COMBINED FINANCIAL STATEMENTS TOGETHER WITH REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE BRIDGEPORT ROMAN CATHOLIC DIOCESAN CORPORATION

DECEMBER 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Most Reverend William E. Lori, S.T.D.
The Bridgeport Roman Catholic Diocesan Corporation
Bridgeport, Connecticut

We have audited the accompanying combined statement of financial position of The Bridgeport Roman Catholic Diocesan Corporation (the "Diocese") as of December 31, 2009, and the related combined statements of activities, functional expenses by natural classification and cash flows for the eighteen months then ended. These combined financial statements are the responsibility of the Diocese's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements enumerated above present fairly, in all material respects, the financial position of The Bridgeport Roman Catholic Diocesan Corporation as of December 31, 2009, and the changes in its net assets and cash flows for the eighteen months then ended, in conformity with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

New York, New York
September 29, 2010

The Bridgeport Roman Catholic Diocesan Corporation

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2009
(Amounts in Thousands)

ASSETS

Cash and cash equivalents	$	2,842
Accounts and advances receivable from other Diocesan entities, net		6,469
Cemeteries and other accounts receivable		2,875
Pledges receivable, net		1,017
Investments held for long-term purposes and beneficial interest in perpetual trust		26,800
Property and equipment, net		49,394
Total assets	$	89,397

LIABILITIES AND NET DEFICIT

Liabilities:		
Accounts payable to other Diocesan entities	$	1,804
Other accounts payable and accrued expenses		4,754
Special collections payable		572
Self-insurance claims and deductible amounts payable		4,630
Cemeteries refundable advances		2,362
Notes payable to financial institutions		6,707
Conditional asset retirement obligations		4,073
Pension and other retirement obligations		77,557
Total liabilities		102,459
Commitments and contingencies		
Net (deficit) assets:		
Unrestricted		(35,734)
Temporarily restricted		920
Permanently restricted		21,752
Total net deficit		(13,062)
Total liabilities and net deficit	$	89,397

The accompanying notes are an integral part of these combined statements.

The Bridgeport Roman Catholic Diocesan Corporation

COMBINED STATEMENT OF ACTIVITIES

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

Changes in Unrestricted Net Assets:	
Revenues and gains:	
Annual Bishop's Appeal and other contributions and bequests	$ 11,137
Cathedraticum from parishes	4,103
Employee benefit and insurance programs revenues from other Diocesan entities	22,140
Insurance recoveries related to prior years' claims	795
Cemeteries and other operating revenues	14,039
Investment loss	(4,028)
Total revenues and gains	48,186
Net assets released from restrictions	2,375
Total revenues, gains and other support	50,561
Expenses:	
Services and contributions to other Diocesan entities and other parties	18,761
Operations	9,298
Employee benefit and insurance programs	35,533
Administration and general	10,596
Fundraising	1,742
Total expenses	75,930
Decrease in unrestricted net assets before recognition of pension and priests' post-retirement healthcare obligations	(25,369)
Adjustment to recognize funded status of pension and priests' post-retirement healthcare plans	(41,236)
Decrease in unrestricted net assets	(66,605)
Changes in Temporarily Restricted Net Assets:	
Annual Bishop's Appeal and other contributions and bequests	677
Investment loss	(1,360)
Net assets released from restrictions	(2,375)
Decrease in temporarily restricted net assets	(3,058)
Changes in Permanently Restricted Net Assets:	
Contributions	80
Decrease in beneficial interest in perpetual trust and other	(60)
Increase in permanently restricted net assets	20
Decrease in net assets	(69,643)
Net assets at July 1, 2008 (Restated, Note B-10)	56,581
Net deficit at December 31, 2009	$ (13,062)

The accompanying notes are an integral part of these combined statements.

The Bridgeport Roman Catholic Diocesan Corporation

COMBINED STATEMENT OF FUNCTIONAL EXPENSES BY NATURAL CLASSIFICATION

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

	Compensation and Benefits	Contributions	Professional services and Insurance	Office, Occupancy, Supplies, Travel and other	Claim Settlements	Depreciation and Accretion	Interest	Total
Services and contributions to other Diocesan entities and other parties:								
Pastoral services of the Bishop, Vicars General and the Chancellor	$ 825	-	$ 48	$ 250	-	-	-	$ 1,123
Clergy and religious personnel services, including Queen of Clergy	1,629	-	332	622	-	234	33	2,850
Education administration and curriculum services	1,350	-	1,033	392	-	-	-	2,775
Ministries for pastoral outreach including hospital and correctional center chaplains, priests and religious assigned to special ministries and Safe Environments	1,764	-	253	176	-	-	-	2,193
Vocations and St. John Fisher Seminary services	1,451	-	103	425	-	28	-	2,007
Parish Life and Ministries including Christian formation, religious education services and the Newman Center	714	-	179	477	-	23	-	1,393
Parish Finance Services	758	-	58	40	-	-	-	856
Tribunal	597	-	29	14	-	-	-	640
Contributions to Diocesan schools and after school programs	-	2,929	-	-	-	-	-	2,929
Contributions to Catholic Charities of Fairfield County, Inc.	-	1,411	-	-	-	-	-	1,411
Contributions to other Diocesan entities and other parties	-	584	-	-	-	-	-	584
	9,088	4,924	2,035	2,396	-	285	33	18,761
Operations:								
Cemeteries	3,979	-	323	1,355	-	663	-	6,320
Fairfield County Catholic	871	-	56	879	-		-	1,806
St. Catherine Academy	706	-	152	187	-	104	23	1,172
	5,556	-	531	2,421	-	767	23	9,298
Employee benefit and insurance programs	27,401	-	7,082	-	971	-	79	35,533
Administration and general	4,583	-	2,723	1,435	-	1,749	106	10,596
Fundraising	1,076	-	28	638	-	-	-	1,742
TOTAL	$ 47,704	$ 4,924	$ 12,399	$ 6,890	$ 971	$ 2,801	$ 241	$ 75,930

The accompanying notes are an integral part of this combined statement.

