

# Finance Office reports results of diocesan operations through June 30, 2021

By DEAN HAPPE  
Diocesan Finance Officer

The annual audit of the financial statements of the Administrative Offices of the Catholic Diocese of Evansville has been completed and we have the opportunity to share with you the financial results of our Diocesan Operations for fiscal year ended 6/30/21.

The full financial report, with auditor’s opinion, footnotes, and supplemental information can also be found on the diocesan website at [evdio.org](http://evdio.org) under Departments, Finance Office, Forms and Documents.

While I frequently espouse that I will be brief, I’ve been advised on more than one occasion that I never am! So, I suppose I’ll refrain from even making such a statement. In any case, I’m hopeful that you find the enclosed information and narrative to be informative and helpful.

Admittedly, the format required for the audited financial statements can be a little overwhelming and there are so many “moving parts” it can be difficult to decipher what’s “Good” and what’s “Bad.” So, we’ve included some supplemental information, as listed here, that I hope will be helpful:

- Overview of how the Diocesan Offices are organized
- Chart showing the primary sources of revenue for the diocese
- Condensed Income and Expense Summary
- Audited Statement of Financial Position (Balance Sheet)
- Audited Statement of Activity (Income Statement)

### ORGANIZATION OVERVIEW:

The Administrative Offices of the Diocese, and the accompanying financial statements consist of 3 primary “Lines of Business,” if you will, managed and operated by the Administrative Offices:

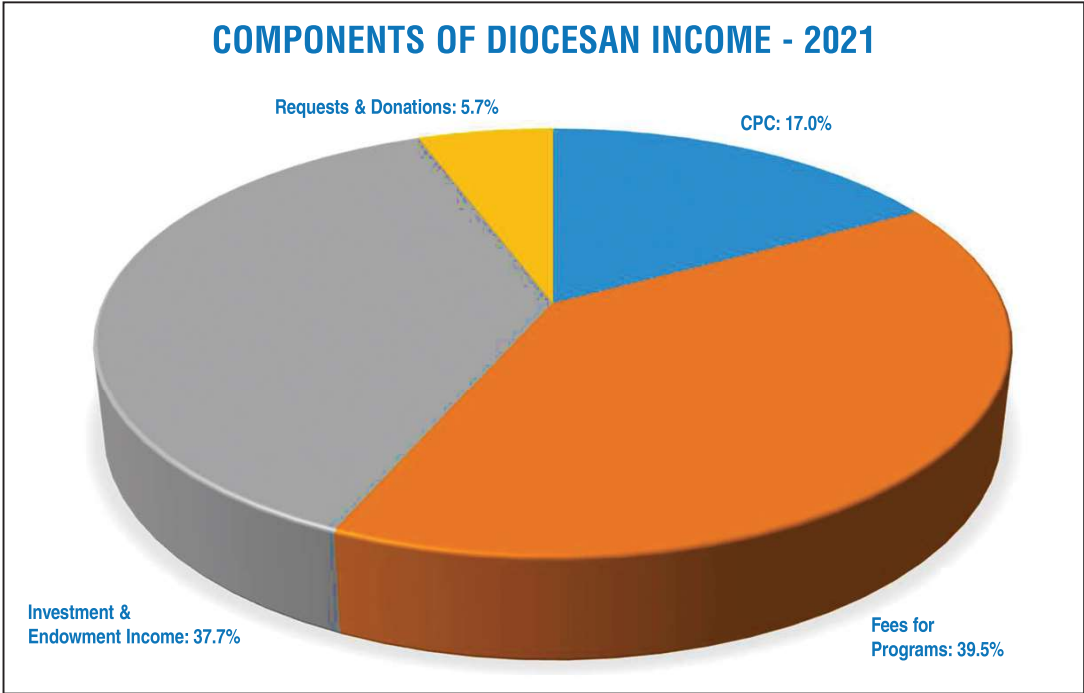
- 1) **Diocesan Ministries (Operations) — CPC helps fund these ministries**
  - a. Chancery – Bishop’s Office and Administrative Functions
  - b. Tribunal
  - c. Safe Environment Management and Oversight
  - d. Stewardship and Development
  - e. Office of Catechesis (Adult Religious Formation)
  - f. Catholic Schools Office
  - g. Vocations and House of Discernment
  - h. Office of Worship
  - i. Ministry to Priests and Clergy Assistance
  - j. Office of Hispanic Ministries
  - k. Activities – Facilities, Grounds and Retreat House
  - l. Communications Office and *The Message*
  - m. Office of Youth and Young Adult Ministry (including College Campus Ministries)
  - n. Family and Life Ministry
- 2) **Deposit and Loan Program — CPC helps fund this operation**
  - a. Savings and Loan Bank for Parishes
- 3) **Self-Funded Insurance Program — CPC funds are NOT used to fund the Insurance Program**
  - a. Insurance Program for Lay and Clergy Medical Plans and Parish Property, Liability, Casualty, and Workers Comp Insurance

