



Financial Transparency
Review

**Archdiocese of Boston Financial Report
2005**



Financial Transparency Project Initial Objective

- Meet Cardinal O'Malley's October 2005 Commitment:
 - Understand the Organization of the Archdiocese of Boston
 - Provide Consolidated Financial Statements of Corporation Sole
 - Provide Accounting for Sex abuse Source and Use of Funds



The Financial Transparency Process

- Volunteer Committee:
 - “Fresh Eyes”, no prior involvement with Chancery
 - Team of Competent Experts:
 - Academics
 - Certified Public Accountants
 - Communications Professionals
 - Pastors
 - Parishioners
 - Heavy Time Commitment



Financial Transparency Project Committee

Jack McCarthy, CPA (Chair), Principal, The Hauser Center at Harvard University

Tiziana Dearing, Executive Director, The Hauser Center at Harvard University

Jack Dunn, Director of Public Affairs, Boston College

Rev. Michael Lawlor, Pastor, Saint Joseph Parish, Needham

Rev. John E. MacInnis, Pastor, Saint John The Baptist Parish, Peabody

Rev. Brian F. Manning, Pastor, Saint Mary Of The Nativity Parish, Scituate

George Massaro, CPA, Managing Partner, Huron Consulting Group

George Neble, CPA, Partner, Ernst & Young

Jack Reardon, Parishioner, St. Anthony of Padua

Tom Reardon, Parishioner, St. Anthony of Padua

Ann Marie Thornburg, CPA, Partner, PricewaterhouseCoopers



Committee Expanded Objective . . .

. . . to go Beyond the Commitment to provide

- Comprehensive view of the Archdiocese
- Discussion & Analysis of Financial Situation
- Audited Financials of “Related Organizations”
- Subject Sex Abuse Source & Use of Funds to Independent Review
- Simple Version of Analysis for Parishioners



Report Addresses Some Basic Questions

- What does Corporation Sole own?
- What are the claims & restrictions on our net assets?
- What happened to our net assets during the year?
- What is the assessment of our financial condition?



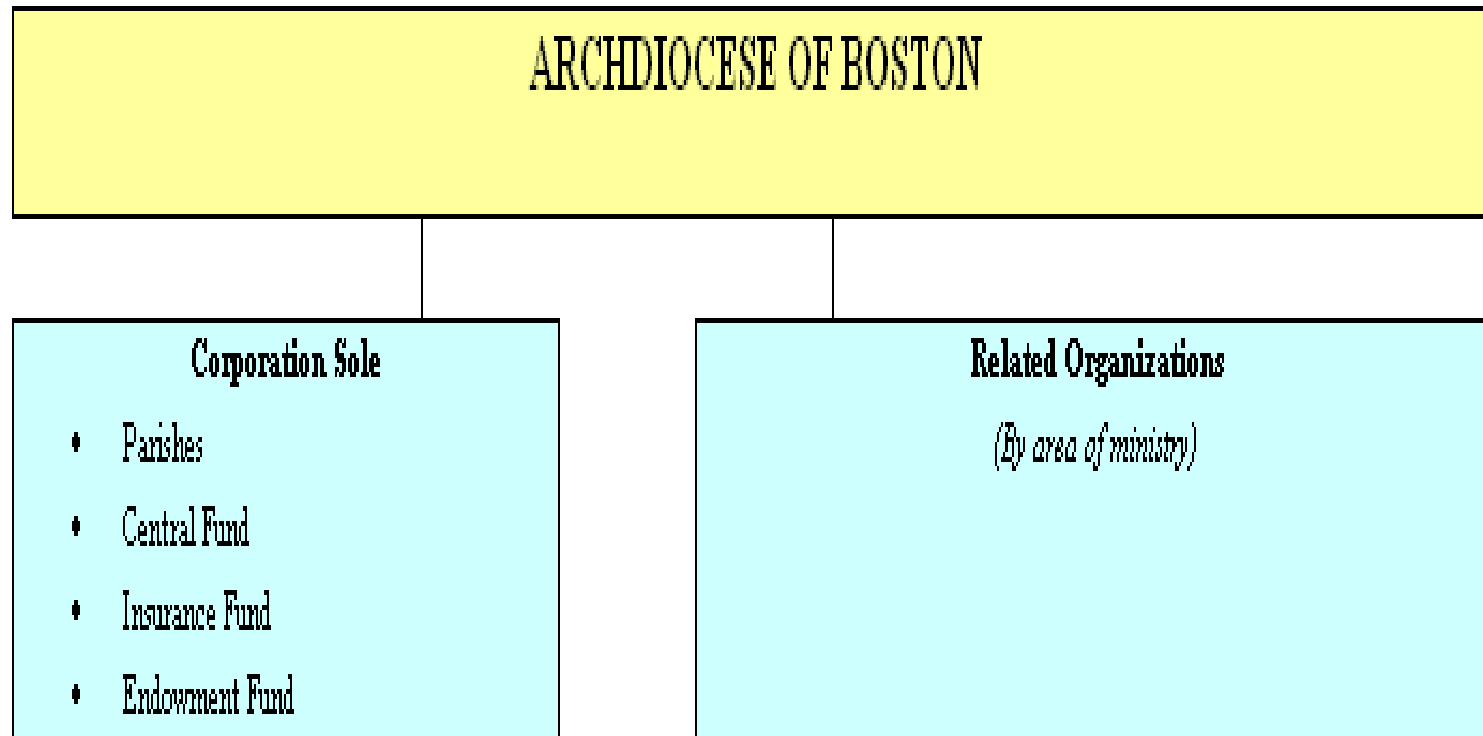
Other Questions Addressed in the Report:

- What is the status of the Parish Revolving Loan Fund?
- What happened to the Reconfiguration Funds during the year?
- How do Clergy Benefit Trusts impact the operations?



Organization Chart

(Detailed Organization Chart on page 10 in Report)





“Key Questions”

- What is the overall Financial Position?
- What are we doing to improve it?



What is the overall Financial Position?

"... the Archdiocese is in a difficult financial position..."

(all \$ amounts in millions)

- Net Assets of \$330 BUT a cumulative deficit of \$46
- \$113 or 72% of cash & equivalents belongs to parishes
- Major liabilities are:
 - Unfunded pension costs of \$135
 - Outstanding debt of \$38
 - Insurance reserves of \$29
- Unrecorded liabilities:
 - Parish deferred maintenance
 - Underfunding of lay pension plan

What's the financial position at June 30, 2005?

Corporation Sole 2005 Statement of Financial Position (in millions)

Assets	
2005	\$567.5
2004	\$522.8

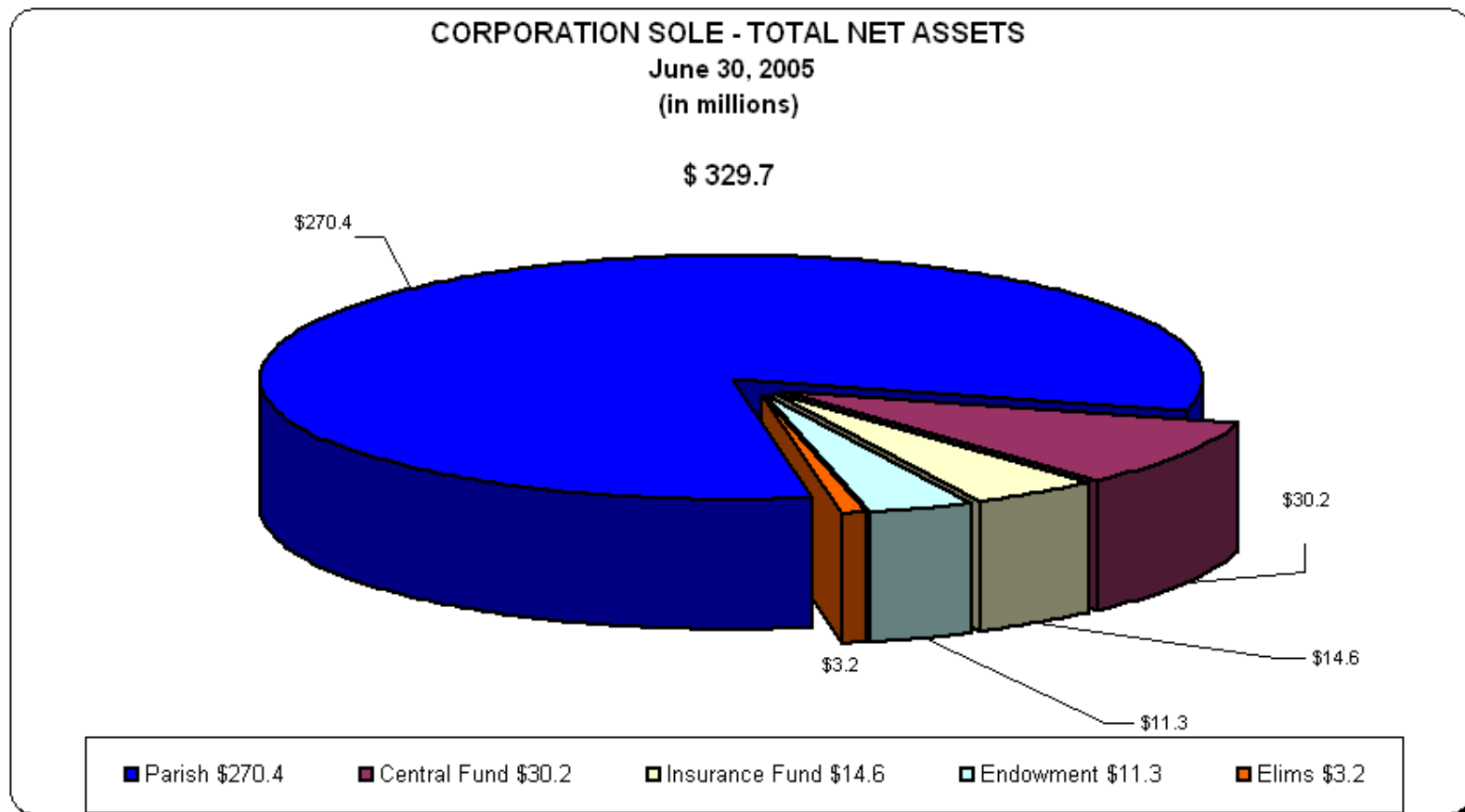
Minus

Liabilities	
2005	\$237.8
2004	\$197.4

Equals

Net Assets	
2005	\$329.7
2004	\$325.4

Corporation Sole: Net Assets of \$329.7 million





What are the claims / restrictions on net assets?

Corporation Sole
Total Net Assets
June 30, 2005
(in millions)

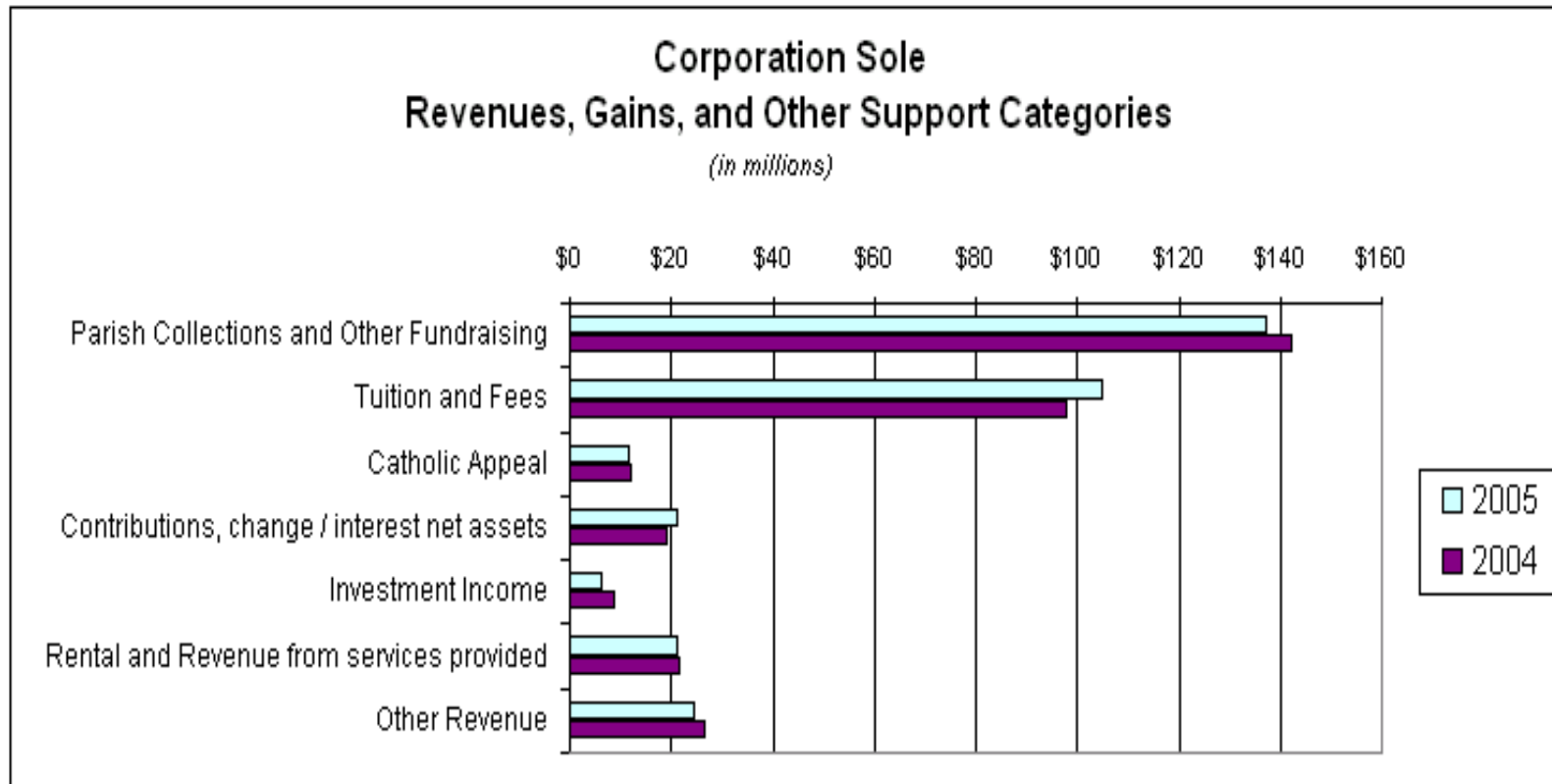
Total Net Assets		\$ 329.7
Less amounts designated for:		
Invested in Parish property	288.1	
Parish Reconfiguration Funds	22.8	
Insurance & Risk Management	14.6	
Future Care of Cemeteries	<u>9.9</u>	335.4
Less donor restricted amounts		<u>40.6</u>
Net Asset Deficit		<u><u>\$ (46.3)</u></u>