The Bridgeport Roman Catholic Diocesan Corporation

COMBINED STATEMENT OF CASH FLOWS

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

Cash flows from operating activities:	
Decrease in net assets	$ (69,643)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Contributions of marketable securities	(363)
Net depreciation in fair value of investments and amortization of note receivable discount	6,260
Depreciation and accretion of property, equipment and conditional asset retirement obligations	2,801
Endowment contributions	(82)
Changes in assets and liabilities:	
(Increase) in accounts and advances receivable from other Diocesan entities	(123)
(Increase) in cemeteries and other accounts receivable	(1,136)
Decrease in pledges receivable	1,960
Decrease in notes receivable	3,141
(Decrease) in accounts payable due to other Diocesan entities	(139)
Increase in other accounts payable and accrued expenses	2,338
Increase in special collections payable	255
Increase in self-insurance claims and deductible amounts payable	490
Increase in cemeteries refundable advances	612
Increase in pension and other retirement obligations	47,826
Net cash used in operating activities	(5,803)
Cash flows from investing activities:	
Purchase of property and equipment	(2,411)
Proceeds from sale of investments	24,668
Purchase of investments	(15,689)
Net change in money market funds and certificate of deposit	(2,160)
Net cash provided by investing activities	4,408
Cash flows from financing activities:	
Principal payments on notes payable	(5,052)
Proceeds from notes payable	4,857
Proceeds from endowment contributions	82
Net cash used in financing activities	(113)
Net decrease in cash and cash equivalents	(1,508)
Cash and cash equivalents, beginning of year	4,350
Cash and cash equivalents, end of year	$ 2,842
Interest payments during the year	$ 241

The accompanying notes are an integral part of these combined statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2009
(Amounts in Thousands)

NOTE A - ORGANIZATION

The Bridgeport Roman Catholic Diocesan Corporation (the "Diocese") is a not-for-profit, religious non-stock corporation formed under the laws of the State of Connecticut in 1953. The members of the corporation and the Board of Directors (the "Board") are the Bishop, the three Vicars General and the Chancellor of the Diocese of Bridgeport, and two priests appointed by the Bishop.

The Diocese provides pastoral, clergy and religious personnel, Christian formation and religious education, vocations, educational administration and curriculum, parish finance and tribunal services to other Diocesan entities and other parties. These services include the St. John Fisher Seminary, The Catherine Dennis Keefe Queen of Clergy retirement home for Diocesan Priests and the Newman Center at Western Connecticut State University. The Diocese also makes financial contributions to other Diocesan entities and other parties. The Diocese directly operates St. Catherine Academy, a school for children with disabilities; twelve Catholic cemeteries; and publishes the Fairfield County Catholic, a monthly publication available to all Catholics in the Diocese.

The Diocese relies principally on contributions received through the Annual Bishop's Appeal to support the services the Diocese provides, the contributions made to other Diocesan entities and third parties, fundraising efforts and the Fairfield County Catholic operations not covered by advertising revenues. Cathedraticum from parishes together with residual Catholic cemeteries revenues support the administration and general activities of the Diocese. St. Catherine Academy relies on tuition revenues to support its operating activities.

In addition, the Diocese sponsors primarily self-insured medical and dental care and workers' compensation programs, property, casualty, liability and other insurance programs, and pension plans for the Diocese and other Diocesan entities and their employees. The other Diocesan entities are responsible for their portions of the cost of these programs and pension plans.

The other Diocesan entities throughout Fairfield County, Connecticut include:

- 87 parishes
- 31 elementary, one middle and five high schools
- Cardinal Shehan Center and the McGivney Community Center, after school programs for children
- Catholic Charities of Fairfield County, Inc. ("Catholic Charities")
- Nine government-subsidized Bishop Curtis Homes, Teresian Towers and Carmel Ridge Estates, homes for the elderly
- St. Joseph's Manor, Inc., Pope John Paul II Center for Health Care, Inc. and St. Camillus Home, Inc., provide pastoral care at the nursing home facilities formerly owned by these entities.
- Faith in the Future Fund, Inc. ("Faith in the Future"), an endowment fund.
- Inner-City Foundation for Charity and Education, Inc.

NOTE A – (continued)

The Diocese is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3).

Financial Position and Decrease in Net Assets

These combined financial statements reflect a net deficit at December 31, 2009. The net deficit resulted during the eighteen months ended December 31, 2009 principally from investment losses experienced in pension plan and other investment portfolios in the fall of 2008 and continuing into March 2009. In addition, inclusion of a single Annual Bishop's Appeal revenues but inclusion of eighteen months of Annual Bishop's Appeal funded expenses resulting from the change in fiscal year (Note B-1) contributed significantly to the decrease. Finally, there was a shortfall in revenues from Diocesan schools for employee benefits provided through the Diocese for the schools' employees. The Diocese is taking corrected actions to address these problems. The Diocese has frozen benefits under its defined benefit pension plans for lay employees and adopted a defined contribution plan to reduce, over time, its retirement expenses and exposure to investment losses in the frozen plans (Note J – Subsequent Events). It is seeking to sell certain parcels of unused land to fund the one-time shortfall in Annual Bishop's Appeal revenues covering Annual Bishop's Appeal funded expenses. Further, the Diocese is evaluating its employee healthcare programs to reduce this expense beginning in 2011 and thereby improve the Diocesan schools' ability to meet their obligations for employee healthcare.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Basis of Presentation*

   The Diocese's combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

   The combined financial statements include the accounts of the Diocese, reflecting its activities and direct operations, and the accounts of the Faith in the Future Fund, Inc. that is managed by the Diocese. All significant inter-entity transactions and balances have been eliminated. The remaining other Diocesan entities identified in Note A are separately incorporated and/or managed on a day-to-day basis and their accounts are not included in the combined financial statements.

