



DIOCESE OF PORTLAND
OFFICE OF THE BISHOP

January 2006

ANNUAL FINANCIAL REPORT

My Dear Friends in Christ:

I am pleased to present this Annual Report on the finances and operations of the Diocese of Portland for the 12 months ending June 30, 2005.

This report has two aims: first, to provide better understanding of how the Church in Maine does God's work; second, to express our thanks to everyone whose gifts help make this work possible. Here you will find financial information about the Diocese — including information about the year's costs related to the clergy sexual abuse scandal.

It is the generosity of the Catholic faithful in Maine that enables the Church to function at both the parish and diocesan levels. I am deeply grateful to all who contribute to the support of their parish and to the annual Bishop's Appeal, not only with their treasure, but with their prayers and their talents.

One of the bulwarks of my trust is the strength of the Finance Council volunteers who lend their professional expertise and independent judgment to the management of the finances of the Diocese. Likewise, the Finance Office staff works diligently to assure that the gifts you offer are used effectively and efficiently.

We continue to press forward with our New Evangelization. Its ultimate aim is to enable all of us as Church to carry out even more effectively the mission Jesus entrusted to us: to share the Good News of salvation for all people. As a first step we have engaged parishioners all over the diocese in discerning how to re-orient our parishes so that priests can better fulfill their true ministry and lay people can more readily bring forth the multitude of gifts of time and talent they have to offer. I thank God we can do so with trust in the commitment of Maine Catholics to live as disciples of Our Lord.

Yours sincerely in Christ,

(Signature omitted for security purposes)

Most Reverend Richard J. Malone
|Bishop of Portland

FINANCE COUNCIL, DIOCESE OF PORTLAND

We are pleased to share with you this summary report of the finances of the Diocese of Portland for the fiscal year ended June 30, 2005.

Canon Law requires each Diocese to have a Finance Council and defines its responsibilities. The Council advises the Bishop regarding administration of the business affairs of the Diocese and must give approval for certain actions, such as a substantial purchase or sale of Church property.

Our Council includes the Bishop, three priests, two women Religious, and eighteen professionally-qualified lay men and women. The Council meets quarterly with the Bishop and has candid discussions with him on the financial affairs of the Diocese. Committees of the Council meet regularly to develop and assure execution of sound financial policies and practices.

Because the Church in Maine is dependent on offerings from its members to support its mission and work, the Council supervises the fund-raising efforts of the Diocese and makes sure that gifts from the faithful are used effectively and efficiently for the purposes the donors intended.

(Signature omitted for security purposes)

Gregg Ginn, Finance Council Chair

The Finance Council has an Audit/Budget Committee of six lay people and one Religious sister. All members of the Committee are knowledgeable and experienced both in finances and in management of a non-profit organization. The principal responsibility of the Committee is to oversee management of the assets of the Diocese. It supervises the creation of the Diocesan budget and oversees the Council's consideration of the budget. The Committee meets quarterly to review financial performance and make recommendations to the Council.

The Audit/Budget Committee meets with internal auditors to assure that internal audits are adequate at all levels — parishes, schools, cemeteries, Diocese. It also meets with independent outside auditors to plan the scope of their work, then reviews with them their findings and recommendations. The Committee recommends to the full Council any action that may be called for to assure sound financial accounting and management.

At all meetings we encourage open and frank discussions with everyone involved, and we are grateful for the commitment and level of participation of our members.

(Signature omitted for security purposes)

Mary Arnold, Chair, Audit/Budget Committee

MESSAGE FROM THE FINANCE OFFICER

Overall, I would characterize Fiscal Year 2005 as steady and solid. Total operating revenue was up over 6%. However, a significant portion of that increase was attributable to gains on sales of investments. Collections – Freewill Offerings were up modestly by historical standards at 1.9%. Both parish offertory and the Bishop's Appeal have increased but not at a pace to cover the inflationary increases in expenses.

Fortunately, we have been able to curtail the rate of growth in operating expense at about 1.5%. Unfortunately, this curtailment has undoubtedly

caused some ministries to be constrained or reduced.

We continue to remain concerned about the future impact of shifting attitudes toward giving among different age groups. Church attendance and consistent giving are highest among the World War II generation. In the next generation, attendance has declined and with it, the number of donors. The average donation amount has increased sufficiently to provide for an overall increase in revenue.

