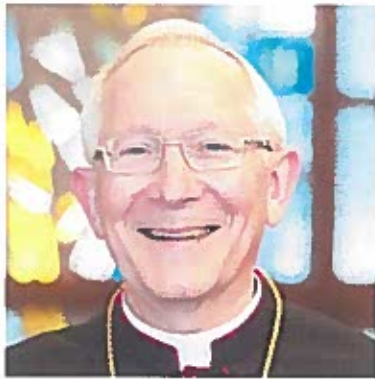




ARCHDIOCESE OF HARTFORD
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2022

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ARCHBISHOP'S LETTER

July 2023

Dear Friends in Christ,

I am pleased to present to you the Archdiocese of Hartford financial report for the year ending December 31, 2022.

I want to express my heartfelt thanks to the Catholic Faithful of the Archdiocese who continue to participate in the life of the Church and have been generous in their support amid today's many challenges.

The publication of this report reflects the commitment that has been made to provide transparency and financial responsibility, as rightly expected of those entrusted with the administration of the Church's temporal goods. I want to commend and thank the many capable and devoted individuals who work to ensure a high standard of financial stewardship in the Archdiocese.

I am especially grateful to all of last year's donors. May God bless us and our stewardship of His gifts so that we may continue our mission as disciples called to love God above all things and our neighbor as ourselves.

Sincerely yours in Christ,

A handwritten signature in black ink that reads "Leonard P. Blair".

Most Reverend Leonard P. Blair
Archbishop of Hartford

Hartford Roman Catholic Diocesan Corporation

Fiscal Year 2022

Management Discussion and Analysis

Like most organizations, during 2022 the Archdiocese of Hartford felt the impact of historically high inflation rates and high levels of capital market volatility. The Consumer Price Index (CPI), the principle year-over-year measure of inflation, peaked at 9.1% in June of 2022 – a rate that had not been seen in about 40 years. Inflation remained relatively high for the remainder of the year, measuring 6.5% for the month of December, well above the Federal Reserve’s target rate of 2%. The CPI is an “All Items” measure; digging into the detailed components of the CPI measure shows trends that are very troubling for day-to-day life in American households: Within the December 2022 CPI measure, the increase in Food prices is 10.4% and overall energy costs are up 7.3% year-over-year with Fuel Oil showing an alarming 41.5% increase. This inflationary impact was top of mind as we finalized the annual budgets across the Archdiocese leading to decisions to index pay increases in favor of lower income employees and keeping health and welfare benefit charges flat at 2022 levels for 2023.

During 2022 there was a no place to hide in the capital markets. The Federal Reserve’s only tool to fight inflation is increasing interest rates, which it did 7 times during 2022, at total of 425 basis points (4.25%) taking the Federal Funds Rate from a target of 0.00% - 0.25% up to the 4.25% - 4.50% range. This increase in rates over a 9-month period was unprecedented and put downward pressure on both stock and bond prices. The S&P 500 was down 18.32% for the year, reflecting the largest loss in the index since the great financial crisis in 2008 and only the 3rd annual loss over that 15-year period. Likewise, the Morningstar U.S. Core Bond Index comprised of a broad cross section of government and investment grade corporate bonds, lost 12.9% in 2022, the largest annual loss since the index began measurement in 1999. It goes without saying that such significant market losses are going to have a noticeable impact, even on a well-diversified portfolio.

Operationally, the Hartford Roman Catholic Diocesan Corporation is weathering the storm well, due primarily to prudent expense management along with slightly better than anticipated revenues.

Statement of Financial Position

Assets

As of December 31, 2022, total assets reflect a decrease of \$12.3 million or 10.3% compared to prior year-end. This decrease is primarily driven by the performance of the HRCDC investment portfolio which is reflecting a year-over-year net decrease of \$8.3 million or 7.8%, reflecting a decline in value from \$106.3 million to \$97.9 million. Cash and Cash Equivalents are also showing a significant year-over-year decline of \$4.0 million or 40% dropping from \$10.1 million to \$6.1 million; this decline is the result of deliberate action taken to transfer excess cash being held in the Archbishop's Annual Appeal Fund and the General Insurance Fund to the Hartford Investment Trust to provide income through investment in short-term Treasury Bills.