   Net assets are classified as unrestricted, temporarily restricted or permanently restricted based upon the existence or absence of donor-imposed restrictions limiting the use of the contributed assets as follows:

NOTE B – (continued)

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that either expire by the passage of time or can be fulfilled or otherwise removed by actions of the Diocese.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Diocese.

Donor contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed temporary or permanent restrictions. When temporary restrictions either expire by the passage of time or are fulfilled or otherwise removed by actions of the Diocese, the related net assets are reclassified to unrestricted net assets and any related expenses are reported as a decrease in unrestricted net assets. When contribution restrictions are fulfilled in the fiscal period in which the contribution is received, the contribution is reported as an increase in unrestricted net assets.

Change in fiscal year end
The Diocese has previously had a fiscal year end of June 30. As discussed in Note A, the Diocese is principally dependent on the Annual Bishop's Appeal to support the services it provides and its other activities. The Annual Bishop's Appeal is conducted in the months of February through June each year, the latter portion of the Diocese's fiscal year. The Diocese has changed its fiscal year end to December 31 to provide greater control over its financial activities by placing the Annual Bishop's Appeal in the first half of its fiscal year. To accomplish this transition, the accompanying combined statements of activities, functional expenses by natural classification and cash flows include the eighteen months ended December 31, 2009.

2. *Cash and Cash Equivalents*

Cash and cash equivalents include cash and money market funds held in banks as well as temporary cash investments with original maturities of 90 days or less. Cash and cash equivalents exclude such amounts held by financial institutions as part of the Diocese's investment portfolio.

3. *Donor Contributions*

Gifts and pledges that represent unconditional promises to give are recorded when received or made, respectively. Pledges are recorded net of an allowance for uncollectible amounts based on prior experience and related trends. Pledges that will be met over periods in excess of a year are discounted to present value using a risk-free interest rate. Amortization of the discount is reported in subsequent periods as additional contributions. Pledges receivable are written off when uncollectibility is highly probable.

NOTE B – (continued)

Contributions of non-monetary assets are recorded at the estimated fair value of the assets contributed. Unpaid volunteers make significant contributions of time to various activities of the Diocese. The value of this contributed time is not reflected in the combined financial statements because the services did not require specialized skills or enhance assets and thus did not meet the criteria for recognition under GAAP.

4. *Cemeteries Revenues*

The Catholic cemeteries sell rights to interment and entombment on retail installment contracts generally of not more than one year's duration, without interest. The amounts received are normally refundable to the buyer, subject to a processing fee, until amounts due have been received in full. Such sales are deferred and recorded as refundable advances until the amounts receivable have been collected in full and the sale is then recognized as revenue.

A portion of revenue from sales is invested and the investment income is available for perpetual care and maintenance of cemetery property. In addition, owners of private property improvements (private mausoleums, estate walls) at the cemeteries provide revenue that is held in trust by the Diocese and invested in perpetuity with the investment income available for care and maintenance of the property improvements.

5. *Investments and Investment Returns*

Investments, including those held in trusts for Diocesan Pension plans (Note J), are reported at fair value. Fair value is established under a hierarchy that prioritizes observable and unobservable input techniques for fair value measurements. Level 1 inputs are the highest priority and Level 3 inputs are the lowest priority. A financial instrument's level is the lowest level of input that is significant to its fair value measurement, as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets.
Level 2 – Quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not considered active; observable inputs other than quoted prices; or inputs derived principally from or corroborated by observable market data by correlation or other means.
Level 3 – Significant unobservable inputs.

Level 3 fair values are determined by the related investment manager or advisor. The Diocese reviews and evaluates the values provided by the investment managers or advisors and believes the carrying amount of the Level 3 investments is a reasonable estimate of fair value. Estimated values may differ significantly from the values that would have been reported had a ready market for these investments existed.

NOTE B – (continued)

Investment returns reported in the combined statements of activities include interest, dividends and realized and unrealized appreciation and depreciation, and is reduced by investment management and transaction fees. Securities transactions are recorded on a trade-date basis. Interest is recorded as earned and dividends are recorded as of the ex-dividend date.

6. *Property and Equipment*

Property and equipment are reported at cost. Depreciation is determined using the straight-line method over the estimated service lives of the related assets as follows:

Furniture and fixtures	10 years
Vehicles, computers and other equipment	5 - 12 years
Buildings and improvements	30 - 40 years
Land improvements	30 years

7. *Conditional Asset Retirement Obligations*

The Diocese has conditional asset retirement obligations for asbestos materials and underground storage tanks associated with buildings it owns. Those obligations are defined as legal obligations associated with the retirement of tangible long-lived assets in which the timing and/or the method of settlement is conditional on a future event that may or may not be within the control of the Diocese. The present value of those obligations and the resulting accretion expense, together with the related asset retirement cost capitalized, accumulated depreciation and depreciation expense, are recognized in the combined financial statements.

8. *Endowments*

Endowment gift amounts are reported as permanently restricted net assets. Investment returns, net of investment expenses, are reported as temporarily restricted net assets until approved for expenditure, at which time the approved amounts are reported as net assets released from restrictions. If the approval is for expenditure in a future year, the amount is reported as net assets released from restrictions in the future year. If, as a result of investment losses, the fair value of endowment assets is less than the related endowment gift amounts, the deficiency is reported as a decrease in unrestricted net assets. Future investment income related to those endowment assets is reported as increases in unrestricted net assets until the deficiency is eliminated.

