies	71,026	8,835	79,861
Other Outreach	<u>41,509</u>	<u>68,544</u>	<u>110,053</u>
Total outreach, advocacy & service	<u>\$1,039,201</u>	<u>\$105,283</u>	<u>\$1,144,484</u>
Congregational Development	<u>\$ 272,311</u>	<u>\$ 53,974</u>	<u>\$ 326,285</u>
Total program expenses	<u>\$1,827,838</u>	<u>\$326,651</u>	<u>\$2,154,489</u>

See accompanying notes to financial statements.