

Annual Financial Statement Audit for Fiscal Year Ended June 30, 2020, Completed

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. Included with this publication are the audited financial statements as of and for the fiscal year ended June 30, 2020, and June 30, 2019:

- Statement of Financial Position (Balance Sheet)
- Statement of Activity (Income Statement)
- Statement of Functional Expenses
- Statement of Cash Flows

The full financial report, with auditor's opinion, footnotes and supplemental information can also be found on the diocesan website <http://www.evdi.org/> under Departments, Finance Office, Forms and Documents <http://www.evdi.org/forms—documents.html>.

The following paragraphs offer a brief explanation of each of the financial statements and the most important elements to take away from each of the statements.

As I prepared to summarize our financial results, I couldn't help but be reminded of an old TV skit I watched when I was a kid. At the risk of revealing much about my age and background, I wonder if any of you may recall the Saturday evening telecasts of "Hee Haw?" And, in particular, the recurring sketch featuring Archie Campbell's barber-shop and the "That's good/That's bad" routine? Archie would mention an event, to which the folks in the barber-shop would comment, "That's bad" only to have Archie clarify that it was actually good because of some other complementary event. As soon as the folks would then agree that it was "good," Archie would clarify that it was "bad" because of yet another complementary event . . . and so on and so on.

Well, I couldn't help feeling quite that same way as I summarized these results for you, as it was a pretty eventful year, to say the least. Suffice it to say, however, the net take-away is "good." We continue to have much to manage and stay on top of and no shortage of challenges and uncertainties, but we continue with a solid and stable environment and the incomparable commitment and dedication of our Catholic faithful of the Diocese of Evansville . . . *That's Good!*

While these financial reports are for the fiscal year ending on June 30, 2020 (six months ago) and therefore only include approximately four months of operating in the COVID-19 Pandemic environment, that was enough time to introduce real financial uncertainty and disruption to diocesan operations and all of the parishes and agencies across our diocese. Fortunately, through an abundance of continued hard work, dedication, faithfulness and stewardship of staff and our Catholic faithful across the diocese, we closed the fiscal year with relatively stable results and have continued into the first six months of the new fiscal year effectively maintaining that general stability.

I do hope within this financial report, especially in light of this challenging year, you will find some inspiration and continued calling to our ministry as Catholics, when you consider the ongoing financial sustainability we have accomplished and continue to strive for, together, as one church, through our time, talent, treasure, and management of the resources availed to us through God's abundant grace. And, we would be remiss if we did not thank all members of our diocese that give tirelessly within their parishes, communities, and throughout the diocese as a whole.

"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

Background

First, some quick background. For financial statement and federal and state reporting, the Catholic Diocese of Evansville is classified as a nonprofit organization. That designation dictates a number of requirements in the nature, form, and content of our financial statement reporting that you see here and the way in which we must operate.

Statements of Financial Position June 30, 2020 and 2019		
	2020	2019
Assets		
Cash	\$ 3,291,537	\$ 3,018,808
Receivables		
Stewards of God's Grace contributions receivable, net	899,654	4,266,283
Catholic Parishes Campaign	530,480	389,756
Parishes and institutions, net of allowance; 2020 and 2019 – \$2,060	282,690	620,309
Loans – parishes and institutions, net of allowance; 2020 and 2019 – \$28,169	1,498,640	715,475
Interest receivable	15,518	19,865
Insurance services receivable	368,684	991,068
Other Diocesan operations	20,299	21,130
	<u>3,615,965</u>	<u>7,023,886</u>
Investments	48,916,193	48,482,209
Beneficial interests in Foundation	12,407,125	9,998,311
Prepaid expenses and other assets	1,444,795	1,318,625
	<u>69,675,615</u>	<u>69,841,839</u>
Liabilities and Net Assets (Deficit)		
Liabilities		
Accounts payable	\$ 778,415	\$ 342,609
Deposits held for parishes and other Diocesan operations	28,308,963	28,967,684
Due to related parties, net	1,054,916	1,338,660
Other accrued expenses and liabilities	1,733,043	1,412,156
Unearned service revenue	15,653	41,653
Accrued interest	-	22,298
Payroll protection program loan	850,000	-
Accrued pension liability	40,039,380	35,127,533
Payables to named beneficiaries	5,000	-
	<u>72,785,370</u>	<u>67,252,593</u>
Net Assets		
Without donor restrictions – undesignated	(37,914,841)	(33,923,993)
Without donor restrictions – designated	25,850,409	21,779,217
	<u>(12,064,432)</u>	<u>(12,144,776)</u>
With donor restrictions	8,954,677	14,734,022
	<u>(3,109,755)</u>	<u>2,589,246</u>
Total liabilities and net assets	<u>\$ 69,675,615</u>	<u>\$ 69,841,839</u>