Year-over-year accounts receivable have increased by \$32,000 to \$580,048, primarily the result of price increases in the property, liability and auto insurance premiums that are billed. Also, within accounts receivable, pledges receivable have declined by \$84,000 year-over-year as a pledge payment of \$84,000 was received from Trinity Health of New England. Loans receivable declined by \$102,926 as no new loans were extended, collections on outstanding loans continue, and loan forgiveness was granted to Seminarians.

Liabilities

Total liabilities at December 31, 2022 are \$30.1 million, which is a decrease of \$9.2 million or 23.6% compared to last year. Accrued expenses have dropped by \$1.8 million or 78.7%. In prior years, a significant accrual was posted at year-end related to the Vicariate Outreach Program (VOP) which is funded through the Archbishop's Annual Appeal. The VOP provides funding to about 150 different non-profit service organizations across the Archdiocese, and the payments to these organization are made throughout the year. In lieu of posting an accrual, we have established a designated VOP fund to hold the VOP money until the disbursements are made. Funds on Deposit from Parishes and Others declined by \$3.8 million or 13.1% reflecting a decline in value of investments the Archdiocese holds for other entities. The adjustment booked for Loss Contingencies at December 31, 2022

together with the impact of claims settled during the year resulted in a year-over-year decrease in the liability of \$3.65 million or 42.3%.

Net assets

Total net assets decreased from \$83.1 million at December 31, 2021 to \$79.8 million at December 31, 2022, a decrease of \$3.3 million or 4.0%. The decrease is primarily a result of the loss in value of the investment portfolio.

Statement of Activities

The Archbishop's Annual Appeal raised just over \$9 million in 2022 compared to \$9.4 million last year, a decline of 4.1%, and just over \$100K short of the \$9.15 million-dollar budget, a variance of 1.2%. Revenue related to Parish Assessments was favorable to budget by \$329K or 6.3% and came in \$79K or 1.5% ahead of prior year. Bequests and contributions came in \$3.1 million lower than prior year; in 2021 we received a significant one-time gift, so the \$717K received during 2022 represents an amount closer to what would be considered normal. This amount includes \$500K that received as a pass-through to be used to support completion of the St. Joseph's Cathedral Community Center project. Due to their unpredictable nature, we do not budget for gifts. In 2022, HRCDC experienced a net loss of \$5.8 million on its investment portfolio, compared to a net gain of \$9.7 million in the prior year, an unfavorable year-over-year change of \$15.5 million. In aggregate, revenues ended the year unfavorable to budget by approximately \$1.8 million or 6.2%. Year-over-year total revenue shows a decline of \$17.1 million or 39% due to the one-time gifts in 2021 and the investment losses noted above.

At year-end, total operating expenses for HRCDC are running unfavorable to budget by approximately \$1.2 million at \$30.1 million versus a budget of \$28.9 million an unfavorable variance of 4%. However, this still represents a year-over-year decline in total expenses of \$3.7 million or 10.9%. Program expense exceeded budget by \$1.1 million due to increased costs in Pastoral Ministries, in particular Campus Ministries and Pro-Life activities, higher than budgeted subsidies paid to Catholic Schools, and higher salary costs in Communications as a result of bringing IT services back in house. Supporting Services expense exceeded budget as a result of recording additional legal loss reverses. Bank fees were favorable to budget by \$842K as due amounts that were budgeted within the operating fund that were ultimately and appropriately paid by an affiliated corporation.

Four-Year Summary of Revenue & Expenses

(\$ in millions)

	2022	2021	2020	2019
Total Revenues and Other Support	\$ 32.6	\$ 34.2	\$ 32.6	\$ 32.5
Expenses				
Total program expense	12.8	12.6	13.6	14.5
Total supporting service & other expense	17.3	21.1	18.9	24.3
Total Operating Expense	30.1	33.7	32.5	38.8
Increase/(Decrease) in net assets from operations	2.5	0.5	0.1	(6.3)
Net investment income/(loss)	(5.8)	9.7	4.7	6.8
Change in Net Assets	(3.3)	10.2	4.8	0.5

At December 31 2022, HRCDC is reflecting an overall deficit of \$3.3 million compared to a budgeted deficit of \$361K and a \$10.2 million surplus last year. The year-over-year variance is largely due to above average Contribution and Gift revenues in the prior year coupled with a net loss on investments in the current year compared to substantial investment earnings in the prior year.