9. *Special Collections*

Parishes throughout the Diocese conduct special offertory collections on designated days for the benefit of other non-Diocesan Catholic entities at the direction of the U.S. Conference of Catholic Bishops. In addition, the parishes conduct a special Loaves and Fishes collection during Lent for the benefit of Catholic Charities. The amounts collected by the parishes are remitted to the

(Amounts in Thousands)

NOTE B (continued)

Diocese and then transferred to the entities for whom the collections were conducted. The parishes and the Diocese act as agents for the collections and the amounts collected are not revenues to the parishes or the Diocese and are recorded as liabilities.

10. *Restatement*

In the eighteen months ended December 31, 2009, it was determined that an endowment created by the bequest of a Diocesan priest in 1970 had been reported as unrestricted net assets rather than permanently restricted and temporarily restricted net assets, as applicable. In addition, an endowment created by the bequest of another Diocesan priest in 1989 had been reported partially as a liability and partially as unrestricted net assets rather than as permanently and temporarily net assets, as applicable. Finally, the change in the fair value of a beneficial interest in a perpetual trust held by a third party trustee had been reported as temporarily restricted rather than permanently restricted net assets. The previously reported net asset balances at July 1, 2008 have been restated to correct these items as follows:

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
As previously reported	$ 31,438	$ 4,169	$ 20,722	$ 56,329
Restatement	(565)	(193)	1,010	252
As restated	$ 30,873	$ 3,976	$ 21,732	$ 56,581

11. *Subsequent Events*

Management of the Diocese has evaluated all transactions and events that occurred through September 29, 2010, the date these combined financial statements were available to be issued, for recognition and/or disclosure in these combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2009
(Amounts in Thousands)

NOTE C - ACCOUNTS AND ADVANCES RECEIVABLE FROM OTHER DIOCESAN ENTITIES

Accounts and advances receivable from other Diocesan entities, net, consist of the following at December 31, 2009:

Parishes	$	8, 121
Elementary, middle and high schools		15,432
Other		1,158
		24,711
Less: Allowance for uncollectible amounts		(18,242)
	$	6,469

Accounts and advances receivable arise principally from amounts due for employee benefit and insurance programs (Note O), cathedraticum from parishes and advances made to parishes for renovation and repair projects. There is an advance to the Diocesan middle school for major renovation of the middle school facilities in the amount of $1,450 at December 31, 2009 that was funded with proceeds from a term loan (Note H) and is being repaid by the middle school in monthly installments of $24.2. In addition, there is an advance to St. Augustine Cathedral parish related to Cathedral renovation in the amount of $338, at December 31, 2009, that is being collected from pledges to St. Augustine Cathedral parish that are currently due.

The allowance for uncollectible amounts is based on the individual entity's financial condition and ability to pay the amounts due and amounts are written off when uncollectibility is highly probable.

NOTE D - PLEDGES RECEIVABLE

Pledges receivable, primarily from the Annual Bishops Appeal, at December 31, 2009 are shown below. The discount rates used to determine present values for pledges due in more than one year after the pledge is made range from 1.125% to 4.50%.

	Less than one year	One to six years	Total
Pledges receivable	$ 901	$ 490	$ 1,391
Allowance for uncollectible amounts	(344)	-	(344)
Discount to present value	-	(30)	(30)
Pledges receivable, net	$ 557	$ 460	$ 1,017

Pledges receivable, net, includes $333 at December 31, 2009, that is designated by donors for other Diocesan entities and is included in accounts payable due to other Diocesan entities.

(Amounts in Thousands)

NOTE E - NOTES RECEIVABLE

The Diocese had a note receivable in the face amount of $3,225 from the sale of property in February 2004, secured by a mortgage on the property sold. Interest payments began at 3% in March 2005, increasing to 7% by March 2008 and principal payments were scheduled to begin in March 2009 with the unpaid balance due in full in March 2014. The note was recorded at the present value of future payments discounted at 7%. The note was paid in full in January 2009. Amortization of the discount, interest received and recognition of the unamortized balance of the discount when the note was paid amounted to $84 for the eighteen months ended December 31, 2009, and is included in investment returns.

NOTE F - INVESTMENTS

Investments, including those held in trust by a third party, consist of the following at December 31, 2009:

	Level 1	Level 2	Level 3	Total
Equities:				
Domestic:				
Large-cap growth	$ 3,475	$ -	$ -	$ 3,475
Large-cap value	1,722	-	-	1,722
Small/mid-cap value	446	-	-	446
Small-cap value	423	-	-	423
International	1,665	-	-	1,665
Emerging markets	728	-	-	728
	8,459	-	-	8,459
Debt securities mutual funds	-	8,695	-	8,695
Alternative investment funds	-	-	1,678	1,678
Futures fund	-	512	-	512
Cash/Money markets	6,560	-	-	6,560
Catholic Umbrella Pool and beneficial interest in third party trust	-	-	896	896
Total	$ 15,019	$ 9,207	$ 2,574	$ 26,800

(Amounts in Thousands)

NOTE F – (continued)

	Level 1	Level 2	Level 3	Total
Diocese	$ 4,989	$ 1,730	$ 1,459	$ 8,178
Faith in the Future	10,030	7,477	1,115	18,622
	$ 15,019	$ 9,207	$ 2,574	$ 26,800