With that being said, it may be helpful to clarify the term "nonprofit" as it can be a little misleading. A nonprofit organization is allowed to make a profit and, in reality, a nonprofit must strive for some level of revenue that exceeds its expenses to ensure its ongoing stability and sustainability.

Without that stability and sustainability, it could not continue to perform its mission and ministry. So, while for-profit organizations are organized specifically to earn profits for distribution to its shareholders/owners and nonprofit organizations are organized specifically to execute its ministry, the nonprofit still must seek to earn posi-

tive revenues in order to continue in its ministry.

As such, we do not seek profit for profit's sake, but we do seek financial stability to enable the ongoing ministry of our Catholic church.

It may also be helpful to recall that the Administrative Offices of the Catholic Diocese operates three major "businesses" for the benefit of the diocese as a whole to which these financial statements apply:

Ministries and Administration — 16 departmental operations such as Vocations and Seminarian support; Catholic Schools; Youth/Young Adult;

Charities; Clergy support; Family and Life, just to name a few.

Deposit and Loan Bank for Parishes — Source of Funds and Investments for parishes and Investments for parishes

Medical, Property, and Liability Insurance Program — Claims coverage for Parishes, Clergy, and Employees

SUMMARY FINANCIAL ASSESSMENT

The net asset position, near term liquidity, and availability of assets to cover diocesan obligations and to conduct the

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**Statements of Activities
Year Ended June 30, 2020 and 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Catholic community support	\$ 6,669,513	\$ 1,043,785	\$ 7,713,298	\$ 6,152,239	\$ 97,929	\$ 6,250,168
Stewards of God's Grace contributions	-	95,009	95,009	-	389,184	389,184
Insurance and medical fees	14,101,713	-	14,101,713	13,918,427	-	13,918,427
Service fees	212,444	-	212,444	240,963	-	240,963
Net investment return	2,583,467	30,343	2,613,810	2,281,691	33,689	2,315,380
Change in beneficial interests in Foundation	-	(48,309)	(48,309)	-	140,191	140,191
Change in beneficial interests in Foundation – designated	(115,742)	-	(115,742)	412,346	-	412,346
Distributions from Foundation and other	768,409	-	768,409	334,993	-	334,993
Net assets released from restrictions	6,900,173	(6,900,173)	-	3,837,289	(3,837,289)	-
Total revenues, gains and other support	31,119,977	(5,779,345)	25,340,632	27,177,948	(3,176,296)	24,001,652
Expenses						
Adult formation	216,545	-	216,545	219,547	-	219,547
Catholic Center and other operations	4,759,345	-	4,759,345	403,636	-	403,636
Chancery	721,272	-	721,272	680,263	-	680,263
Education	541,165	-	541,165	555,061	-	555,061
Insurance and medical programs	12,778,817	-	12,778,817	13,969,920	-	13,969,920
Spanish speaking ministry	53,335	-	53,335	160,286	-	160,286
Ministry to priests and clergy assistance	229,688	-	229,688	222,011	-	222,011
Newspaper and communications	413,761	-	413,761	377,100	-	377,100
Office of Worship	96,924	-	96,924	104,403	-	104,403
Permanent deaconate	56,816	-	56,816	57,148	-	57,148
Subsidies	706,630	-	706,630	602,653	-	602,653
Tribunal	184,683	-	184,683	178,878	-	178,878
Vocation office	412,461	-	412,461	577,220	-	577,220
Safe Environment	42,866	-	42,866	34,943	-	34,943
Youth ministries, including Newman Centers	366,525	-	366,525	358,869	-	358,869
Lay employee retirement plan	1,415,365	-	1,415,365	1,332,482	-	1,332,482
Employee 403(b) benefits	832,816	-	832,816	758,348	-	758,348
Office of Family and Life	81,441	-	81,441	14,428	-	14,428
Bad debt expenses	-	-	-	3,580	-	3,580
Total program services	23,910,455	-	23,910,455	20,610,776	-	20,610,776
Management and general	2,369,364	-	2,369,364	2,620,964	-	2,620,964
Fundraising	204,828	-	204,828	293,067	-	293,067
Total support services	2,574,192	-	2,574,192	2,914,031	-	2,914,031
Total expenses	26,484,647	-	26,484,647	23,524,807	-	23,524,807
Change in Net Assets from Operating and Investing Activities	4,635,330	(5,779,345)	(1,144,015)	3,653,141	(3,176,296)	476,845
Change in Minimum Pension Liability	(4,554,986)	-	(4,554,986)	(4,146,354)	-	(4,146,354)
Change in Net Assets	80,344	(5,779,345)	(5,699,001)	(493,213)	(3,176,296)	(3,669,509)
Net Assets (Deficit), Beginning of Year	(12,144,776)	14,734,022	2,589,246	(11,651,563)	17,910,318	6,258,755
Net Assets (Deficit), End of Year	\$ (12,064,432)	\$ 8,954,677	\$ (3,109,755)	\$ (12,144,776)	\$ 14,734,022	\$ 2,589,246