Archbishop's Annual Appeal Fund

Overall, the AAA fund is reflecting a surplus of \$183K for the year. Included in this surplus is an operating surplus of about \$571K offset by a net loss in the fund's small investment portfolio of \$323K. Revenue for the year was \$9.043 million versus a budget of \$9.15 million, a negative variance of \$107K. Year-over-year revenue dropped by \$389K from last year's total of \$9.432 million.

General Insurance Fund

The General Insurance Fund reflects a net deficit of \$608K for the year the result of a \$404K loss from investment activities coupled with a \$240K to the operating fund for administrative support. The core insurance program activity is reflecting a surplus of \$36K for the year.

Archbishop's Annual Appeal - Recap
(\$ in thousands)

	2022	2021	2020	2019
Income				
Cash receipts	\$ 9,043.4	\$ 9,432.2	\$ 8,991.4	\$ 9,189.5
Bequest	-	-	-	635.4
Total cash receipts	\$ 9,043.4	\$ 9,432.2	\$ 8,991.4	\$ 9,824.9
Programs				
Seminarian, Pastoral, Catholic & Communications programs	2,857.4	3,127.0	3,364.6	3,625.0
Other related organization assistance	440.0	78.9	107.0	-
Appeal supported services				
Catholic Charties	1,800.0	1,800.0	2,065.5	2,069.5
Malta vans and human services	240.0	1,022.2	633.1	375.0
Retired clergy	900.0	850.0	900.0	999.6
Tuition assistance	762.0	731.8	516.5	700.5
Emergency assistance	100.0	250.0	174.0	100.0
Vicariate outreach	1,252.8	1,452.3	1,205.4	1,146.1
Other religious organizations	120.0	120.0	120.0	120.0
	5,174.8	6,226.3	5,614.5	5,510.7
Total Appeal Expenses	8,472.2	9,432.2	9,086.1	9,135.7
Appeal operating surplus/(deficit)	\$ 571.2	\$ -	\$ (94.7)	\$ 689.2

Financial and Operational Ratios

The chart on the following page shows various ratios measuring the Archdiocese's financial and operational performance during 2022:

	2022	2021	2020	2019	Desired Trend
Margin					
Without Investment returns	7.7%	1.5%	0.3%	-19.4%	↑
With investment returns	-10.1%	29.8%	14.7%	1.5%	↑
Financial Strength					
Ratio of Assets to Liabilities	3.7	3.1	3.1	3.0	↑
Days cash on hand	74	110	156	163	↑
Financial Risk					
Self sufficiency ratio	145.1%	128.5%	135.7%	87.2%	↑
Organizational Efficiency					
Days revenue in Accounts Receivable	7.7	4.2	4.8	16.0	↓
Days expense in Accounts Payable	6.1	25.1	13.0	13.3	↓
Accountability					
Return on assets	-5.1%	9.8%	1.5%	2.8%	↑
Overhead ratio	52.8%	47.7%	57.1%	52.5%	↓
Archbishop's Annual Appeal					
Appeal funds provided to external services	59.3%	51.8%	53.3%	52.3%	↔
Appeal funds provided to internal programs	40.7%	48.2%	46.7%	47.7%	↔
Fundraising ratio	8.3%	5.0%	8.5%	10.9%	↓

Margin – this ratio is a profitability measure computed by dividing the change in net assets (income) by revenues. We present margin with and without investment returns to highlight the degree to which the Archdiocese depends on its investment returns to fund operations. The negative margin in 2022 with investment returns is indicative of the poor capital market performance during the year; it has been atypical in recent years to have these substantial losses in the investment portfolio driving a significant negative overall margin.

Financial Strength – the ratio of assets to liabilities and the days cash on hand measures both serve as indicators of the Archdiocese's ability to pay its obligations as they come due. The asset to liability ratio indicates that we have \$3.70 of assets available to pay every \$1 of financial obligation. The days cash measure, computed by dividing our cash and equivalents by our average daily cash outlay, indicates that we could meet our financial obligations for 74 days without any additional cash receipts. The decline in days cash on hand year-over-year was a

deliberate move as excess cash was moved into the Hartford Investment Trust to be invested in short-term Treasury Bills.