The Level 3 fair value measurement investments include nine alternative investment funds that employ various investment strategies including merger arbitrage, long and short domestic and non-United States equity positions, capital structure arbitrage, event driven arbitrage, distressed debt, event driven/special situations, leveraged non-traditional and absolute return not correlated to equity or fixed income indices. The alternative investment funds are not individually significant as each does not exceed 1.6% of their respective Diocese and Faith in the Future portfolios. In addition, Level 3 fair value measurement investments include the Diocese's interest in the Catholic Umbrella Pool, an excess liability, self-insurance fund (not-for-profit corporation) serving Catholic dioceses throughout North America, and a beneficial interest in a third party trust. The changes in these investments for the eighteen months ended December 31, 2009 are as follows:

Balance at July 1, 2008	$ 3,479
Investment returns included in changes in net assets	(487)
Purchases and settlements, net	(418)
Balance at December 31, 2009	$ 2,574

Investments at December 31, 2009 are attributable to:

	Diocese	Faith in the Future	Total
Permanently restricted assets	$ 1,223	$ 20,243	$ 21,466
Temporarily restricted assets	158	66	224
Unrestricted assets	6,798	(1,688)	5,110
Total investments	$ 8,179	$ 18,621	$ 26,800

Investment loss related to the above investments consists of the following for the eighteen months ended December 31, 2009:

	Diocese	Faith in the Future	Total
Net depreciation in fair value of investments	$ (2,948)	$ (3,229)	$ (6,177)
Dividends and interest	543	369	912
	(2,405)	(2,860)	(5,265)
Less investment fees	(105)	(152)	(257)
Net investment loss	$ (2,510)	$ (3,012)	$ (5,522)

(Amounts in Thousands)

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2009:

Furniture and fixtures	$ 1,243
Vehicles, computers and other equipment	3,146
Buildings and improvements	58,785
Land improvements	748
Land	17,392
	81,314
Accumulated depreciation	(31,920)
Property and equipment, net	$ 49,394

Land and buildings owned by the Diocese with a net book value of $12,577 are provided to Diocesan high schools, elementary schools and the middle school for their use rent free. In addition, land and buildings owned by the Diocese with a net book value of $1,692 are leased to Sacred Heart University through April 30, 2080, with Sacred Heart University paying for all utilities, maintenance and repairs, and insurance, in exchange for tuition credits currently in the amount of $180 per year. The tuition credits are utilized by teachers in Diocesan schools seeking advanced degrees and by Diocesan seminarians seeking undergraduate degrees or individual courses.

NOTE H - NOTES PAYABLE TO FINANCIAL INSTITUTIONS

The Diocese had the following notes payable to a financial institution at December 31, 2009:

Term loan notes, interest at variable rate equal to financial institution's prime rate but not less than 4%, 4% at December 31, 2009:	
Maturity date March 31, 2010	$ 2,607
Maturity date June 1, 2010	2,250
Term loan note, interest at 3.25% at December 31, 2009, with monthly principal payments of $24.2 through August 2013 and balance due at maturity on September 30, 2013	1,450
Term loan note, interest at 3.25% at December 31, 2009, with monthly principal payments of $3.75 commencing March 2010 through September 2013 and balance due at maturity October 1, 2013	400
	$ 6,707

The term loan agreements, maturity September 30, 2013 and October 1, 2013, are for borrowings that were used to renovate the middle school facility owned by the Diocese (Notes C and G) and to renovate facilities used by St. Catherine Academy (Note A) at Holy Cross Parish in Fairfield, respectively.

(Amounts in Thousands)

NOTE H – (continued)

Effective March 29, 2010, the term loan notes with maturity dates of March 31, 2010 and June 1, 2010 were converted to a commercial revolving loan note with the same financial institution with a maturity date of July 31, 2011. The Diocese may borrow up to $7,500 under the commercial revolving loan note. Borrowings under the commercial revolving loan note bear interest at the financial institution's prime rate or LIBOR plus 250 basis points at the Diocese's option, but not less than 4% in any event. All borrowings under the commercial revolving loan note are secured by a mortgage deed to the financial institution covering seven parcels of unimproved land owned by the Diocese in Fairfield County, Connecticut. The mortgage deed also secures the term loan note due September 30, 2013, that was amended effective March 29, 2010 to extend the maturity date to March 30, 2015, and the term loan note due October 1, 2013. In addition, the mortgage deed secures guarantees (Note Q) made by the Diocese with respect to loans made by the financial institution to three parishes in the aggregate amount of $646 at December 31, 2009.

NOTE I - CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Changes in conditional asset retirement obligations for asbestos material and underground storage tanks associated with buildings owned by the Diocese for the eighteen months ended December 31, 2009 are as follows:

Balance July 1, 2008	$ 3,720
Accretion	353
Balance December 31, 2009	$ 4,073

NOTE J - PENSION PLANS AND RETIRED PRIESTS' HEALTHCARE PLAN

Current Pension Plans

The Diocese has three non-contributory, defined benefit pension plans, qualified under Internal Revenue Service regulations, as follows:

Bridgeport Diocesan Pension Plan ("BDPP")

The BDPP covers lay employees of the Diocese and other Diocesan entities working at least 20 hours per week who met eligibility requirements of three years of continuous service and 30 years of age on or before July 2, 2008. Pension benefits are based on years of service and average compensation over a five-year period during the last ten years of employment. Plan assets are held in trust by a third party trustee.

Bridgeport Diocesan Cash Balance Plan ("BDCBP")

The BDCBP, established in fiscal year 2009, covers lay employees of the Diocese and other Diocesan entities working at least 20 hours per week who met eligibility requirements of three years of continuous service and 30 years of age on or after July 3, 2008. Pension benefits are based on individual participant's pension

(Amounts in Thousands)

NOTE J – (continued)

accounts that are credited with an annual contribution at a percentage of the participant's compensation based on years of service in the plan and with interest credits at the 30-year U.S. Treasury securities rate plus 1%.