We are challenged by rising health care costs. Though clergy health care costs moderated significantly this year, health care costs for lay employees escalated sharply. To better manage clergy health and pension costs and to ensure future availability of retirement income to retired clergy, the health care plan was thoroughly scrutinized, the pension plan was updated and a pension trust was established. Lay health costs are being worked on aggressively.

Property and casualty insurance expense decreased from last year.

The overall increase in net assets dropped from \$2.9 million in 2004 to \$1.4 million in 2005 as we saw realized and unrealized gains on sales of investments diminish significantly.

Despite the constraints posed by revenue and the challenge posed by health care costs, the Diocese of Portland had a reasonably good year and is financially stable.

Costs for Sexual Abuse

The cost of the sexual abuse scandal is still with us. During Fiscal Year 2005, total costs were \$625,000 for settlements, victim assistance, victim counseling and legal expense. Of that amount, \$297,000 was for settlements. Of the \$625,000, \$382,000 was paid by the insurance program. The remaining balance, virtually all for victim assistance, was paid from Diocesan reserves and investment income.

Commitment to Accountability

Our resources are provided through the generosity of the faithful. In return we must be accountable for the use of those resources. It is our intention to continue publishing similar information on an annual basis. I hope that this financial report is informative.

(Signature omitted for security purposes)

David P. Twomey
Finance Officer

The Financial Statements

The Diocese of Portland operates under civil law as the Roman Catholic Bishop of Portland, A Corporation Sole. This Corporation includes all parish, parish school, parish cemetery and Chancery assets. It does not include separately incorporated entities such as Catholic Charities Maine or entities operated by religious communities such as Mercy Hospital or Cheverus High School.

Exhibit 1 (next page) is a Combined Statement of Financial Position. 62% of the assets shown are parish assets. Investments are down only because \$7.5 million in clergy pension assets were transferred to the clergy pension trust during the year.

Exhibit 2 is the Combined Statement of Activities, depicting revenues and expenses for the Diocese. Parish revenues and expenses comprise approximately 90% of diocesan revenues and expenses.

Property and equipment expenditures have such a large impact because the Diocese does not capitalize and depreciate fixed assets. Property and equipment additions are immediately expensed. If the Diocese were to depreciate (spread the expense over the assets' useful lives) those assets, current expense would be radically reduced and the change in Net Assets would be dramatically less.

Exhibit 3 provides some insight into the size of Chancery operations. Sources of revenue and functional expenses are depicted.

FINANCIAL INFORMATION

Exhibit 1: Combined Statement of Financial Position for the Roman Catholic Bishop of Portland, a Corporation Sole, for the years ended June 30, 2004 and 2005

<u>ASSETS</u>		
Assets:	2005	2004
Cash and cash equivalents	7,554,837	7,066,097
Investments	70,734,215	74,538,357
Due from affiliated organizations	735,379	565,757
Pledges receivable, net of reserve for uncoll. pledges	3,340,998	4,164,651
Accounts receivable	534,276	518,878
Accrued investment income	139,100	135,339
Other assets	1,822,240	1,866,592
Beneficial interests in trusts held by others	<u>918,606</u>	<u>895,676</u>
Total assets:	<u>85,779,651</u>	<u>89,751,347</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:	2005	2004
Accounts payable and accrued expenses	2,620,007	3,048,637
Other liabilities	4,486,167	3,888,027
Insurance claims payable	1,798,018	1,684,661
Reserve for insurance claims incurred but not reported	1,696,137	1,674,801
Accrued pension obligations	3,032,846	9,578,015
Accrued other post-retirement benefits	6,064,186	5,220,458
Deferred revenue	318,202	365,685
Savings and loan deposits	<u>133,619</u>	<u>94,292</u>
Total liabilities:	<u>20,149,182</u>	<u>25,554,576</u>
Net assets:		
Unrestricted	23,130,219	23,210,007
Unrestricted - designated	1,196,190	1,109,072
Unrestricted - limited in use - cemetery perpetual care	10,149,155	9,969,574
Temporarily restricted	25,194,188	22,700,755
Permanently restricted	<u>5,960,717</u>	<u>7,207,363</u>
Total net assets:	<u>65,630,469</u>	<u>64,196,771</u>
Total liabilities & net assets:	<u>85,779,651</u>	<u>89,751,347</u>