Financial Risk – the self-sufficiency ratio is computed by comparing our “earned” revenues (non-contribution and non-investment related revenues) to our general and administrative costs (Chancery Office and Other Supporting Services) and is an indicator of whether or not we are generating sufficient revenues to cover these costs. At 145.1%, this measure indicates that we are generating sufficient revenues to cover our costs.

Organizational Efficiency – these measures help evaluate the operational efficiency of our Financial Services Office. Days Revenue in Receivables, computed by dividing accounts receivable by our average daily billable revenues, measures our effectiveness in collecting amounts owed. Days Expense in Accounts Payable, computed by dividing accounts payable and accrued expense by our average daily non-payroll expense, measures our effectiveness in paying our bills in a timely fashion as they come due. The spike in Days Expense in Accounts Payable in 2021 is the result of large accruals recorded at year end related to funds allocated to various programs under the Archbishop’s Annual Appeal.

Accountability – Return on Assets, computed by dividing change in net assets by total assets, is an indicator of how successful the Archdiocese is in using its assets to generate revenues. Generally, a Return on Assets of 5% or more is considered good; the negative return in 2022 is a result of holding losses on our investments. The Overhead Ratio is computed by dividing general and administrative expenses (Chancery Office and Other Supporting Services) by operating revenues – in 2022 the Archdiocese spent about 53 cents of each \$1 of operating revenues on overhead costs. The goal of any non-profit organization is to spend as little as possible on overhead costs.

Archbishop’s Annual Appeal – as shown, about 41% of the proceeds from the Archbishop’s Appeal were spent support in-house programs in 2022, and about 59% was provided to agencies external to the Archdiocese. The Fund-Raising Ratio, computed by dividing fund raising related expenses into the amount of funds raised and contributed, indicates that in 2022 the Archdiocese spent about 8 cents for each dollar that was raised or contributed. The decline seen in 2021 was driven in large part by a couple of very large direct donations received.

We continue always to look for operational efficiencies to reduce our costs to free up financial resources to support our ministries.



Letter from the Chief Financial Officer and Statement of Responsibility

As the Archdiocesan Chief Financial Officer, my primary responsibility is managing the Archdiocesan finances, including financial planning, management of financial and operational risks, record-keeping, providing a system of internal controls, and financial reporting. One aspect of that role is keeping accurate accounting records used in reporting on our financial condition and results of operations for the year that requires transparency, clarity and an accurate presentation of our financial statements.

The financial statements presented include our Statement of Financial Condition, Statement of Activities, Statement of Functional Expenses, and Statement of Cash Flows for the years ended December 31, 2022 and 2021 along with the footnotes that accompany our audited financial statements.

The Management Discussion and Analysis included in this annual report provides you the reader with the year's operational highlights, analysis of variances between 2022 and 2021, and certain financial ratios that assess financial performance, strength, risk, efficiency, and accountability. This analysis is meant to express beyond numbers the spiritual vitality, organizational efficiency, accountability, and social and financial responsibility that are core to fulfilling our mission.

To accomplish this task, I share insights into the preparation of our financial reporting process and my responsibility to that end.

I submit to you based on my knowledge of our accounting and reporting processes:

- The report does not contain any untrue statements of a material fact or omit a material fact that would be misleading concerning the period covered by this report;
- These financial statements and footnotes included therein fairly present in all material respects the financial position, financial activity, cash flows and functional expenses of the Archdiocese.
- The internal controls over financial accounting and reporting provide reasonable but not absolute assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.
- There were no changes in the system of internal controls during the year that have materially affected or are reasonably likely to affect in any material respect the accounting or reporting on the financial statements.

As a result of my knowledge of the process discussed above, as Chief Financial Officer I am required to disclose on the period being reported, based on my evaluation of the internal controls over financial reporting, the following matters to our external auditors and the Archdiocesan Finance Council:

1. Any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Archdiocese's ability to record, process, summarize and report financial information;
2. Any fraud, whether or not material, that involves management or other employees who have a significant role in the internal control over financial reporting.

I certify that my management responsibility to ensure that the two items noted above are reviewed and evaluated with management and our external auditors. There are no known deficiencies or material weaknesses that would have a material effect on the preparation or fair presentation of the financial statements, and that they are free from material misstatement and free from fraud or error.



Richard A. Braam, CPA, MBA

Chief Financial Officer

June 30, 2023