Diocese of Bridgeport Retirement Plan for Priests ("RPP")

The RPP covers Diocesan priests with pension benefits provided at a uniform monthly amount that has been increased from time to time, most recently effective January 2007. Plan assets are held by a third-party trustee.

Benefit obligations (measurement date December 31, 2009), funded status and other information for the plans are as follows:

	December 31, 2009		
	BDPP	BDCBP	RPP
Projected benefit obligation	$ (148,886)	$ (94)	$ (18,862)
Plan assets at fair value	83,671	-	14,583
Funded status	$ (65,215)	$ (94)	$ (4,279)
Amounts not recognized in net periodic pension expense reported as a reduction of unrestricted net assets in the combined statements of activities:			
Transition (obligations) assets	$ (5,694)	$ -	$ 36
Prior service expense	(53)	-	(628)
Net loss	(39,458)	(2)	(3,960)
	$ (45,205)	$ (2)	$ (4,552)

(Amounts in Thousands)

NOTE J - (continued)

	Eighteen Months Ended December 31, 2009		
	BDPP	BDCBP	RPP
Net periodic pension expense (measurement date July 1, 2008)	$ 12,183	$ 92	$ 838
Amortization included in net periodic pension expense:			
Transition obligation (asset)	$ 2,284	$ -	$ (4)
Prior service expense	6	-	66
Net Loss	1,657	-	73
	$ 3,947	$ -	$ 135
Amounts arising:			
Net (gain) loss	$ 40,457	$ 2	$ 2,985
Prior service expense	44	-	-
	$ 40,501	$ 2	$ 2,985
Reduction of unrestricted net assets to recognize funded status of pension plans	$ 36,554	$ 2	$ 2,850
Diocesan contributions	$ 5,893	$ -	$ 1,081
Benefits paid	$ 9,786	$ -	$ 1,562

Assumptions

	BDPP	BDCBP	RPP
Assumed annual rates used to determine:			
Benefit obligations at December 31, 2009:			
Discount	5.75%	5.75%	5.50%
Compensation increase	3.00%	3.00%	N/A
Net periodic pension expense for the eighteen months ended December 31, 2009:			
Discount	6.58%	6.13%	6.58%
Long-term return on plan assets	7.17%	N/A	6.83%
Compensation increase	3.00%	3.00%	N/A

The discount rates used to determine benefit obligations and net periodic pension expense are forward rates for high quality fixed income corporate securities whose maturities specifically correspond to future expected benefit payments.

(Amounts in Thousands)

NOTE J - (continued)

The assumed annual rates of long-term return on plan assets are based on historical rates of return over the last fifty years on similarly constructed portfolios provided by the plans' professional investment advisors. If accumulated benefit obligations (determined based on current compensation levels without regard to future compensation increases for BDPP participants) were determined using the assumed long-term rates of return on plan assets as the discount rates, the fair value of plan assets would represent 65.5% and 85.3% of those accumulated benefit obligations at December 31, 2009 for the BDPP and RPP, respectively.

Future amortization, contribution and benefit payments

For the year ended December 31, 2010:

	BDPP	BDCBP	RPP
Estimated amortization to be included in net periodic pension expense:			
Transition obligation (asset)	$ 888	$ -	$ (3)
Prior service expense	4	-	44
Net loss	2,799	-	118
	$ 3,691	$ -	$ 159
Estimated Diocesan contributions	$ 2,500	$ 94	$ 500

Estimated benefit payments for the years ended December 31:

	BDPP	RPP
2010	$ 7,313	$ 1,210
2011	$ 7,615	$ 1,244
2012	$ 8,011	$ 1,289
2013	$ 8,418	$ 1,316
2014	$ 8,802	$ 1,319
2015 through 2019	$ 49,951	$ 6,531

Investment policies and plan assets

The investment policies of the plans were determined by the Diocese in consultation with professional investment advisors and the BDPP Committee and the RPP Board, the latter groups consisting of both clergy and lay people. The policies feature diversified asset allocations, multiple asset managers in asset categories and moderate to low risk profiles. The Diocese seeks investment returns that meet or exceed the assumed long term rate of return on plan assets (see below) used to determine net periodic pension expense.

(Amounts in Thousands)

NOTE J – (continued)

Target asset allocations were as follows at December 31, 2009:

	BDPP	RPP
Equities:		
Domestic:		
Large-cap growth	9.3%	15.0%
Large-cap value	6.2%	15.0%
Small/mid-cap value	3.5%	5.0%
Small-cap value	3.0%	5.0%
International	12.0%	10.0%
Emerging markets	3.0%	--
Debt securities mutual funds	50.0%	44.0%
Alternative investment funds	8.5%	6.0%
Future fund	4.5%	--
	100%	100%

The Plans' investments are as follows at December 31, 2009:

	Level 1	Level 2	Level 3	Total
Equities:				
Domestic:				
Large-cap growth	$ 8,451	$ -	$ -	$ 8,451
Large-cap value	8,134	-	-	8,134
Small/mid-cap value	2,459	-	-	2,459
Small-cap value	2,433	-	-	2,433
International	8,732	-	-	8,732
Emerging markets	4,202	-	-	4,202
	34,411	-	-	34,411
Debt securities mutual funds	-	47,854	-	47,854
Alternative investment funds	-	881	5,617	6,498
Futures fund	-	2,644	-	2,644
Cash/Money markets	6,847	-	-	6,847
Total	$ 41,258	$ 51,379	$ 5,617	$ 98,254
BDPP	$ 35,022	$ 43,032	$ 5,617	$ 83,671
RPP	6,236	8,347	-	14,583
	$ 41,258	$ 51,379	$ 5,617	$ 98,254

