

# Finance Office provides 2021-22 results

## SPECIAL TO THE MESSAGE

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 6/30/22.

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.

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, similar to last year, 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 & 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 Sarto Retreat House
- l. Communications Office & *The Message*
- m. Office of Youth and Young Adult Ministry (including College Campus Ministries)
- n. Family & Life Ministry

- 2) Deposit & Loan Program — CPC helps fund this operation**
  - a. Savings & 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 & 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:

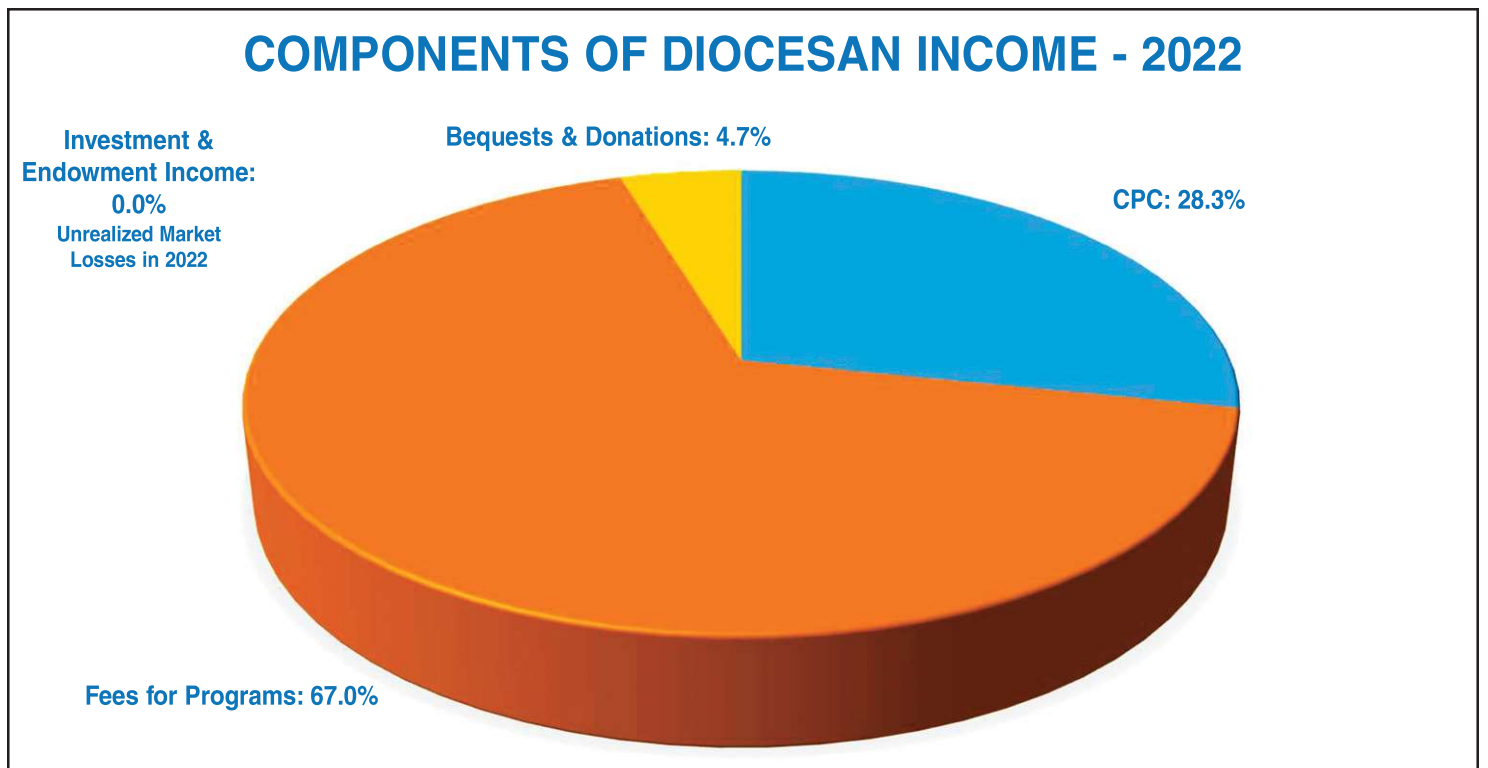
- 45 Parishes
- Approximately 70,000 Registered Catholic Faithful
- Approximately 1,400 Lay Employees
- Approximately 79 Clergy (46 Active; 33 Retired)
- 26 Catholic Schools (22 Elementary and 4 High Schools) serving approximately 7,000 students
- Catholic Charities Operations

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 & Services** (Including the Insurance Line of Business)
- **Investment & Interest Income** (Including Returns on Endowment holdings)
- **Bequests & Donations** (Including cash distributions from Endowment holdings)

The pie chart accompanying this report reflects each of these sources of revenue and their respective percentage of total revenue presented in the audited financial statements for 2022. Please note that due to the volatile nature of the investment market in 2022, like many organizations and individual investors, we incurred a substantial decrease in the carrying value of our investments. While these decreases are anticipated to be temporary and should recover over a period of time, recording the reduction in the carrying value does require that we record a sizeable loss of investment income in 2022 as well (“unrealized loss”). This will be discussed in more detail later in this commentary.