Statement of Activities & Changes in Net Assets

Corporation Sole 2005		
Statement of Activities & Change in Net Assets		
(in millions)		
Net Operating		Net Nonoperating
Revenues \$326.5	Plus	
less		
Expenses \$324.5		
Net \$2.0		Equals
		Net Assets
		Net \$4.3

Revenues, Gains, and Other Support Activities





Parish Collections / Other Fundraising

Corporation Sole

Parish Collections / Other Fundraising

(in millions)

	2005	2004
Collections	\$ 105.2	\$ 108.4
Collections restricted to assist clergy	4.9	5.4
Parish fundraiser events	21.2	22.1
Sacramental offerings	4.7	4.6
Shrines, candles, flowers	1.4	1.6
Total Parish Collections / Other Fundraising	\$ 137.4	\$ 142.1

Operating Activities: Program & Other Expenses

**Corporation Sole
Program and Other Expenses
(in millions)**

	2005	2004
Pastoral	\$ 152.0	\$ 149.9
Education	131.0	132.0
Ministerial	4.4	4.5
Social	2.2	2.2
Central and Regional services	5.8	5.7
Community relations	1.0	0.5
Auxiliary services	1.4	1.7
Cemetery	4.5	4.1
Total Program Expenses	<u>302.3</u>	<u>300.6</u>
Management and general	12.3	13.1
Fundraising	7.2	6.4
Parish reconfiguration	2.7	0.1
Total Other Expenses	<u>22.2</u>	<u>19.6</u>
Total Expenses	<u>\$ 324.5</u>	<u>\$ 320.2</u>