(Amounts in Thousands)

NOTE J – (continued)

The Level 3 fair value measurement investments are in nine alternative investment funds described in Note F. The alternative investment funds are not individually significant as each is less than 1.1% of the BDPP investment portfolio. The changes in these investments for the eighteen months ended December 31, 2009 were as follows:

Balance at July 1, 2008	$ 6,863
Investment returns included in changes in net assets	(286)
Purchases and settlements, net	(960)
Balance at December 31, 2009	$ 5,617

Subsequent Events

Effective July 31, 2010, benefits under the BDPP and the BDCBP were frozen. No additional benefits will be earned in those plans by participants for services rendered after that date. The Diocese expects that the funding shortfalls of those plans will be eliminated through future contributions over the remaining lives of the plans' participants.

For services rendered after July 31, 2010 by lay employees of the Diocese and other Diocesan employers working at least 20 hours per week who meet the eligibility requirements of one year of service and 21 years of age, the Diocese and other Diocesan entities will contribute to a new defined contribution retirement plan.

Former Pension Plan for Priests

The Diocese also provides pensions under a plan that was superseded by the RPP to five priests who were retired before adoption of the RPP and were not eligible for the RPP by reason of their advanced age when the RPP was adopted. The present value of the estimated obligation to these priests was $392 determined using a discount rate of 5.50% at December 31, 2009, and is included in pension and other retirement obligations. Pension payments were $194 for the eighteen months ended December 31, 2009. The obligation is unfunded. Interest on the obligation, partially offset by net actuarial gains, is included in other pension expense for priests and amounted to $29 for the eighteen months ended December 31, 2009.

Retired Priests' Healthcare Plan

The Diocese provides medical and dental care for retired priests on an unfunded basis through insurance purchased annually from a third party. The plan provides a prescription drug benefit that is actuarially equivalent to the federal Medicare Part D and the Diocese receives the resulting federal subsidy that is reflected in the accumulated benefit obligation and net healthcare expense.

(Amounts in Thousands)

NOTE J – (continued)

Accumulated benefit obligation (measurement date December 31,2009), funded status and other information for the plan are as follows:

	December 31, 2009
Accumulated benefit obligation, representing funded status, discount rate 5.50%*	$ 7,578
Amounts not recognized in net periodic healthcare expense:	
Transition obligation	$ 2,828
Prior service expense	519
Net loss	1,936
	$ 5,283

*See comment on discount rates under *Current Pension Plans* above

	Eighteen Months ended December 31, 2009
Net periodic healthcare expense, measurement date July 1, 2008 and discount rate 6.58%	$ 1,074
Amortization included in net periodic healthcare expense:	
Transition obligation, 20 years through June 30, 2024	$ 293
Prior service expense, 19 years through June 30, 2024	54
	$ 347
Amounts arising:	
Net loss	$ 2,179
Reduction (adjustment of reduction) of unrestricted net assets to recognize funded status	$ 1,832
Premiums paid, net of federal subsidies	$ 480

Annual insurance premiums are assumed to increase 8% in 2010 with increases trending to 6% in 2012.

Estimated premium payments, net of federal subsidies, for the years ended December 31 are as follows:

2010	$	283
2011	$	293
2012	$	303
2013	$	318
2014	$	334
2015 through 2019	$	2,153

Estimated amortization to be included in net periodic healthcare expense for fiscal year 2010 is $290.

(Amounts in Thousands)

NOTE K - ENDOWMENTS

The Faith in the Future endowment fund has common and individual donor endowments principally for operations of Diocesan high schools, elementary schools, St. John Fisher Seminary, vocations and religious education in parishes, as well as for scholarships to Diocesan high schools. Additionally, the Diocese has three endowments that donors have established to benefit St. Thomas Church Fairfield, Connecticut, a religious order and other third party charities, Catherine Dennis Keefe Queen of Clergy retirement home for Diocesan priests and scholarships to St. Catherine Academy. The donors have specified that the gift amounts be invested and only the related investment returns may be spent for the designated purposes. The State of Connecticut has adopted a version of the Uniform Prudent Management of Institutional Funds Act and Faith in the Future and the Diocese have interpreted that version as requiring preservation of the fair value of the gift amounts as of the gift dates of donor designated endowment funds, absent explicit donor stipulations to the contrary. Neither the Diocese nor Faith in the Future have Board designated endowments.

Faith in the Future has a policy of making annual distributions (reported as contribution expense) from its common donor endowment at a rate of 4.5% of the trailing, from December 31, twelve quarters average fair value of the related endowment investments. The rate was established to preserve the earning power of the endowment investments and the ability to make distributions in years when investment losses are incurred. Distributions from Faith in the Future individual donor endowments are made in accordance with the donors' stipulations. Distributions from the Diocese's endowments are generally made annually at amounts that do not exceed accumulated investment income. If, as a result of investment losses, the fair value of the endowment investments is less than the related endowment gift amounts, no distributions are made.