The Audited Financial Statements represent these 3 lines of business — 1 Diocese — 3 Lines of Business serving:

- 45 Parishes
- Approximately 72,000 Registered Catholic Faithful
- Approximately 1,400 Lay Employees
- Approximately 78 Clergy (50 Active; 28 Retired)
- 26 Catholic Schools (22 Elementary and 4 High Schools) serving 7,000 students
- Catholic Charities Operations

The Diocese has four primary sources of revenue to fund these 3 lines of business:

- **CPC Campaign** (CPC is Not used for the Insurance Line of Business)
- **Fees for Programs and Services** (Including the Insurance Line of Business)



- **Investment and Interest Income** (Including Returns on Endowment holdings)
- **Bequests and Donations** (Including cash distributions from Endowment holdings)

The pie chart, *above*, reflects each of these sources of revenue and their respective percentage of total revenue presented in the audited financial statements for 2021.

### FINANCIAL RESULTS SUMMARY:

The table, *below*, represents a condensed summary of the audited income statement. The fiscal year ended with solid financial results, on a normalized basis, and we were fortunate to encounter a couple of extraordinary income items that further enhanced the results for the year. With and without the extraordinary items, Net Income, Balance Sheet Cash and Liquidity, and overall Net Asset positions were all strong and improved over prior year.

#### INCOME:

**Extraordinary Item 1:** Exceptionally strong market performance continued throughout the fiscal year which drove significant increases of almost \$12 million in the value of our investment assets and in turn created substantial income on the Income Statement. It should be noted that this sizeable increase in the asset value is certainly beneficial, but the gains are primarily “unrealized” meaning the value of the investments increased substantially, creating income on the income statement, but did not drive actual cash receipts to directly fund operations. It is income, but it can fluctuate significantly, up and down, month to month with the performance of the market. Our investment strategies are designed to smooth and protect against the effects of market fluctuations over the long-term but swings in the market in any given year can impact the income position positively or negatively. 2021 was especially positive.

**Extraordinary Item 2:** Additionally, we benefited from two, one-time events, including a sizeable and unexpected donor bequest plus income from the CARES Act PPP Program and those two events combined for \$1.7 million in extraordinary income.

**Extraordinary Item 3:** Lastly, after consecutive years of increasing Lay Pension Liability and negative impacts on the income statement of

\$4.5 million and \$4.1 million in 2020 and 2019 respectively, stabilized discount rates driven from the bond market, coupled with our ongoing efforts to improve the funded position of the Plan resulted in an \$8.4 million favorable adjustment to the Pension Liability, which in turn drove significant benefit to the income statement as well.

#### EXPENSE:

Overall, expenses were generally favorable to budget and slightly lower than spend in fiscal 2020. More precisely, the overall diocesan ministry expenses, which are those functions itemized in the Organization Overview section [1a through n Diocesan Ministries (Operations)], were flat year over year with most managed at or below budget for the year and several slightly below prior year spending levels.

You may also recall that 2020 fiscal year expenses included spend of \$3.4 million of Stewards of God’s Grace Capital Campaign (SOGG) funds for its intended purposes, including but not limited to:

- Construction of the new Catholic Charities Offices
- Replacement and renovation to aging windows and doors at the Catholic Center
- Financial assistance in the renovation of St. Benedict’s Cathedral

We did not incur those same expenses in 2021.