(Management Compiled)

Exhibit 2: Combined Statement of Activities for the Roman Catholic Bishop of Portland, for the years ended June 30, 2004 and 2005

Oper. revenues and support:	2005	2004
Collections - freewill offerings	30,539,493	29,957,742
Capital campaign contributions	2,610,854	3,127,767
Other contribs. and bequests	1,940,822	1,413,456
Interest and dividends	2,013,820	1,802,911
Parochial school revenue	13,355,760	12,794,903
Religious education revenues	361,439	204,360
Cemetery operating revenues	1,605,113	1,655,391
Charges for insur. to affiliates	873,689	720,642
Proceeds from sale of property	532,537	100,525
Gain (Loss) on sale of invest.	2,369,394	1,244,305
Parish fundraising events	1,741,976	1,738,909
Rental income	318,282	472,839
Other revenue	<u>2,307,265</u>	<u>1,778,377</u>
Total operating revenue:	<u>60,570,444</u>	<u>57,012,127</u>
Expenses:		
Program services:		
Pastoral	22,414,740	21,957,612
Educational	21,941,116	21,443,927
Social services	1,353,977	1,442,507
Religious personnel development	419,415	424,511
Cemeteries	1,902,804	2,113,948
Other	<u>922,599</u>	<u>558,384</u>
Total program services:	<u>48,954,651</u>	<u>47,940,889</u>
Supporting services:		
General and administration	3,879,503	3,792,196
Insurance expense	1,902,798	2,068,874
Property taxes paid	329,479	324,171
Fundraising expenses	<u>419,369</u>	<u>550,378</u>
Total supporting services:	<u>6,531,149</u>	<u>6,735,619</u>
Total expenses:	<u>55,485,800</u>	<u>54,676,508</u>
Excess (deficiency) of revenue:	<u>5,084,644</u>	<u>2,335,619</u>
Minimum pension liability adjust.	(931,304)	777,254
Property and equipment	(2,831,690)	(5,997,446)
Unrealized gain/(loss) on invest.	112,048	5,803,877
Change in unrestricted net assets:	<u>1,433,698</u>	<u>2,919,304</u>
Net assets, July 1, 2004:	<u>64,196,771</u>	<u>61,277,467</u>
Net assets, June 30, 2005:	<u>65,630,469</u>	<u>64,196,771</u>

(Management Compiled)

Exhibit 3: Diocesan Statement of Activities for All Diocesan Departments for the year ended June 30, 2004 and 2005

Revenues:	2005	2004
Parish Assessments	1,693,595	1,573,287
Bishop's Appeal	3,416,849	3,301,311
Restricted Income	673,174	664,141
Trust Funds	568,647	534,041
Investment Income	<u>211,626</u>	<u>119,071</u>
Total Revenues:	<u>6,563,891</u>	<u>6,191,851</u>
Expenses:		
Bishop's Office	476,430	497,166
Catholic Schools	713,396	681,040
Finance	410,007	375,998
Property Management	83,820	73,675
Catechetics	307,019	278,729
Tribunal	228,623	226,017
Youth Ministry	214,222	213,855
Clergy Health & Pension	581,676	444,389
Indian Missions	68,975	65,838
Communications & Public Policy	416,851	348,524
Clergy Education & Development	114,105	138,013
Clergy Relief	176,432	233,010
Diocesan Charities	12,275	10,325
Counseling & Support	203,971	153,591
Bahama Mission	12,000	12,000
Christian Life Center	21,700	21,700
Development	301,567	280,045
Parish Support	145,075	130,582
Hospital Chaplains	214,971	184,537
Campus Ministry	128,309	113,008
St. Andre's Home	40,000	40,000
Catholic Charities Maine	750,000	750,000
Resource Center	55,184	55,113
Cathedral Residence	168,523	147,218
Stewardship	63,304	57,071
Vocation Development and Seminarian Education	377,768	361,426
Prison Ministry	21,522	22,224
USCCB Assessment	56,454	57,545
Campaign for Human Development Programs	18,399	22,500
Debt Service	<u>19,824</u>	<u>68,590</u>
Total Expenses:	<u>6,402,402</u>	<u>6,063,729</u>
Excess of Revenue Over Expenses:	<u>161,489</u>	<u>128,122</u>

(Management Compiled)