The net asset classifications of endowments are as follows at December 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Faith in the Future	($ 1,687)	$ 69	$ 20,479	$ 18,861
Diocese	-	71	814	885
	($ 1,687)	$ 140	$ 21,293	$ 19,746

Changes in the endowments by net asset classification for the eighteen months ended December 31, 2009 were as follows:

(Amounts in Thousands)

NOTE K – (continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at July 1, 2008:	$ -	$ 1,534	$ 21,203	$ 22,737
Contributions	-	-	82	82
Investment returns:				
Interest and dividends	-	388	-	388
Net (depreciation) appreciation in fair value	(1,687)	(1,583)	8	(3,262)
Investment expenses	-	(165)	-	(165)
Distributions made	-	(34)	-	(34)
	(1,687)	(1,394)	90	(2,991)
Balance at December 31, 2009:	$ (1,687)	$ 140	$ 21,293	$ 19,746

NOTE L – TEMPORARILY RESTRICTED NET ASSETS

The Diocese had temporarily restricted net assets available for the following purposes at December 31, 2009:

Faith in the Future investment income and contributions:	
Diocesan schools, St. John Fisher Seminary, vocations and religious education programs	$ -
Diocesan high school scholarships	217
	217
Diocese:	
St. Catherine Academy facilities	6
St. John Fisher Seminary facilities	43
St. John Fisher Seminary financial assistance to seminarians	55
The Newman Center	93
Other	10
	207
Total purpose restrictions	424
Pledges receivable representing time restrictions	496
Total temporarily restricted net assets	$ 920

Net assets were released from restrictions during the eighteen months ended December 31, 2009 as follows:

Satisfaction of purpose restrictions	$ 607
Expiration of time restrictions	1,768
Total net assets released from restriction	$ 2,375

(Amounts in Thousands)

NOTE M - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2009 are as follows:

Faith in the Future:	
Endowment gifts received	$ 20,363
Endowment pledges receivable	116
	20,479
Diocese:	
Endowment gifts received	814
Beneficial interest in perpetual trust held by third party trustee	459
	1,273
Total permanently restricted net assets	$ 21,752

The net assets are permanently restricted at December 31, 2009 for the benefit of the following:

Faith in the Future:	
Diocesan schools, St. John Fisher Seminary vocations and religious education programs	$ 18,827
Diocesan high school scholarships	1,652
	20,479
Diocese:	
St. Catherine Academy scholarships	50
St. John Fisher Seminary financial assistance to seminarians	708
St. Thomas Church Fairfield, Connecticut	206
The Sisters of Mercy	103
Catherine Dennis Keefe Queen of Clergy retirement home for Diocesan Priests	103
Charities designated annually by the Bishop	103
	1,273
Total permanently restricted net assets	$ 21,752

(Amounts in Thousands)

NOTE N - ANNUAL BISHOP'S APPEAL AND OTHER CONTRIBUTIONS AND BEQUESTS

The results of the Diocesan Annual Bishop's Appeal and other contributions and bequests for the eighteen months ended December 31, 2009 were as follows:

Annual Bishop's Appeal (ABA) - gross	$ 12,164
Other contributions and bequests	1,452
Less -	
Returns to parishes as incentive for exceeding parish 2009 ABA goals	(89)
ABA amounts designated by donors for:	
Diocesan schools and after school programs	(809)
Catholic Charities	(589)
Allowance for uncollectable amounts	(315)
Annual Bishop's Appeal and other contributions and bequests - net	$ 11,814
Reported as changes in:	
Unrestricted net assets	$ 11,137
Temporarily restricted net assets	677
	$ 11,814

NOTE O - EMPLOYEE BENEFIT AND INSURANCE PROGRAMS

Employee benefit and insurance program revenues from other Diocesan entities were as follows for the eighteen months ended December 31, 2009:

Medical and dental self-insurance	$ 12,840
Liability, property, casualty and other insurance	3,181
Workers' compensation self-insurance	498
Lay pensions	5,015
Priests' pensions	606
Total employee benefit and insurance program revenues from other Diocesan entities	$ 22,140

Expenses related to the employee benefit and insurance programs were as follows for the eighteen months ended December 31, 2009:

(Amounts in Thousands)

NOTE O – (continued)

Medical and dental claims, excess claims insurance premiums and third party administrative fees	$ 19,409
Liability, property, casualty and other insurance premiums and charges for deductible amounts	6,769
Workers' compensation claims, excess claims insurance premiums and third party administrative fees	1,250
Bridgeport Diocesan Pension Plan and Bridgeport Diocesan Cash Balance Plan net periodic pension expense (Note J)	12,275
Diocese of Bridgeport Retirement Plan for Priests net periodic pension expense (Note J)	838
Other pension expense for priests	29
Total employee benefit and insurance program expenses	40,570
Less amounts included in services, operations, administration and general, and fundraising expenses of the Diocese	(5,037)
Net employee benefit and insurance program expenses	$ 35,533

The employee benefit and insurance program revenues are determined at the beginning of the fiscal period and not adjusted for actual expenses incurred and included in employee benefit and insurance programs expenses in the combined statement of activities. Actual expenses are considered in determining the revenues for the following fiscal period.

The liability for incurred but not reported claims related to self-insurance and deductible amounts was $3,343 at December 31, 2009 and is included in self-insurance claims and deductible amounts payable.

NOTE P – CONCENTRATION OF CREDIT RISK

The Diocese has cash accounts with a bank and the balances in those accounts generally exceed the federally insured maximum amount of $250. At December 31, 2009, the excess was $1,311. While the Diocese has not experienced any losses on the accounts, there can be no assurance in the current environment that losses will not occur.

NOTE Q - CONTINGENCIES

The Diocese is a defendant in various lawsuits relating to abuse and other claims where plaintiffs are seeking to recover damages, some of which would be covered by insurance. The outcome of these lawsuits is uncertain but the Diocese does not believe the outcomes will materially impact net assets.

The Diocese has unconditionally guaranteed in the event of default, loans from banks to other Diocesan entities principally related to the construction of facilities. The fair value of the guarantee obligations to stand ready to perform on Diocesan entity loans from banks has not been determined or recorded. At December 31, 2009 the aggregate balances outstanding on these loans was $11,815 and the related weighted average interest rate was 5.36% and the weighted average maturity was 8.91 years.