Finally, on the expense side, the insurance program generated another stable year of controlled claims losses and closely managed administrative costs allowing for overall spend to only increase slightly over prior year and come in nicely favorable to budget for the year.

### THE FINAL ROUND-UP:

If we net all of these income and expense results together and look at more normalized operating results, excluding the exceptional unrealized gains on investments, the two one-time income items, and the favorable pension liability adjustment, our “normalized” operating results were still slightly better than breakeven (\$300K - \$375K) and slightly favorable to budget for the year. *That’s Good!*

All of these factors contributed to solid and stabilizing financial results for the diocese, coming out of the extreme uncertainties of 2020 and the

ongoing economic impacts of the pandemic.

We would be remiss if we did not thank all members of our diocese that give tirelessly of their time, talent, and treasure within their parishes, communities, and throughout the diocese, as one church.

For if the willingness is there, the gift is acceptable according to what one has, not according to what one does not have. . .

2 CORINTHIANS 8:12

Essentially, we were fortunate in fiscal 2021 to experience:

- Continued generosity of our Catholic Faithful giving tirelessly throughout the diocese as a whole
- Another successful CPC Campaign
- Continued strong expense management and favorable expense outcomes
- Exceptionally strong investment and endowment gains
- An unexpected, sizeable bequest
- Benefits from the CARES Act Paycheck Protection Program
- Favorable actuarial analysis of our Pension Plan driving a reduction in pension liability and expense

### ADDITIONAL NOTES ON SOURCES OF INCOME:

**Investment and Interest Income:** With the tremendous generosity of our Catholic faithful through the Stewards of God’s Grace Campaign (SOGG) and other bequests and donations, the amount of funds available for investment, coupled with exceptionally strong performance of the market, even with much of the returns being “unrealized gains,” allowed a significant increase in investment income, lowering the burden on CPC to fund operations.

**Bequests and Donations:** While bequests and donations at the Diocesan level are typically modest, we were fortunate to garner generous gifts in fiscal year 2021 and 2020. But, beyond that, and more notable for the long-term, is that with the success of

See *AUDIT*, page 12

Income & Expense Summary				
	6/30/21		6/30/20	
Income:				
Catholic Parishes Campaign Income	\$	6,223,674	\$	6,223,674
Net Investment & Endowment Income	\$	13,772,337	\$	2,449,759
Bequests & Donations - Contributions & Endowment Distributions	\$	2,077,818	\$	2,353,042
Fees for Programs - Insurance, Medical, & Service Fees	\$	14,441,513	\$	14,314,157
Total Revenue, Gains, & Support	\$	36,515,342	\$	25,340,632
Total Expenses	\$	22,439,636	\$	26,484,647
Change in Net Assets - i.e. Net Income/(Loss) - Operating	\$	14,075,706	\$	(1,144,015)
Change in Pension Liability	\$	8,453,477	\$	(4,554,986)
Total Change in Net Assets - i.e. Net Income/(Loss)	\$	22,529,183	\$	(5,699,001)