Nonoperating Activities

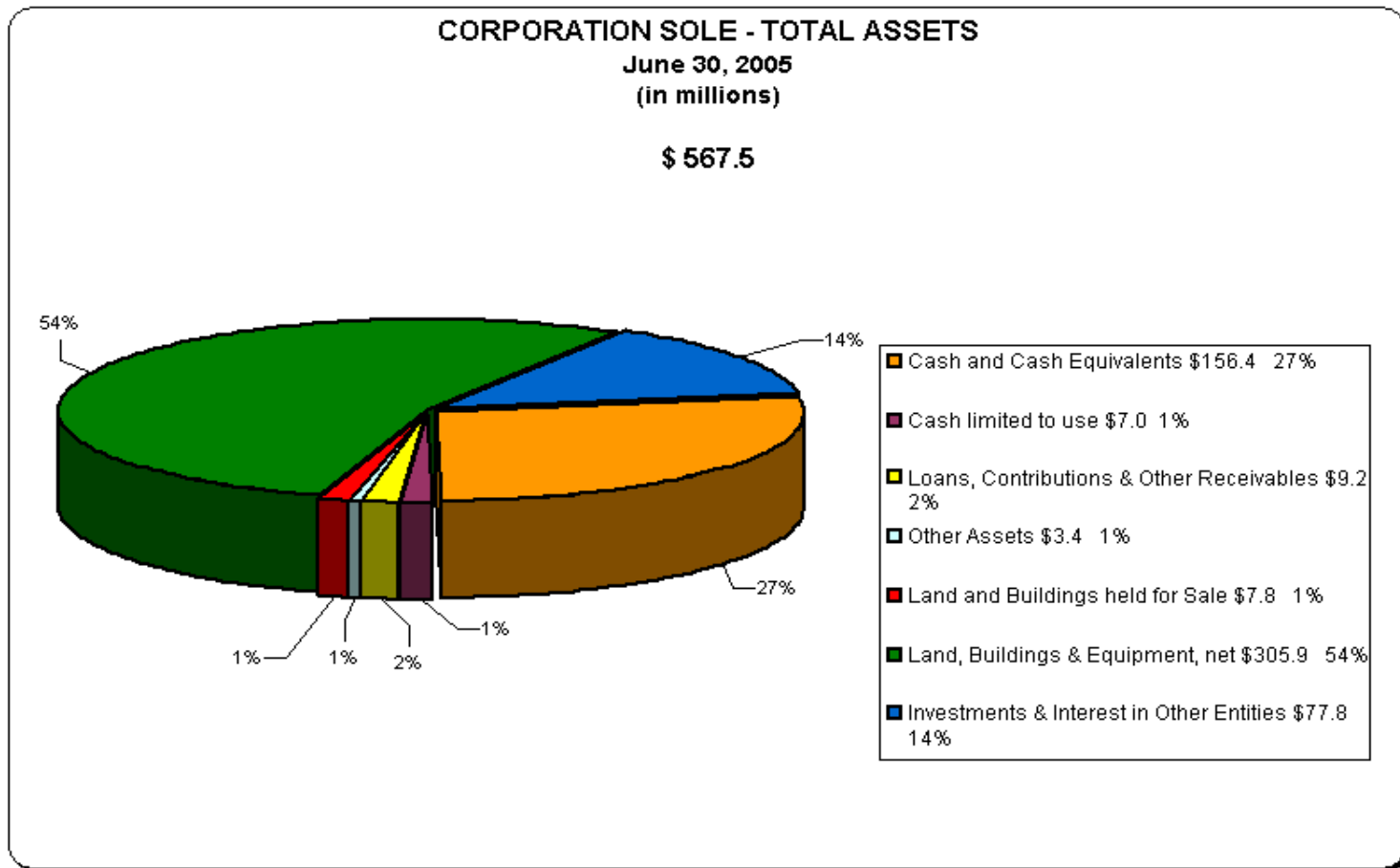
Corporation Sole

Nonoperating Income (Loss)

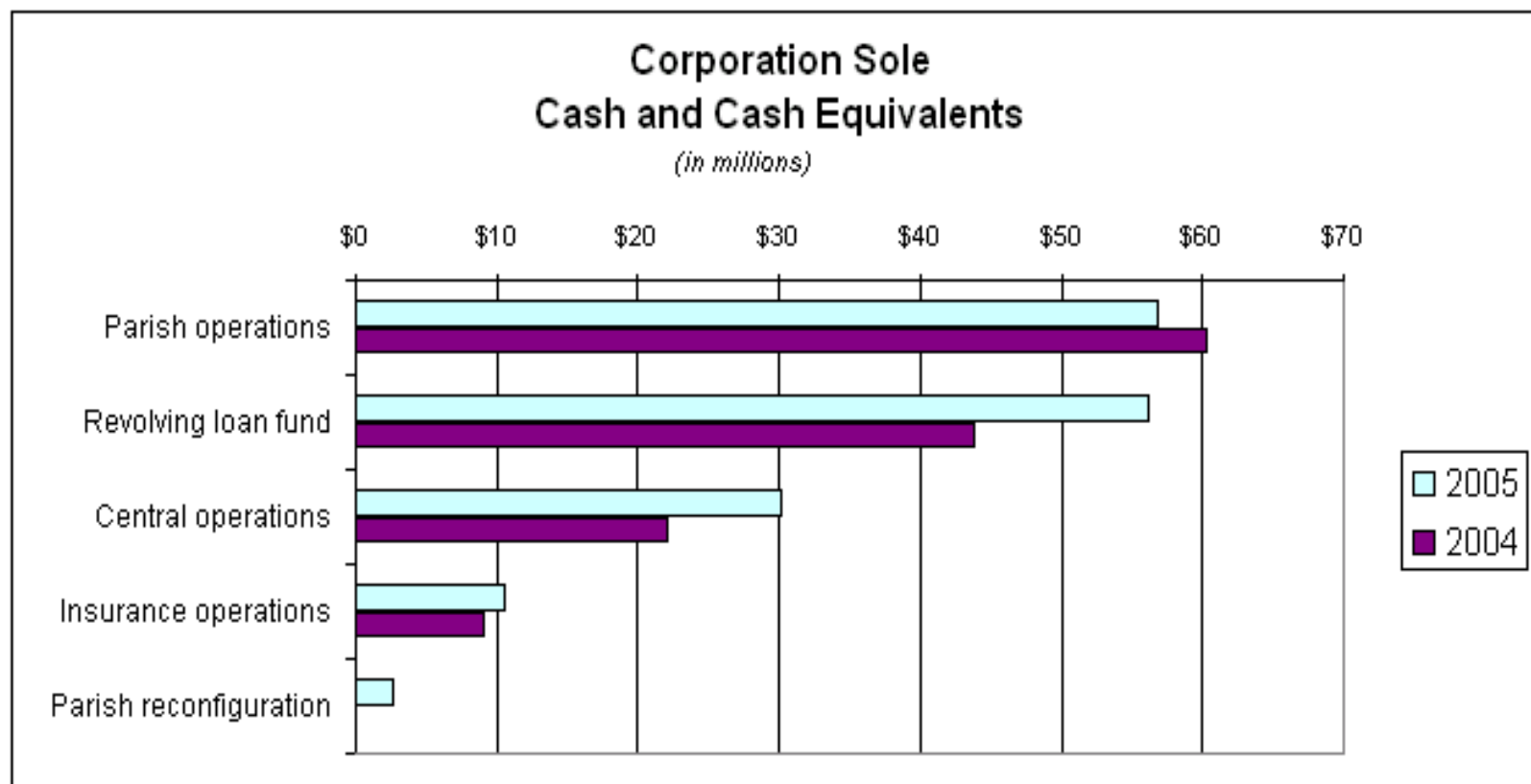
(in millions)

