

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

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

JUNE 30, 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 statement of financial position of the Administrative Offices of the Roman Catholic Diocese of Burlington, Vermont, Inc., (Diocese) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Diocese 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.

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 Diocese and affiliated entities for which the Diocese meets certain financial interest and control tests. Certain of these entities have not been consolidated in the financial statements as of June 30, 2005. The effect on the financial statements, as of and for the year ended June 30, 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, 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.

Gallagher, Flynn & Company, LLP

September 30, 2005

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2005

A S S E T S

Cash and cash equivalents	\$ 548,103
Pledges receivable, net of allowance for uncollectible pledges of \$10,000	197,795
Receivables, net of allowance for uncollectible accounts of \$34,674	402,774
Due from affiliated organizations	190,276
Prepaid expenses	127,711
Notes receivable - related parties (Diocesan Investment Program), net of allowance for doubtful accounts of \$80,000	1,210,291
Marketable securities	18,612,280
Invested cash	425,760
Property and equipment, at cost, net	<u>2,589,322</u>
Total assets	<u>\$ 24,304,312</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Note payable - bank	\$ 250,000
Funds held for others	388,370
Accounts payable	573,630
Accrued liabilities	2,895,553
Notes payable - related parties (Diocesan Investment Program)	1,225,703
Defined benefit retirement and post-retirement liabilities	9,215,559
Funds held for others - investments	<u>4,076,280</u>
Total liabilities	<u>18,625,095</u>

NET ASSETS

Unrestricted	2,128,768
Temporarily restricted	1,011,118
Permanently restricted	<u>2,539,331</u>
Total net assets	<u>5,679,217</u>
Total liabilities and net assets	<u>\$ 24,304,312</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>
REVENUES AND GAINS				
Revenues:				
Bishop's Fund, net of distributions to parishes of \$128,477	\$ 1,593,958	\$ 802,908	\$ -	\$ 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>6,808,793</u>	<u>802,908</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	634,764	(634,764)	-	-
Total gains and reclassifications	<u>1,141,634</u>	<u>(634,764)</u>	<u>-</u>	<u>506,870</u>
Total revenues and gains	<u>7,950,427</u>	<u>168,144</u>	<u>-</u>	<u>8,118,571</u>
EXPENSES				
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
Priest 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>
Increase (decrease) in net assets	<u>(296,091)</u>	<u>168,144</u>	<u>-</u>	<u>(127,947)</u>
NET ASSETS, beginning of year				
As originally stated	7,709,929	842,974	1,997,422	10,550,325
Adjustment to prior period, inclusion of new fund	(5,285,070)	-	541,909	(4,743,161)
As restated	<u>2,424,859</u>	<u>842,974</u>	<u>2,539,331</u>	<u>5,807,164</u>
NET ASSETS, end of year	<u>\$ 2,128,768</u>	<u>\$ 1,011,118</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.**

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2005

INCREASE IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$ <u>(127,947)</u>
Noncash items included in decrease in net assets:	
Depreciation and amortization	120,873
Net realized and unrealized gains on investments	(506,870)
Provision for uncollectible accounts and pledges	30,137
Changes in assets and liabilities:	
Receivables	(44,583)
Due from affiliated organizations	65,715
Prepaid expenses	(111,815)
Funds held for others	84,548
Accounts payable and accrued liabilities	887,069
Defined benefit and post-retirement liabilities	<u>(458,415)</u>
	<u>66,659</u>
Net cash used in operating activities	<u>(61,288)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital acquisitions	(336,213)
Proceeds from sale of marketable securities	16,528,683
Purchases of marketable securities	(15,947,470)
Funds held for others - investments, net	36,220
Advances on notes receivable - related parties	(202,000)
Principal payments received on notes receivable - related parties	<u>171,452</u>
Net cash provided by investing activities	<u>250,672</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net repayments of short-term borrowings	(250,000)
Proceeds from borrowings under Diocesan Investment Program	628,680
Principal payments on notes payable under Diocesan Investment Program	<u>(99,500)</u>
Net cash provided by financing activities	<u>279,180</u>
Net increase in cash and cash equivalents	468,564