Statements of Activities						
Year Ended June 30, 2021 and 2020						
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Catholic Parishes Campaign	\$ 6,223,674	\$ -	\$ 6,223,674	\$ 6,223,674	\$ -	\$ 6,223,674
Contributions and other community support	937,417	83,977	1,021,394	445,839	1,138,794	1,584,633
Insurance and medical fees	14,331,089	-	14,331,089	14,101,713	-	14,101,713
Service fees	110,424	-	110,424	212,444	-	212,444
Net investment return	9,584,368	81,004	9,665,372	2,583,467	30,343	2,613,810
Change in beneficial interests in Foundation	-	1,202,164	1,202,164	-	(48,309)	(48,309)
Change in beneficial interests in Foundation – designated	2,904,801	-	2,904,801	(115,742)	-	(115,742)
Distributions from Foundation and other revenue	206,424	-	206,424	768,409	-	768,409
Paycheck Protection Program income	850,000	-	850,000	-	-	-
Net assets released from restrictions	1,247,028	(1,247,028)	-	6,900,173	(6,900,173)	-
Total revenues, gains and other support	36,395,225	120,117	36,515,342	31,119,977	(5,779,345)	25,340,632
Expenses						
Adult formation	173,158	-	173,158	216,545	-	216,545
Catholic Center and other operations	544,594	-	544,594	4,759,345	-	4,759,345
Chancery	702,255	-	702,255	721,272	-	721,272
Education	545,786	-	545,786	541,165	-	541,165
Insurance and medical programs	12,854,912	-	12,854,912	12,778,817	-	12,778,817
Spanish speaking ministry	82,396	-	82,396	53,335	-	53,335
Ministry to priests and clergy assistance	278,756	-	278,756	229,688	-	229,688
Newspaper and communications	387,108	-	387,108	413,761	-	413,761
Office of Worship	96,876	-	96,876	96,924	-	96,924
Permanent diaconate	44,193	-	44,193	56,816	-	56,816
Subsidies	718,500	-	718,500	706,630	-	706,630
Tribunal	183,729	-	183,729	184,683	-	184,683
Vocation Office and House of Discernment	576,452	-	576,452	412,461	-	412,461
Safe Environment	24,897	-	24,897	42,866	-	42,866
Youth ministries, including Newman Centers	298,493	-	298,493	366,525	-	366,525
Lay employee retirement plan	1,657,050	-	1,657,050	1,415,365	-	1,415,365
Employee 403(b) benefits	927,503	-	927,503	832,816	-	832,816
Office of Family and Life	67,468	-	67,468	81,441	-	81,441
Bad debt recoveries	(28,169)	-	(28,169)	-	-	-
Total program services	20,135,957	-	20,135,957	23,910,455	-	23,910,455
Management and general	2,091,644	-	2,091,644	2,369,364	-	2,369,364
Fundraising	212,035	-	212,035	204,828	-	204,828
Total support services	2,303,679	-	2,303,679	2,574,192	-	2,574,192
Total expenses	22,439,636	-	22,439,636	26,484,647	-	26,484,647
Change in Net Assets from Operating and Investing Activities	13,955,589	120,117	14,075,706	4,635,330	(5,779,345)	(1,144,015)
Change in Minimum Pension Liability	8,453,477	-	8,453,477	(4,554,986)	-	(4,554,986)
Change in Net Assets	22,409,066	120,117	22,529,183	80,344	(5,779,345)	(5,699,001)
Net Assets (Deficit), Beginning of Year	(12,064,432)	8,954,677	(3,109,755)	(12,144,776)	14,734,022	2,589,246
Net Assets, End of Year	\$ 10,344,634	\$ 9,074,794	\$ 19,419,428	\$ (12,064,432)	\$ 8,954,677	\$ (3,109,755)

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Continued from page 11

the SOGG, the Diocese was able to establish 8 new endowments earmarked for key operations functions of the diocese. Those endowments have now reached a material balance which is allowing a meaningful increase in cash available for distribution to assist in funding operations, and therefore, also helping manage the burden on CPC.

**CPC:** Due to the improved income results from the other sources of revenue, (Investments and Bequests), CPC as a percentage of total revenue dropped from 24.6 percent in 2020 to 17 percent in 2021 (as reflected in the pie chart) i.e. lesser reliance on CPC dollars in 2021 as a result of better income results from other sources. These other income sources along with continued expense management efforts, were key contributors in what allowed the CPC assessment to be held flat, ***NO INCREASE***, from fiscal year 2020 to fiscal year 2021. \$6,223,000 in both years. Additionally, these favorable results also allowed

the 2021-2022 CPC assessment to increase only 1 percent (\$62,000 for a total of \$6,285,000). Furthermore, the CPC assessment has averaged only a 1.1 percent increase over the last 5 years while the inflation rate for the same 5-year period has been 1.8 percent (CPC 70 basis points lower than inflation).

**Reduced Pension Liability:** You may recall from the last two financial reports and as discussed above, our balance sheet and income statement have been materially impacted in a negative way by sizeable increases in the estimated unfunded pension liability to the tune of \$4.5M in 2020 and \$4.1M in 2019. Much of these “swings” in the liability are out of our control, driven by actuarial assessments of the plan in conjunction with discount rates dictated by the bond market. Falling discount rates means increased liability and expense. With steadily falling discount rates in the last several years, despite our efforts to increase plan funding levels, we’ve been forced to recognize sizeable increases in the unfunded liability and expense.