As a result, the pie chart *above* does not reflect any actual income from investments for the fiscal year, whereas investment income would more typically represent 10 - 20 percent of total revenue and 2021’s strong investment results actually represented over 30 percent of total revenue:



## FINANCIAL RESULTS SUMMARY:

The table *below* represents a condensed summary of the audited income statement. The income statement reflects a \$7.2 million net loss. While that figure is alarming on the surface, it is primarily driven by the aforementioned decrease in the carrying value of our investments and the associated unrealized investment loss that must be recorded on the income

statement. The normal operating results from standard operation of diocesan ministries were actually slightly better than breakeven and favorable to budget for the year while also maintaining stable cash and net asset positions as well. *That’s Good!*

Certainly, the significant reduction in the investment portfolio is an area for constant management and oversight, but these are primarily unrealized losses that are expected to recover over

time and therefore aren’t overly concerning in the near-term given our long-term investment strategy and our stable net asset position.

We were very fortunate once again in fiscal 2022 to experience:

- Continued generosity of our Catholic Faithful giving tirelessly throughout the diocese as a whole
- Another successful CPC Campaign

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Income & Expense Summary		
	6/30/22	6/30/21
<b>Income:</b>		
Catholic Parishes Campaign Income	\$ 6,285,911	\$ 6,223,674
Net Investment & Endowment Income	\$ (11,093,635)	\$ 13,772,337
Bequests & Donations - Contributions & Endowment Distributions	\$ 1,045,463	\$ 2,077,818
Fees for Programs - Insurance, Medical, & Service Fees	\$ 14,913,905	\$ 14,441,513
<b>Total Revenue, Gains, &amp; Support</b>	<b>\$ 11,151,644</b>	<b>\$ 36,515,342</b>
<b>Total Expenses</b>	<b>\$ 22,343,551</b>	<b>\$ 22,439,636</b>
<b>Change in Net Assets - i.e. Net Income/(Loss) - Operating</b>	<b>\$ (11,191,907)</b>	<b>\$ 14,075,706</b>
Positive Change in Pension Liability	\$ 3,961,165	\$ 8,453,477
<b>Total Change in Net Assets - i.e. Net Income/(Loss)</b>	<b>\$ (7,230,742)</b>	<b>\$ 22,529,183</b>

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## Audit

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- Favorable actuarial analysis of our Pension Plan driving another sizable reduction in pension expense
- Continued strong expense management and favorable operating expense outcomes

With those favorable elements in mind, we did encounter a few financial headwinds as well:

- As already mentioned, unlike 2021's exceptionally strong investment performance that produced a \$13.7 million "unrealized gain" in 2021, the market performed very poorly in 2022 driving an \$11 million "unrealized loss" in 2022.

- While 2021 included \$1.7 million in one-time revenue from a sizable bequest and the CARES Act PPP program, those revenue elements were not present in 2022.

So, are the results *Good* or *Bad*? They are primarily *Good*. The actual operation of the diocesan ministries, excluding the effects of the poor market performance, was *Good* and showed modest net income, with stable revenue and effective expense management. The investment market performance, of course, was *Bad* and did cause the income statement to show a net loss overall. But, with the normal operation results of the diocese being *Good* and the poor investment performance expected to be a temporary setback, 2022 was a solid year.

Certainly, we must remain cautious and conservative in our financial planning given the impacts of the poor market performance and continued inflationary pressures in the economy, but the general operating condition of the diocese is stable and that is *Good* and for that, we are *Thankful!*

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

### ADDITIONAL NOTES ON INCOME AND EXPENSE:

The following provides additional detail related to the summarized information above:

**Investment (Loss):** As previously noted, the significant shift in market performance caused 2022 to reflect an \$11 million investment loss compared to the 2021 \$13.7 million gain. As discussed previously, it is important to note that a substantial amount of the investment losses are "unrealized loss-

es" meaning the value of the investments decreased substantially, creating loss on the income statement, but did not drive an actual cash drain that would hinder funding of operations in the short term. While it is an area for continued, close monitoring and planning, it is not an immediate threat. These "unrealized gains and losses" can fluctuate significantly year to year with the performance of the market. We maintain an investment strategy for the long-term and anticipate recovery in the portfolio over time.