CASH AND CASH EQUIVALENTS, beginning of year 505,299

CASH AND CASH EQUIVALENTS, end of year \$ 973,863

Supplemental Disclosures of Cash Flows Information

Cash paid during the year for interest expense	<u>\$ 38,624</u>
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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, 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Operations:

The Roman Catholic Diocese of Burlington, Vermont, Inc., (Diocese) is a diocese of the worldwide Roman Catholic Church headquartered in the Vatican, Rome, Italy. The Diocese operates parishes, churches, schools, cemeteries and other activities in order to propagate the Roman Catholic religion throughout the state of Vermont. As a member of the Official Catholic Directory and the Roman Catholic Church, the Diocese and all its related organizational activities are 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, program offices and departments of the Diocese that are under the administrative control of the Bishop of Burlington, which provides services at the level of administration above the individual parishes. However, accounts of certain controlled activities of the Diocese such as schools, cemeteries, parishes, Vermont Catholic Charities, Inc., etc., have been excluded. These activities may or may not be separately incorporated under civil law. However, each is an operating entity distinct from the Diocesan administrative offices, maintains separate accounts and carries on its own services and programs.

Prior to 2005, the Diocese had elected to not include the Priests' Benefit Fund (Fund) because the Fund was an operating segment that was separate and distinct from the Diocesan Administrative Office. The Diocese has elected to include the Fund as a consolidated entity at this time. Net assets as of July 1, 2004, have been restated to reflect the inclusion of the Fund and resulted in a decrease in net assets of \$4,743,161 at that time.

These financial statements include the following activities of the Diocese:

General operations:

General operations include all accounts and activities of the Diocese related to meeting the general and specific operating requirements of the Diocese. 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.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

1. Scope of financial statements (continued)

Self-insurance operations:

The Diocese is partially self-insured and maintains a self-insurance reserve in its board designated net assets (see Note K). 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.

Deposit and loan program (Diocesan Investment Program):

The Diocese 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.

Priests' Benefit Fund:

The Diocese 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". This fund, which includes certain invested assets, is used to satisfy the obligations of the plan.

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 Diocese 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 statement of cash flows, the Diocese considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

4. Contributions and promises to give

Contributions are recognized when the donor makes a promise to give to the Diocese 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 \$197,795, net of an allowance for uncollectible pledges of \$10,000, are expected to be collected prior to June 30, 2006.

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 Diocese reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Diocese's activities).

5. Allowance for doubtful collection of receivables

Notes and accounts receivable are stated at the amount the Diocese expects to collect. The allowances for doubtful accounts is the Diocese's best estimate of the amount of probable credit losses in the Diocese's existing notes and accounts receivable; however, changes in circumstances relating to accounts receivable may result in a requirement for additional allowances in the future. The Diocese 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 Diocese regularly reviews its allowance for doubtful accounts and maintains a general reserve for invoices considered to be at risk of collection. In addition, past due balances over 90 days and other higher risk amounts are reviewed individually for collectibility. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

6. Marketable securities

Investments include resources of the Diocese 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 statement of financial position. Unrealized gains and losses 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. 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 Diocese.

8. 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.

9. 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 statement of financial position.

10. Functional allocation of expenses

The costs of providing the various programs and supporting services 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.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

11. Income taxes

The Diocese 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.

B) CONCENTRATIONS OF CREDIT RISK

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

The Diocese 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:

Parish receivables	\$ 65,215
Diocesan assessments receivable	310,000
Other	<u>62,233</u>
	437,448
Less allowance for doubtful accounts	<u>34,674</u>
	<u>\$ 402,774</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

D) MARKETABLE SECURITIES

Investments are comprised of a pool of investments for the Diocese's purposes and funds held for other affiliated organizations under agreements accounted for in accordance with SFAS 136, (see Note A9). A summary of these investments is as follows:

	<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.