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ministries of the diocese remain stable with a general upward trajectory over the last 6+ years.

That said, 2020 does reflect a reduction in net assets (a net loss). The reduction, however, is primarily driven by three

key, one-time/extraordinary items totaling approximately \$9.5 million in expenses:

- \$3.4 million planned usage of previously accumulated assets (income) from the Stewards of God's Grace Capital Campaign collected over the last three years and now used this fiscal year for

several of 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 Cathedral

By accounting standards, contributions to the SOGG campaign have been recorded as income in each of the prior three years but the expenses are not recorded until the funds are used. Therefore, \$3.4 million in expenses incurred in this fiscal year while the off-setting income has been recorded in prior years which gives this year's income statement the appearance that we spent more money than we made (we really just made it in prior years).

\$1.5 million redistribution of SOGG income back to the parishes, on top of the parishes' standard share of SOGG income, as a result of them exceeding their SOGG pledge goals and qualifying for a greater share of the SOGG

\$4.5 million increase in accrued Pension liability for

the pension plan that exists for the benefit of employees across the diocese.

Absent these expected, but one-time, extraordinary expenses, the Income Statement would reflect approximately \$3.8 million in net income, fueled largely by lower than anticipated insurance claims expenses and other expense reduction efforts, which then helps us continue to combat employee pension liability shortfalls and to address other financial uncertainties brought about by the COVID-19 pandemic.

The primary sources of revenue for the diocese remain primarily confined to:

Fees: Generated from administering diocesan-wide programs (50% - 60% of revenue)

A key example is our self-funded insurance programs whereby the diocese funds medical insurance for all clergy and lay employees across

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Statements of Functional Expenses Year Ended June 30, 2020