**Bequests & Donations Income:** While bequests and donations at the Diocesan level are typically modest, we were fortunate to garner some sizable gifts in fiscal year 2021. We returned to more modest levels in 2022, which drove some decrease in this revenue component in 2022 compared to 2021. However, it is important to note for the long-term, that with the success of the *Stewards of God's Grace* (SOGG) Capital Campaign, the Diocese was able to establish 8 new endowments earmarked for key operations functions of the diocese. Those endowments have now reached a material

### The Administrative Offices of the Catholic Diocese of Evansville (Chancery and Certain Diocesan Operations) Statement of Activities Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains (Losses) and Other Support</b>			
Catholic Parishes Campaign	\$ 6,285,911	\$ -	\$ 6,285,911
Contributions and other community support	80,924	286,209	367,133
Insurance and medical fees	14,724,957	-	14,724,957
Service fees	188,948	-	188,948
Net investment return	(8,641,327)	63,720	(8,577,607)
Change in beneficial interests in Foundation	-	(829,234)	(829,234)
Change in beneficial interests in Foundation – designated	(1,686,794)	-	(1,686,794)
Distributions from Foundation and other revenue	678,330	-	678,330
Net assets released from restrictions	634,070	(634,070)	-
<b>Total revenues, gains (losses) and other support</b>	<b>12,265,019</b>	<b>(1,113,375)</b>	<b>11,151,644</b>
<b>Expenses</b>			
Adult formation	196,821	-	196,821
Catholic Center and other operations	75,103	-	75,103
Chancery	696,254	-	696,254
Education	876,629	-	876,629
Insurance and medical programs	13,981,776	-	13,981,776
Spanish-speaking ministry	95,274	-	95,274
Ministry to priests and clergy assistance	372,724	-	372,724
Newspaper and communications	374,872	-	374,872
Office of Worship	109,694	-	109,694
Permanent deaconate	57,625	-	57,625
Subsidies	732,870	-	732,870
Tribunal	187,396	-	187,396
Vocation Office and House of Discernment	585,774	-	585,774
Safe Environment	39,244	-	39,244
Youth ministries, including Newman Centers	371,477	-	371,477
Lay employee retirement plan	(15,680)	-	(15,680)
Employee 403(b) benefits	1,000,926	-	1,000,926
Office of Family and Life	79,229	-	79,229
<b>Total program services</b>	<b>19,818,008</b>	<b>-</b>	<b>19,818,008</b>
Management and general	2,283,737	-	2,283,737
Fundraising	241,806	-	241,806
<b>Total support services</b>	<b>2,525,543</b>	<b>-</b>	<b>2,525,543</b>
<b>Total expenses</b>	<b>22,343,551</b>	<b>-</b>	<b>22,343,551</b>
<b>Change in Net Assets from Operating and Investing Activities</b>	<b>(10,078,532)</b>	<b>(1,113,375)</b>	<b>(11,191,907)</b>
<b>Change in Minimum Pension Liability</b>	<b>3,961,165</b>	<b>-</b>	<b>3,961,165</b>
<b>Change in Net Assets</b>	<b>(6,117,367)</b>	<b>(1,113,375)</b>	<b>(7,230,742)</b>
<b>Net Assets, Beginning of Year</b>	<b>10,344,634</b>	<b>9,074,794</b>	<b>19,419,428</b>
<b>Net Assets, End of Year</b>	<b>\$ 4,227,267</b>	<b>\$ 7,961,419</b>	<b>\$ 12,188,686</b>

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.

**Lay Pension Expense & Liability:** You may recall from the 2019 and 2020 financial reports, our balance sheet and income statement were materially impacted in a negative way by sizeable increases in our estimated unfunded pension liability to the tune of \$4.5MM in 2020 and \$4.1MM in 2019. Much of these "swings" in the liability are out of our control and dictated by actuarial assessments of the plan in conjunction with discount rates dictated by the bond market.

Falling discount rates, even with good investment performance, and infusion of cash into the plan, often means increased liability and expense. With steadily falling discount rates prior to 2021, despite our efforts to increase funding levels, we had been forced to recognize sizeable increases in the liability and expense.

That changed in 2021, however, as

we finally encountered a stabilization in the discount rate, which allowed the efforts we began in 2013 to address the funding status of the plan, to actually take hold and chip away at the liability, including an \$8.4 million decrease in the expense and liability in 2021.