	<u>2005</u>	<u>2004</u>
Net realized and unrealized gain on investments and assets held under split-interest agreements	\$ 1.4	\$ 2.6
Gain on sale of administrative campus	-	87.2
Gain on sale of other land and buildings	30.9	38.8
Insurance and other recoveries	33.8	-
Settlement and related expenses	(32.2)	(19.9)
Resolution of contingency	(25.2)	-
Parish reconfiguration - transfers and support to related organizations	(0.6)	-
Change in additional minimum pension plan liability	(5.8)	9.0
Total Nonoperating Income	\$ 2.3	\$ 117.7

What were our assets?



Cash and Cash Equivalents



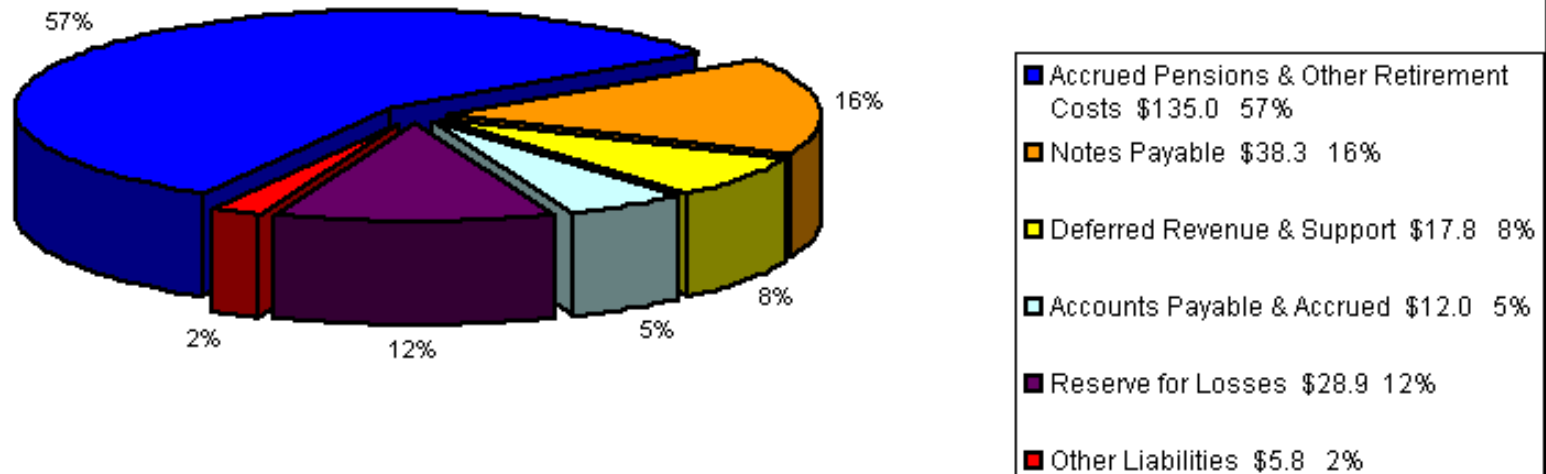
What were our liabilities?

