BRIDGEPORT ROMAN CATHOLIC DIOCESAN CORPORATION

Commentary on Disaggregated Condensed Combined Financial Statements

For the Eighteen Months Ended December 31, 2009

## INTRODUCTION

**The following commentary should be read in conjunction with the Bishop's Stewardship report and commentary on the financials recently released by the Diocese for the three years following this period, the years 2010-2012. Because this commentary covers an eighteen-month period due to a change in the Diocesan fiscal year, it is not conducive to a comparative presentation to either the 12 month period before or after it. Thus, this commentary is presented as a stand-alone discussion on the eighteen-month period. Also, because this commentary was authored in 2013 for 2009 financial activities, it should be noted that the commentary includes references to activities and initiatives of the Diocese that have been implemented or have occurred in the years since December 31, 2009, many of which resulted from the challenges faced by the Diocese during this period.**

## OVERVIEW

The Diocese is principally dependent on the Annual Bishop's Appeal ("ABA") to support the services and ministries it provides. The ABA is conducted in the months of February through June each year, with the Diocese's fiscal year ending June 30. To provide greater control over its financial activities and to permit the ABA to occur in the first half of the fiscal year, in 2009, the Diocese changed its fiscal year end to a calendar year- end. To reflect this transition for financial reporting purposes, the accompanying Disaggregated Condensed Combined Statement of Activities includes the eighteen month period ended December 31, 2009.

The financial statements reflect a net deficit at December 31, 2009. This deficit principally resulted from investment losses experienced in pension plan and other investment portfolios in the fall of 2008 and continuing into March 2009. In addition, the reporting period included revenue from a single ABA, but eighteen months of ABA funded expenses, which contributed significantly to the decrease. Finally, there was a shortfall in reimbursable revenue from Diocesan schools for employer benefits that are provided through the Diocese for the school's employees. To address these challenges, the Diocese began corrective actions during this time period and has continued to take additional steps each year as the circumstances demand. Those steps include:

- The freezing of the Bridgeport Diocesan Pension Plan for lay employees and replacing it with a defined contribution plan for employees;
- The implementation of a lay pension shortfall funding assessment;
- Close monitoring of the pension fund's asset allocation and investment strategy by the Diocesan Finance Council Investment Committee;
- Ongoing review and reorganization of Diocesan operations, to generate efficiencies and reduced expenses.

**RESULTS OF ACTIVITIES**

**Revenues and gains**

Revenue and gains for the eighteen months ending December 2009 are not comparable to the twelve months ending June 2008, so are analyzed on their own. The significant points are:

- ANNUAL BISHOP'S APPEAL:
  Revenue of almost $12 million from the 2009 ABA, along with other contributions and bequests, primarily reflects one annual ABA cycle. Typically, the Appeal begins in February of each year, and ends in June. The revenue for the eighteen months ending December 2009 is reflective of typical past and current 12-month Appeal results.

- EMPLOYEE BENEFIT & INSURANCE PROGRAMS:
  The revenue for employee benefit and insurance programs derives from billing all Diocesan entities for their pro-rata share of claims, premiums and other expenses associated with benefit and insurance costs that the Diocese pays directly. The Diocesan employee benefit programs (health, pension, and workers compensation) cover all lay, clergy and some religious employees of the Diocese and most Diocesan entities (parishes, schools, Catholic Charities, Cardinal Shehan Center) who work the required number of minimum hours per week. The insurance program is for property, casualty and liability insurance for all Diocesan entities.

  The revenues from these reimbursable expenses were reduced by almost $6 million during the eighteen months ended December 2009 for uncollectible amounts, primarily from Diocesan elementary and high schools. Years of unpaid balances, or reduced reimbursed payments from the schools, primarily in lay pension and medical benefits, initiated an in-depth assessment as to the collectability of those receivables. The assessment concluded that the Diocese should reserve a higher allowance for bad debt than had existed in the past. Through concerted efforts and focus on the underlying

problems creating the uncollectibility, the Diocese has been able to reduce those amounts each year.