In 2021, however, we finally encountered a stabilization in the discount rate, which allowed the efforts we began in 2013 designed to address the funding status of the plan, to actually take hold and chip away at the liability. While the discount rates remain challenging, the fact that they held flat in 2021 and the overall managed investment returns on plan assets in 2021, coupled with cash management and pension plan funding initiatives, drove an 18 percent increase in the overall funded percentage of the Lay Pension Plan and reduced the unfunded pension liability approximately \$8.4 million dollars for the year. While there are several factors relative to the pension plan liability that remain outside of our control (namely discount rates driven by the bond market), the levers that we do control showed very favorable results for the year and we will con-

Statements of Financial Position		
June 30, 2021 and 2020		
Assets		
	2021	2020
Cash	\$ 10,420,980	\$ 3,291,537
Receivables		
Stewards of God’s Grace contributions receivable, net	22,405	899,654
Catholic Parishes Campaign	490,519	530,480
Parishes and institutions, net of allowance;		
2021 and 2020 – \$2,060	790,875	282,690
Loans – parishes and institutions, net of allowance;		
2021 – \$0 and 2020 – \$28,169	1,323,298	1,498,640
Interest receivable	21,066	15,518
Insurance services receivable	417,628	368,684
Other Diocesan operations	22,678	20,299
	3,088,469	3,615,965
Investments	58,539,085	48,916,193
Beneficial interests in Foundation	17,329,630	12,407,125
Prepaid expenses and other assets	1,649,666	1,444,795
Total assets	\$ 91,027,830	\$ 69,675,615
Liabilities and Net Assets (Deficit)		
Liabilities		
Accounts payable	\$ 203,194	\$ 778,415
Deposits held for parishes and other Diocesan operations	37,296,421	28,308,963
Due to related parties, net	391,974	1,054,916
Other accrued expenses and liabilities	2,171,162	1,733,043
Unearned service revenue	15,799	15,653
Payroll Protection Program loan	-	850,000
Accrued pension liability	31,524,852	40,039,380
Payables to named beneficiaries	5,000	5,000
Total liabilities	71,608,402	72,785,370
Net Assets (Deficit)		
Without donor restrictions – undesignated	(21,611,631)	(37,914,841)
Without donor restrictions – designated	31,956,265	25,850,409
Total net assets without donor restrictions	10,344,634	(12,064,432)
With donor restrictions	9,074,794	8,954,677
Total net assets (deficit)	19,419,428	(3,109,755)
Total liabilities and net assets	\$ 91,027,830	\$ 69,675,615

tinue best efforts to positively influence those items over the next several years.

**THE FINAL TAKE-AWAYS AND CLOSING COMMENTS:**

- Normalized income and expense, excluding extraordinary items, was stable and in-line with prior year and budget.
- Diocesan ministries, excluding the extraordinary income items in 2021, continue to operate on narrow but stable profit margins, and have continued to stabilize while holding 5-year average CPC assessment increases to only 1.1 percent compared to 1.8 percent average inflation over the same 5-year period.

- Efforts to manage other income sources coupled with expense management have shown good results and continue in order to manage the burden on CPC revenue
- The insurance program remains in strong position
- Exceptionally strong Investment returns boosted net income beyond normal expectations.
- Pension Liability reduction of \$8.4 million further boosted net income beyond normal expectations.
- Near-term liquidity and Net Asset position has been strengthened and sits in stable condition . . . ***That’s Good!***

Normalized operating margins are stable but several challenges and uncertainties remain. Market volatility will

continue to drive unpredictable results in investment income, uncertainty of the bond market discount rates will continue to drive uncertainty in the pension liability status, and growing, national inflationary pressures will be an item to monitor closely during this year.

All of these items continue to reinforce our efforts for a strong financial plan, conscientious and diligent stewardship, and effective fiscal management of the resources you, the Catholic faithful of the Diocese of Evansville have entrusted to our care. Thank you once again for your continued commitment to your parishes, communities, and the diocese as a whole. ***That’s Very Good!***



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