CORPORATION SOLE - TOTAL LIABILITIES

June 30, 2005

(in millions)

\$ 237.8



What were Central Fund operating activities?

**Corporation-Sole - Central Fund
Summary of Operating Activities
(Unrestricted, Temporarily and Permanently Restricted)
Fiscal year-ended June 30, 2005 and 2004
(in millions)**

	<u>2005</u>	<u>2004</u>
<u>REVENUES, GAINS AND OTHER SUPPORT</u>		
Catholic Appeal	\$ 11.6	\$ 12.2
Collections, contributions, bequests and grants	7.1	7.0
Investment, interest and rental income	2.0	1.5
Revenue for services provided	8.2	9.4
Other revenues, changes, interest in net assets	0.7	1.5
Total revenues, gains and other support	<u>29.6</u>	<u>31.6</u>
<u>EXPENSES:</u>		
Pastoral & Education	8.8	8.8
Ministerial & Social	5.4	5.4
Regional/Central services	5.7	5.6
Community & Auxiliary Services	2.3	2.2
Total program expenses	<u>22.2</u>	<u>22.0</u>
Management and general	10.1	10.1
Fundraising cost paid to related organizations	2.2	1.9
Parish reconfiguration	3.4	0.1
Total expenses	<u>37.9</u>	<u>34.1</u>
Operating income (loss)	<u>\$ (8.3)</u>	<u>\$ (2.5)</u>



Management and General Expenses

Corporation Sole - Central Fund

Management and General Expenses are comprised of:
(in millions)

	<u>2005</u>		<u>2004</u>
Professional, Legal and Audit	\$ 1.4	\$	1.8
Human Resources	0.3		0.4
General Services (Archives and Print & Mail)	0.7		0.6
Chancellor's Office, Finance, MIS, Parish Systems, Insurance and Benefits	3.2		2.7
Building Operations and Maintenance	0.8		1.5
Facility & Real Estate Management	1.2		1.1
General Corporate	0.5		0.1
Interest and Depreciation	2.0		1.9
Total	<u>\$ 10.1</u>	<u>\$</u>	<u>10.1</u>

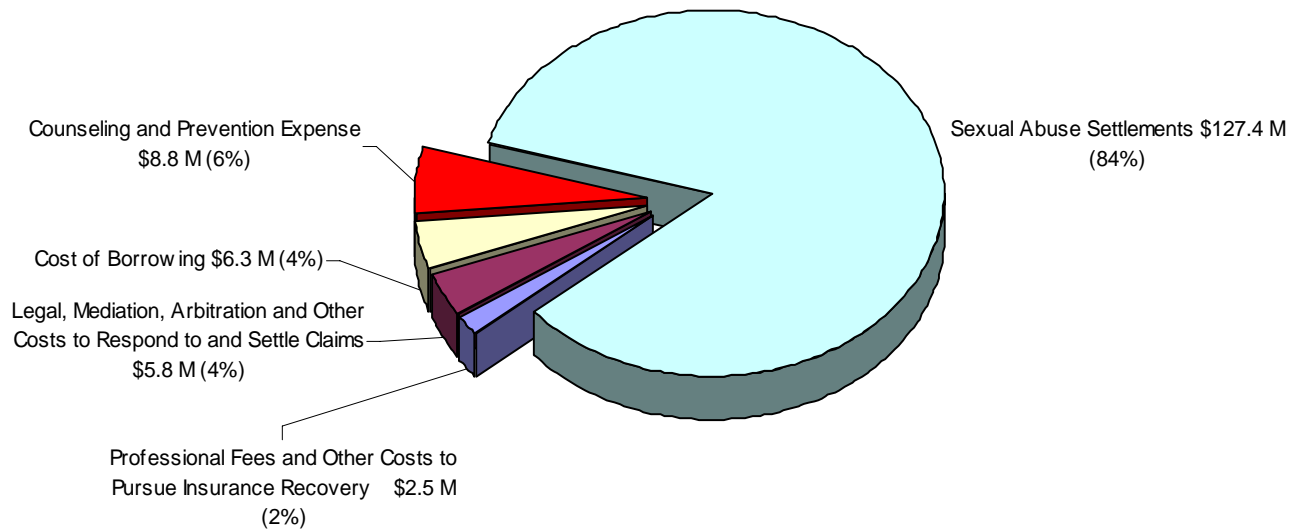


Sexual Abuse Settlements and Related Costs

- Period covered?
- How much has been paid?
- How were the payments funded?
- FTP Committee review procedures?