- INVESTMENT LOSS:
  The Diocesan investment portfolio experienced significant losses with the onset of the 2008 financial crises and continuing into March 2009. The fair value of the investment portfolio, net of dividends, interest and fees for both Faith in the Future Fund, Inc, and other Diocesan investments portfolios declined by almost $5.5 million. These losses impacted endowment funds such as Faith in the Future Fund, Inc, since these donations are restricted to distributions of the related investment returns, which may be spent for the designated purposes. As a result of these losses, annual distributions ceased from Faith in the Future Fund Inc, from 2009 through 2013, while original donations recovered from these market declines. Now that fund balances exceed original donations, it is anticipated that distributions from this fund will be made in the spring of 2014.

**Expenses**

Including expenses related to pensions and retired priest's healthcare, the Diocese had expenses of almost $76 million during the eighteen-month period ending December 2009. When annualized to a 12 month comparable, this amount is about $2 million higher than 2012 expenses. During the past three years, the Diocese has recognized savings from:

- Annual review of benefits, both healthcare and other, along with fostering employee participation in wellness programs to keep expenses manageable.

- Freezing the Lay Pension Plan for all participants as of July 2010 and replacing it with a less costly defined contribution plan for employees.

- Evaluation of program administrative costs, primarily with payroll related expenses, with a focus on operating efficiently, yet effectively as possible.

Other key expenses worth noting during the eighteen months ended December 31 were related to legal fees and sexual abuse expenses. The costs related to legal fees not associated with abuse claims falls under the expense category of Administration and General. During the eighteen months ended December 31, there were approximately $2 million of attorney fees related to a variety of issues. This expense included, but was not limited to the following:

- Final legal expenses associated with the resolution of the St. Michael's and St. John's Parish financial misuse matters.

- Attorney fees to litigate action against the State of Connecticut to compel the Diocese to register as a lobbyist.

- Attorney fees to assist the Diocese in the formal creation of corporate governance, record retention policy and real estate advice.

Sexual abuse claim settlement accrued expenses for the eighteen months ending December 2009 were just under $1 million, while the actual cash payments made were just under $400k. Portions of revenue from property sales, both past and present, have been held in reserve and used to fund settlements.

**FINANCIAL POSITION**

**Assets**

The single most significant change in total assets for the Diocese during the eighteen months ended December 2009 was in investments held for long-term purposes. At June 30, 2008, total investments amounted to almost $40 million. By December 31, 2009, the value of Diocesan investments had declined to just under $27 million, a $13 million reduction. The causes of this decline were two-fold.

- First was distributions to the Diocese of investments (not including Faith in the Future Fund, Inc.) of approximately $7.5 million to fund ongoing operational expenses primarily related to insurance and employee benefits that continued to be partially or totally unreimbursed by schools and inner city parishes. Years of non-reimbursement of these expenses by selected Diocesan entities had resulted in a severe cash shortage since the Diocese paid premiums, claims, and other related expenses in advance. Over the past four years, significant improvements have been made by schools and parishes, resulting in an increase in collectability of previously unpaid insurance employee benefit contributions.

- Second was the result of the steep global market downturn during the fall of 2008 and continuing into March 2009. A total of $5.5 million in fair market value of investments was lost during the eighteen months ending December 31, 2009. Faith in the Future Fund Inc., lost approximately $3 million in fair market value, while other Diocesan investments lost about $2.5 million. Due to the loss in Faith in the Future Fund Inc., no distributions could be made from this endowed account over the past four years. By December 2013, principal investments for Faith in the Future Fund Inc., have returned to its full value and will allow for a distribution during 2014 of excess investment income based on the Fund's distribution policy.

**Liabilities**

The largest noteworthy increase in liabilities relates to pension and other retirement obligations. During the eighteen month period ended December 31, 2009, this liability amounted to $77.6 million, an increase of almost $48 million from June 30, 2008. Investment losses incurred in the economic downturn, along with the change in interest rates assumptions used in the required calculation of the benefit obligation, resulted in this significant change.

While this decline has no near term impact on pension payments to current retirees, as those payments can be funded out of current investments, the Diocese did implement, in July of 2011, a lay pension shortfall funding plan whereby each existing Diocesan entity contributes a percentage of their prior year's payroll dollars to assist in recovering from this underfunded status.