Gains on marketable securities:	
Net realized gains	\$ 541,231
Net unrealized gains	<u>110,865</u>
	652,096
Investment fees	<u>(145,226)</u>
Net gains	506,870
Interest and dividend income	<u>453,206</u>
Total return on investments	<u>\$ 960,076</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

E) NOTES RECEIVABLE - RELATED PARTIES (DIOCESAN INVESTMENT PROGRAM)

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

	<u>Quarterly Payment</u>	<u>Balance at June 30, 2005</u>
Parishes/schools:		
Christ the King, Rutland	\$6,549	\$ 61,191
Holy Cross, Morrisville	\$2,344	55,059
Immaculate Heart of Mary, Rutland	\$2,181	12,528
Our Lady Queen of Peace, Danville	\$4,960	46,339
Rice Memorial High School, Burlington	See below	533,697
St. Augustine, Montpelier	\$1,636	102,390
St. Francis Xavier, Winooski	\$2,867	78,943
St. Mary, Springfield	\$5,122	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		<u>115,000</u>
		<u>1,281,775</u>
Other organizations:		
Sisters of Mercy (interest at 2%)	\$12,600/year	1,200
Vermont Community Loan Fund (0%)	No repayment schedule	5,000
Employee loans		<u>2,316</u>
		<u>8,516</u>
Total notes receivable		1,290,291
Less allowance for doubtful accounts		<u>80,000</u>
		<u><u>\$1,210,291</u></u>

The note receivable 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 \$22,592.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

F) PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Buildings and improvements	\$5,976,076
Land and land improvements	339,990
Equipment	1,069,836
Furniture and fixtures	68,333
Vehicles	<u>38,761</u>
	7,492,996
Less accumulated depreciation	<u>4,903,674</u>
	<u>\$2,589,322</u>

G) NOTES PAYABLE - RELATED PARTIES (DIOCESAN INVESTMENT PROGRAM)

Notes payable consists of the following:

Christ the King, Burlington	\$ 285,000
Holy Trinity Mission, Danby	10,000
Holy Rosary, Richmond	6,000
Our Lady of the Mountains, Killington	427,396
Our Lady of the Snows, Woodstock	113,784
Resurrection Park Cemetery, South Burlington	75,000
St. Anthony, White River Junction	11,607
St. Jerome, East Dorset	95,500
St. John, North Bennington	46,416
St. Mark's, Burlington	55,000
St. Stanislaus, West Rutland	<u>100,000</u>
Total	<u>\$1,225,703</u>

Notes payable are unsecured and have no fixed repayment schedules. The interest rate on these notes is 4% and is payable semi-annually. Interest expense charged to operations totalled \$38,624 in 2005.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

H) NOTES PAYABLE - BANK

Note payable - bank consists of the amount due under an unsecured \$750,000 line of credit with the Chittenden Bank, due upon demand. Interest is payable monthly at *The Wall Street Journal* prime rate, 6.0% at June 30, 2005, expiring December 16, 2005. Borrowings outstanding on the line of credit were \$250,000 as of June 30, 2005.

The Diocese has a standby letter of credit in the amount of \$336,125 with the Chittenden Bank. This letter of credit is a requirement of Liberty Mutual Insurance Company, which provides the Diocese 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 borrowings on this standby letter of credit during 2005.

I) FUNDS HELD FOR OTHERS

Investments:

The Diocese 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:

Vermont Catholic Charities, Inc.	\$3,528,221
Vermont Catholic Tribune Fund	84,765
Resurrection Park	<u>463,294</u>
Total investments held for others	<u>\$4,076,280</u>

Other:

The Diocese 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 \$388,370.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

J) RETIREMENT AND POST-RETIREMENT PLANS/SUBSEQUENT EVENT

Employees of the Diocese:

The Diocese 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 \$39,600.

Sisters of Saint Joseph Society, Inc.:

In connection with its merger with the Sisters of Saint Joseph Society, Inc., in 2001, the Diocese 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 Diocese 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 Diocese is providing such care through Vermont Catholic Charities, Inc., a not-for-profit organization wholly controlled by the Diocese. The Diocese 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.