	2020					2020			
	Program Services					Support Services			
	Formation & Education	Sacramental & Ministerial Support	Social Outreach	Ecclesiastical Services to Parishes	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Wages, taxes, and benefits	\$ 775,225	\$ 43,088	\$ -	\$ 1,239,698	\$ 2,058,011	\$ 310,376	\$ 144,431	\$ 454,807	\$ 2,512,818
Lay pension and 403(b) Plan	30,808	-	-	2,298,759	2,329,567	-	-	-	2,329,567
Property and liability claims	-	-	-	-	-	999	-	999	999
Clergy assistance	-	207,433	-	-	207,433	6,000	-	6,000	213,433
Seminary and theology tuition Programs	283,852	33,207	3,074,521	813,986	4,205,566	391,513	-	391,513	4,597,079
Insurance premiums, fees and claims	-	998,421	-	11,780,396	12,778,817	11,950	-	11,950	12,790,767
Professional fees and services	7,893	-	-	8,816	16,709	209,294	1,499	210,793	227,502
Utilities	11,527	10,241	-	19,276	41,044	70,591	808	71,399	112,443
Technology	-	-	-	-	-	110,699	-	110,699	110,699
Travel, meals, and entertainment	16,082	1,886	-	15,513	33,481	77	12,429	12,506	45,987
Repairs and maintenance	5,904	6,019	-	5,960	17,883	75,041	-	75,041	92,924
Other occupancy expense	11,462	9,735	-	13,599	34,796	-	-	-	34,796
Training and development	16,575	41,200	-	13,130	70,905	67,415	-	67,415	138,320
Print production	287	-	-	85,621	85,908	-	11,073	11,073	96,981
Postage	848	-	-	67,452	68,300	1,399	10,528	11,927	80,227
Supplies and other	15,444	33	-	110,334	125,811	14,671	24,060	38,731	164,542
Interest expense	-	-	-	-	-	1,082,213	-	1,082,213	1,082,213
Contribution	-	-	-	1,522,412	1,522,412	-	-	-	1,522,412
Capital improvements	1,663	-	-	-	1,663	17,126	-	17,126	18,789
Total expenses included in the expense section on the statement of activities	\$ 1,177,570	\$ 1,351,263	\$ 3,074,521	\$ 18,307,101	\$ 23,910,455	\$ 2,369,364	\$ 204,828	\$ 2,574,192	\$ 26,484,647

Statements of Functional Expenses Year Ended June 30, 2019

	2019					2019			
	Program Services					Support Services			
	Formation & Education	Sacramental & Ministerial Support	Social Outreach	Ecclesiastical Services to Parishes	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Wages, taxes, and benefits	\$ 774,516	\$ 43,950	\$ -	\$ 1,095,732	\$ 1,914,198	\$ 311,149	\$ 22,448	\$ 333,597	\$ 2,247,795
Lay pension and 403(b) Plan	35,976	-	-	2,138,816	2,174,792	-	-	-	2,174,792
Property and liability claims	-	-	-	-	-	944	-	944	944
Clergy assistance	-	177,237	-	-	177,237	4,000	-	4,000	181,237
Seminary and theology tuition Programs	381,242	55,739	933,642	7,096	1,377,719	39,484	1,015	40,499	1,418,218
Insurance premiums, fees and claims	-	1,318,470	-	12,686,028	14,004,498	11,526	-	11,526	14,016,024
Professional fees and services	7,900	-	-	15,571	23,471	290,659	5,702	296,361	319,832
Utilities	15,802	8,895	-	15,873	40,570	72,830	122	72,952	113,522
Technology	-	-	-	-	-	103,013	-	103,013	103,013
Travel, meals, and entertainment	31,893	815	-	24,322	57,030	-	1,293	1,293	58,323
Repairs and maintenance	1,912	7,001	-	85,367	94,280	63,661	-	63,661	157,941
Other occupancy expense	8,109	8,117	-	18,261	34,487	-	-	-	34,487
Training and development	21,953	41,445	-	16,647	80,045	64,073	-	64,073	144,118
Print production	320	-	-	90,535	90,855	-	5,320	5,320	96,175
Postage	687	-	-	57,815	58,502	273	7,014	7,287	65,789
Supplies and other	13,453	38	-	86,190	99,681	22,334	36,022	58,356	158,037
Interest expense	-	-	-	-	-	866,555	-	866,555	866,555
Bad debts	-	-	-	3,580	3,580	-	214,131	214,131	217,711
Capital improvements	-	-	-	-	-	770,463	-	770,463	770,463
Total expenses included in the expense section on the statement of activities	\$ 1,293,763	\$ 1,661,707	\$ 933,642	\$ 16,721,664	\$ 20,610,776	\$ 2,620,964	\$ 293,067	\$ 2,914,031	\$ 23,524,807

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the diocese as well as providing property and liability insurance coverage for all property and activities conducted within the diocese

Investment income: (10% - 15% of revenue)

A key contributor to our financial stability but suscepti-

ble to market volatility, for which there was a great deal during the course of fiscal 2020.