More good news, in 2022, the discount rate not only held steady, it actually increased for the first time in many years. Rising discount rates typically mean decreased liability and expense . . . a *Good thing*. The increase in the discount rate in 2022, despite some drop in overall investment returns on plan assets, coupled with improved cash management and pension funding initiatives, reduced the pension expense and the unfunded pension liability approximately \$3.9 million for the year. The unfunded pension liability has now decreased \$14 million since 2020 (also, a *Good thing*).

**Diocesan Ministry Expenses:** Overall diocesan ministry expenses, as itemized in The Diocesan Overview section, "a." through "n." on page 9, were

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flat year over year with most managed at or below budget for the year and several slightly lower than prior year, even with a restart of several of our ministry programs that had been paused in fiscal 2021 due to the COVID Pandemic.

**Insurance Program Expenses:** The insurance program generated another successful year and despite a material increase in medical claims in 2022, still stayed within a good measure of controlled claims losses and closely managed administrative costs allowing for overall spend to come in nicely favorable to budget for the year.

**Net Operating Results:** With the stable revenue and effective expense management, diocesan Ministries continue to operate on narrow but stable profit margins, allowing the CPC assessment over the last 5 years to be held to an average increase of only 1.2 percent compared to an average inflation rate of 2.5 percent over the same 5-year period and an average increase of only .67 percent (point 67 percent) in the last 3 years.

## THE FINAL TAKE-AWAYS AND CLOSING COMMENTS:

- Normalized operating results were slightly better than break even.
- Normal revenue and expense was stable and in-line with prior year and budget.
- Poor market performance drove substantial unrealized losses and suppressed investment returns serving as the primary driver of the overall Net Loss for the fiscal year.
- The \$3.9 million pension expense and Liability reduction helped mitigate the investment loss.
- The insurance program remains in strong position.
- Diocesan Ministries continue to operate on narrow but stable profit margins, allowing the CPC assessment over the last 5 years to be held to an average increase of only 1.2 percent compared to an average inflation rate of 2.5 percent over the same 5-year period and an average increase of only .67 percent (point 67 percent) in the last 3 years.
- Near-term liquidity and Net Asset position remains in stable condition.
- . . . . *That's Good!*

## The Administrative Offices of the Catholic Diocese of Evansville (Chancery and Certain Diocesan Operations)

### Statements of Financial Position June 30, 2022 and 2021

#### Assets

	2022	2021
Cash	\$ 11,107,266	\$ 10,420,980
Receivables		
Stewards of God's Grace contributions receivable, net	-	22,405
Catholic Parishes Campaign	403,567	490,519
Parishes and institutions, net of allowance; 2022 and 2021 – \$2,060	1,095,748	790,875
Loans – parishes and institutions, net of allowance; 2022 and 2021 – \$0	1,112,461	1,323,298
Interest receivable	20,061	21,066
Insurance services receivable	296,976	417,628
Other Diocesan operations	43,640	22,678
	<u>2,972,453</u>	<u>3,088,469</u>
Investments	51,784,113	58,539,085
Beneficial interests in Foundation	15,155,438	17,329,630
Prepaid expenses and other assets	1,893,252	1,649,666
	<u>82,912,522</u>	<u>91,027,830</u>
<b>Total assets</b>	<b>\$ 82,912,522</b>	<b>\$ 91,027,830</b>

#### Liabilities and Net Assets

##### Liabilities

Accounts payable	\$ 177,639	\$ 203,194
Deposits held for parishes and other Diocesan operations	42,527,034	37,296,421
Due to related parties, net	23,220	391,974
Other accrued expenses and liabilities	1,987,997	2,171,162
Unearned service revenue	15,799	15,799
Accrued pension liability	25,992,147	31,524,852
Payables to named beneficiaries	-	5,000
	<u>70,723,836</u>	<u>71,608,402</u>
<b>Total liabilities</b>	<b>70,723,836</b>	<b>71,608,402</b>

##### Net Assets


Without donor restrictions – undesignated	(28,216,725)	(21,611,631)
Without donor restrictions – designated	32,443,992	31,956,265
	<u>4,227,267</u>	<u>10,344,634</u>
<b>Total net assets without donor restrictions</b>	<b>4,227,267</b>	<b>10,344,634</b>
With donor restrictions	7,961,419	9,074,794
	<u>12,188,686</u>	<u>19,419,428</u>
<b>Total net assets</b>	<b>12,188,686</b>	<b>19,419,428</b>
<b>Total liabilities and net assets</b>	<b>\$ 82,912,522</b>	<b>\$ 91,027,830</b>

While normalized operating margins are stable, several challenges and uncertainties remain. Market volatility will continue to drive unpredictable results in investment income and uncertainty in the pension liability, and continued, national inflationary pres-


ures 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 manage-

ment 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 remains, Very Good!*



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