Sexual Abuse Settlements and Related Costs

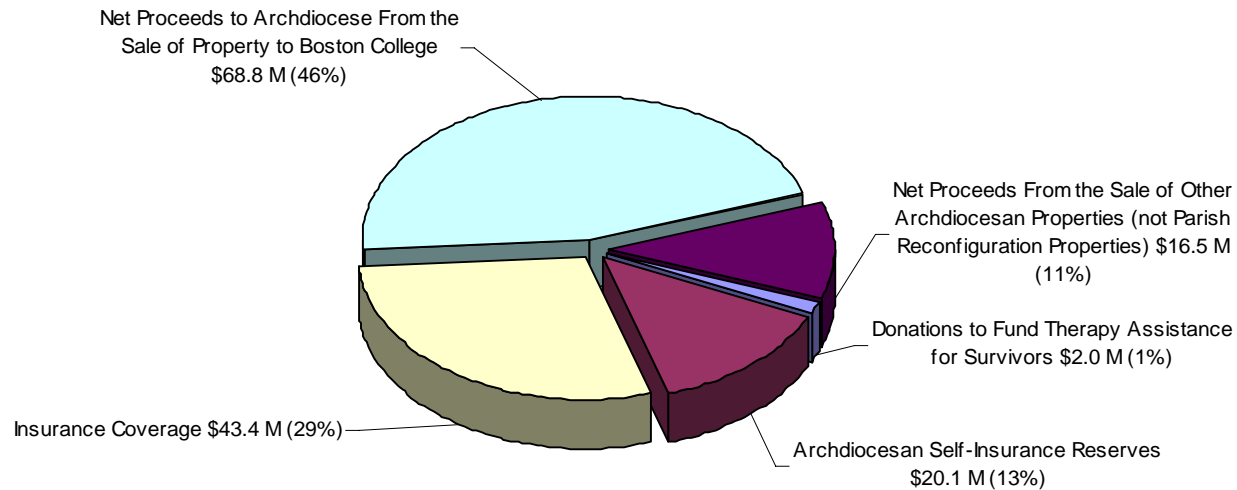
Sexual Abuse Settlements and Related Costs
\$ 150.8 Million



- Professional Fees and Other Costs to Pursue Insurance Recovery \$2.5 M (2%)
- Legal, Mediation, Arbitration and Other Costs to Respond to and Settle Claims \$5.8 M (4%)
- Cost of Borrowing \$6.3 M (4%)
- Counseling and Prevention Expense \$8.8 M (6%)
- Sexual Abuse Settlements \$127.4 M (84%)

Sources of Funds for Settlements

Sources of Funds Used to Pay Sexual Abuse Settlements and Related Costs
\$ 150.8 Million



- Donations to Fund Therapy Assistance for Survivors \$2.0 M (1%)
- Archdiocesan Self-Insurance Reserves \$20.1 M (13%)
- Insurance Coverage \$43.4 M (29%)
- Net Proceeds to Archdiocese From the Sale of Property to Boston College \$68.8 M (46%)
- Net Proceeds From the Sale of Other Archdiocesan Properties (not Parish Reconfiguration Properties) \$16.5 M (11%)



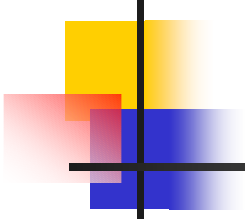
"... the Archdiocese is in a difficult financial position..."

What are we doing to improve?



OPERATIONS AND FINANCIAL REVIEW GROUP

FISCAL RECOVERY AND FINANCIAL STABILITY OF CENTRAL OPERATIONS



ALL MAJOR RCAB ORGANIZATIONS UNDER REVIEW



OBJECTIVES OF THE CENTRAL OPERATIONS REVIEW

1. To understand the mission, objectives and services provided by the various organizations budgeted within the Central Funds.
2. To return the Central Funds to financial stability.



CONCLUSIONS FROM THE REVIEW GROUP

1. The Archdiocesan management organization, including the Cabinet, requires a substantial overhaul and simplification.
2. Communication within the Archdiocese requires improvement.
3. Positive attitudes abound amid a high level of frustration.



RECOMMENDATIONS

1. Reorganize the Cabinet.
2. Create a more responsive organization through clarification and regionalization of authority.
3. Develop a balanced budget over the next 18 months.
4. Initiate a strategic plan for the Archdiocese of Boston, including a five-year capital plan.



IMPLEMENTATION

- The Committee
- Task and Assignments
- Sequence of Events
- Meetings commenced in March 2006, and will continue until completion (late summer 2006)



Where can I find this information?

All information on website at:

www.rcab.org