Contributions from the Catholic Parishes Campaign: (20% - 25% of revenue)

A primary element of funding and one managed extremely closely so as to control the burden on our

Catholic faithful and our parishes. While no small number, and despite continued inflationary pressures and growing fiscal needs in exciting areas like Vocations, seminary tuition, etc. for example, the intent focus has remained on holding the CPC assessments as low as possible. In fact, the 5-year average increase of 1.05% is well

lower than the same 5-year national inflation rate (Consumer Price Index) by more than 50 basis points, i.e. CPC is increasing at a much lower rate than typical inflation.

Other bequests and donations: Including in recent years, the SOGG (5% of revenue)

All of these revenue sources begin with the faith and generosity of all of us, the Catholic Faithful of the Diocese of Evansville.

The primary expenses (use of funds) come from executing the key ministries offered by the diocesan offices for the

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benefit of the diocese as a whole:

Formation and Education: Catholic Schools, Catechesis, Youth and Young Adult Ministries

Sacramental and Ministerial Support: Support of all clergy and lay that work within the diocese

Social Outreach: Serving the poor, poor in spirit, the underserved, and unseen

Ecclesiastical Services to Parishes: Vocations, Worship, Family and Life, Tribunal, Communications, etc.

Management and General Operating Expenses

FINANCIAL STATEMENT DETAILS

The four primary financial statements:

Statement of Financial Position (Balance Sheet)

The Statement of Financial Position reflects the financial status of the organization as of a specific point in time (in this case June 30, 2020) showing what it owns (assets), what it owes (liabilities) and its Net Assets available to continue to conduct its mission (Assets minus Liabilities = Net Assets). It is the primary indicator of the organization's general stability.

Statement of Activity (Income Statement)

The Statement of Activity provides the summary of the organization's transactions for the year, its total revenues minus its total expenses to arrive at the "bottom line:" Change in Net Assets (Revenue minus Expenses = Change in Net Assets or Net Income/Loss). Again, while not seeking profit for profit's sake, we seek positive change in net assets each year to maintain stability in managing the ministries of the diocese.

Statement of Functional Expenses

This was a new statement in 2019 required by Accounting Standards Update 2016-14. It is designed to take the expense section of the Statement of

Activity and break it down into common expense categories and help track how the organization spends its money. Most importantly, it breaks down expenses between funds spent on its ministries compared to management and general expenses.

Statement of Cash Flows

The Statement of Cash Flows is designed to display where cash is coming from and how it is going out and allows an organization to monitor if it has an adequate supply of incoming cash to cover its program and support needs.

A few detailed notes from the financial statement . . .

- Cash balances improved in 2020 through continued strong collection of SOGG pledges and cash flow assistance provided by the Paycheck Protection Program, as well as implementation of several expense management and spending freeze measures during the fiscal year. Additionally, through continued expense management and spending freeze activity in the new fiscal year, coupled with steady collections from the current Catholic Parishes Campaign, cash balances through the first six months of the new fiscal year are up about 60% as of December 2020.

- Total liabilities held steady year over year if not for the significant increase in the accrued pension liability. The pension liability is a long-term item and its balance can be significantly influenced positively or negatively from one year to the next simply from the results of the annual actuarial assessment. That assessment involves several factors including projections of long-term investment returns, mortality table updates, and discount rates. In 2020 the liability increased \$4.5 million, on the heels of a \$4.1 million increase in 2019, both, however, through no specific action other than these updated actuarial assessments. While the pension liability must continue to be managed very closely, the fact that it is such a long-term item tempers concern for near and intermediate-term liability positions.