The following amounts relate to the Sisters Plan as of June 30, 2005:

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

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

J) RETIREMENT PLAN/POST-RETIREMENT PLANS/SUBSEQUENT EVENT (continued)

Priests' Benefit Fund of the Diocese:

The Diocese 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 plan provides 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. This fund includes certain invested assets that have been set aside by the Diocese to satisfy obligations under the plans. Benefits are further funded through assessments to parishes in which participating priests serve.

A summary of the components of net periodic cost for the defined benefit plan and post-retirement benefits for the priests and the pension cost for the Diocese is as follows:

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

	<u>Pension Benefit Plan</u>	<u>Post-retirement Benefit Plan</u>	<u>Total</u>
Obligations and funded status as of June 30, 2005:			
Benefit obligation	\$ 6,994,000	\$ 5,190,000	\$ 12,184,000
Fair value of plan assets	-	-	-
Funded status (plan assets less than plan obligations)	<u>\$ (6,994,000)</u>	<u>\$ (5,190,000)</u>	<u>\$(12,184,000)</u>
Accrued benefit cost recognized in the statements of financial position	<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

The weighted-average assumption of the discount rate used to determine the net benefit obligation was 5.5% for both plans.

**ADMINISTRATIVE OFFICES OF THE
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

J) RETIREMENT PLAN/POST-RETIREMENT PLANS/SUBSEQUENT EVENT (continued)
Priests' Benefit Fund of the Diocese: (continued)

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

The Diocese expects to contribute \$482,000 to the plan in 2006. Benefits expected to be paid by the plan during the ensuing five years are approximately as follows:

2006	\$ 482,000
2007	\$ 484,000
2008	\$ 468,000
2009	\$ 435,000
2010	\$ 388,000

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 2005 and thereafter. A one-percentage-point change in the assumed rates of increase in health care costs would have the following effects relative to 2005 amounts included in the above for other benefit plans:

	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost components	\$ 16,000	\$ (81,000)
Effect on accumulated post-retirement benefit obligation	\$ 632,000	\$ (521,000)

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

2006	\$ 183,000
2007	\$ 200,000
2008	\$ 219,000
2009	\$ 240,000
2010	\$ 259,000

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

K) NET ASSETS

Net assets are temporarily restricted for the following purposes:

Poor and needy parishes	\$ 153,373
Bishop's Fund - pledges received to be used during the succeeding fiscal year	802,908
Priest support fund	<u>54,837</u>
Total	<u>\$1,011,118</u>

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

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

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

L) COMMITMENTS AND CONTINGENT LIABILITIES

The Diocese is directly or contingently liable as a maker, co-maker, or guarantor on an undetermined amount of loans for which parishes or other Catholic organizations have primary responsibility and are amortizing. These loans are not reflected on the statement of financial position.

The Diocese has been named in several lawsuits and other potential claims related to alleged actions by certain Diocesan personnel, for which damages cannot be determined. The Diocese has engaged in negotiations for settlement 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 Diocese has charged operations and established a reserve, included in accrued liabilities, in the amount of \$2,765,250, at June 30, 2005, related to legal and potential settlement costs in connection with these cases. Charges to operations in connection with establishing these reserves were \$563,250. The Diocese intends to defend its position in any of these matters should they result in litigation.

M) RELATED PARTY TRANSACTIONS

The Diocese contributes cash and in kind contributions to Vermont Catholic Charities, Inc., (VCCI), an affiliated not-for-profit corporation wholly-controlled by the Diocese. 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 Diocese-owned facilities. These subsidies were comprised of the following:

Cash subsidies for use in general operations	<u>\$ 600,000</u>
In kind subsidies:	
Administrative services	98,142
Rent-free use of facilities for Homes	1,210,082
Allocation of administrative facilities cost	<u>27,955</u>
Total in kind subsidies	<u>1,336,179</u>
	<u>\$1,936,179</u>