**Net Assets**

In the Fiscal Year ended December 31, 2009, net assets decreased by over $20 million excluding pensions and retired priests' healthcare, and over $69 million including pensions and retired priests' healthcare. Total net assets declined from a positive $56.6 million at June 30, 2008 to a negative $13 million at December 31, 2009. The leading causes for this decline; the change in fiscal year to a December 31 year end, global investment decline and lastly, insufficient payments by schools and inner city parishes of reimbursable insurance and employee benefits expenses have been addressed in part by the Diocese and have resulted in improvements to the efficiencies of Diocesan operations.

# The Bridgeport Roman Catholic Diocesan Corporation

## DISAGGREGATED CONDENSED COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2009
(Amounts in Thousands)

| **Assets** | Excluding Pensions & Retired Priests Healthcare | Pensions & Retired Priests Healthcare | **Total** |
|---|---|---|---|
| Cash and cash equivalents | $ 2,766 | $ 76 | **$ 2,842** |
| Receivables, net | 8,643 | 1,718 | **10,361** |
| Investments | 26,800 | | **26,800** |
| Property and equipment, net | 49,394 | - | **49,394** |
| Total assets | $ 87,603 | $ 1,794 | **$ 89,397** |
| **Liabilities** | | | |
| Payables, other than notes, accruals and refundable advances | $ 14,122 | | **$ 14,122** |
| Notes payable to financial institutions | 6,707 | | **6,707** |
| Conditional asset retirement obligations | 4,073 | | **4,073** |
| Pension and other retirement obligations | 2,501 | 75,056 | **77,557** |
| Total liabilities | 27,403 | 75,056 | **102,459** |
| **Net (Deficit) Assets:** | | | |
| Unrestricted | 37,528 | (73,262) | **(35,734)** |
| Temporarily restricted | 920 | - | **920** |
| Permanently restricted | 21,752 | - | **21,752** |
| Total net assets (deficit) | 60,200 | (73,262) | **(13,062)** |
| Total liabilities and net assets (deficit) | $ 87,603 | $ 1,794 | **$ 89,397** |

**The Bridgeport Roman Catholic Diocesan Corporation**

**DISAGGREGATED CONDENSED COMBINED STATEMENT OF ACTIVITIES**

For the eighteen months ended December 31, 2009
(Amounts in Thousands)

| **Changes in unrestricted, temporarily and permanently restricted net assets:** | Excluding Pensions & Retired Priests Healthcare | Pensions & Retired Priests Healthcare | **Total** |
|---|---|---|---|
| Revenues and gains: | | | |
| Annual Bishop's Appeal and other contributions and bequests | $ 11,894 | $ - | **$ 11,894** |
| Cathedraticum from parishes | 4,103 | - | **4,103** |
| Employee benefit and insurance programs revenues from other Diocesan entities | 16,519 | 5,621 | **22,140** |
| Insurance recoveries related to prior years' claims | 795 | - | **795** |
| Cemeteries and other operating revenues | 14,039 | - | **14,039** |
| Investment loss | (5,454) | 6 | **(5,448)** |
| Total revenues and gains | 41,896 | 5,627 | **47,523** |
| Expenses: | | | |
| Services and contributions to other Diocesan entities and other parties | 18,761 | - | **18,761** |
| Operations | 9,298 | - | **9,298** |
| Employee benefit and insurance programs | 22,061 | 13,472 | **35,533** |
| Administration and general | 10,596 | - | **10,596** |
| Fundraising | 1,742 | - | **1,742** |
| Total expenses | 62,458 | 13,472 | **75,930** |
| Decrease in net assets before adjustment to recognize funded status of pension and priests' post-retirement healthcare obligations | (20,562) | (7,845) | **(28,407)** |
| Adjustment to recognize funded status of pension and priests' post-retirement healthcare obligations | - | (41,236) | **(41,236)** |
| Decrease in net assets | (20,562) | (49,081) | **(69,643)** |
| Net assets (deficit) at July 1, 2008 | 80,762 | (24,181) | **56,581** |
| Net assets (deficit) at December 31, 2009 | $ 60,200 | $ (73,262) | **$ (13,062)** |