- Net Assets dipped \$5.7 million driven primarily by

	2020	2019
Operating Activities		
Change in net assets	\$ (5,699,001)	\$ (3,669,509)
Items not requiring (providing) operating activities cash flows		
Net realized and unrealized gains on investments	(2,509,633)	(2,149,931)
Net investment return on beneficial interests in Foundation	48,309	(140,191)
Net investment return on beneficial interests in Foundation – designated	115,742	(412,346)
Contribution of beneficial interest to Foundation on behalf of the Diocese	(804,482)	(16,738)
Contributions restricted for long-term investment	(43,252)	(57,554)
Provision for bad debt	-	214,131
Change in minimum pension liability	4,554,986	4,146,354
Changes in		
Receivables, other than loans	824,457	(673,211)
Contributions receivable	3,366,629	3,253,973
Prepaid expenses and other assets	(126,170)	(73,828)
Accounts payable	435,806	181,093
Due to related parties	(283,744)	(954,311)
Payable to named beneficiary	5,000	-
Accrued expenses and other liabilities	655,450	186,774
Unearned service revenue – Catholic Parishes Campaign	(26,000)	288
Net cash provided by (used in) operating activities	<u>514,097</u>	<u>(165,006)</u>
Investing Activities		
Purchases of investments	(3,181,576)	(18,848,075)
Proceeds from disposition of investments	5,257,225	13,467,988
Contributions to beneficial interests in Foundation	(1,768,383)	(2,597,046)
Repayments from loans to parishes and institutions	887,476	846,674
Issuance of loans to parishes and institutions	(1,670,641)	(54,639)
Net cash used in investing activities	<u>(475,899)</u>	<u>(7,185,098)</u>
Financing Activities		
Proceeds from deposits held for parishes and institutions	5,558,505	5,663,825
Payments on deposits held for parishes and institutions	(6,217,226)	(9,247,397)
Proceeds from the issuance of long-term debt	850,000	-
Proceeds from contributions restricted for endowment and long-term purposes		
Investment in priests	14,125	23,601
Investment in seminarians	20,819	25,365
Investment in other endowments	8,308	8,588
Net cash provided by (used in) financing activities	<u>234,531</u>	<u>(3,526,018)</u>
Increase (Decrease) in Cash	<u>272,729</u>	<u>(10,876,122)</u>
Cash, Beginning of Year	<u>3,018,808</u>	<u>13,894,930</u>
Cash, End of Year	<u>\$ 3,291,537</u>	<u>\$ 3,018,808</u>
Supplemental Cash Flows Information		
Interest paid to parishes and institutions	\$ 1,104,511	\$ 858,786

this increase in pension liability of \$4.5 million and the aforementioned usage of SOGG funds totaling almost \$4.9 million. Despite the pension liability increase, near term liquidity and asset availability remain stable and if the long-term pension liability were excluded, net assets are actually up over 230% since 2015. Additionally, through the first six months of the new fiscal year, the Net Asset position has improved \$5.4 million.

- Total revenue improved slightly in 2020 driven primarily by favorable investment returns, despite significant volatility in the market during the last 4-5 months of the fiscal year.

- Expenses were up about \$2.9 million driven by the

aforementioned, planned renovation expenses at the Catholic Center, planned construction expenses for Catholic Charities, Cathedral renovations, and redistribution of SOGG income back to the parishes, all in accordance with plans from the SOGG.

- The Statement of Functional Expenses reflects very nicely that 90% of fiscal 2020 and 88% of fiscal 2019 expenses were incurred in direct execution of the ministry of the primary programs of the diocese while only 10% and 12%, respectively, was incurred for Management and General and fundraising expenses.

NET TAKE-AWAY AND CLOSING COMMENTS

Increases in the unfunded pension liability and planned one-time spend of prior years' SOGG income drove a net loss on the Statement of Activity (Income Statement) for fiscal 2020.

Absent those items, normalized operations were positive.

The unfunded pension liability continues to burden the Net Asset position in the long term and we must continue to monitor it closely

Near-term liquidity and Net Asset position, however, remains in stable condition

COVID-19 pandemic continues to drive uncertainty and volatility in our financial outlook that will require continued, close attention.

The insurance program remains in strong position and while Operation of the diocesan ministries remains on narrow margin, it still shows stable results while holding 5-year average CPC assessment increases to only 1.05% . . . *That's Good!*

Challenges remain. The results are stable and good. It continues 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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