

**The Administrative Offices of the
Catholic Diocese of Evansville
(Chancery and Certain Diocesan Operations)**
Independent Auditor's Report and Financial Statements
June 30, 2020 and 2019



**The Administrative Offices of the
Catholic Diocese of Evansville
(Chancery and Certain Diocesan Operations)
June 30, 2020 and 2019**

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Independent Auditor's Report

Finance Council and Management
The Administrative Offices of the
Catholic Diocese of Evansville
(Chancery and Certain Diocesan Operations)
Evansville, Indiana

We have audited the accompanying financial statements of The Administrative Offices of the Catholic Diocese of Evansville (Chancery and Certain Diocesan Operations), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As discussed in Notes 1 and 5, The Administrative Offices of the Catholic Diocese of Evansville (Chancery and Certain Diocesan Operations) expenses fixed asset additions and capital improvements. Additionally, as discussed in Note 11, The Administrative Offices of the Catholic Diocese of Evansville (Chancery and Certain Diocesan Operations) has not recorded a liability for its commitment to pay for clergy medical expenses that it provides after retirement. The practice of both of these, in our opinion, is not in accordance with accounting principles generally accepted in the United States of America. The effects on the financial statements of the aforementioned practices cannot be reasonably obtained.

Qualified Opinion

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Administrative Offices of the Catholic Diocese of Evansville (Chancery and Certain Diocesan Operations) as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, certain operations of The Administrative Offices of the Catholic Diocese of Evansville (Chancery and Certain Diocesan Operations) are not included in these financial statements. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Evansville, Indiana
January 6, 2021

**The Administrative Offices of the
Catholic Diocese of Evansville
(Chancery and Certain Diocesan Operations)
Statements of Financial Position
June 30, 2020 and 2019**

Assets

	<u>2020</u>	<u>2019</u>
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>
Total net assets without donor restrictions	(12,064,432)	(12,144,776)
With donor restrictions	8,954,677	14,734,022
	<u>(3,109,755)</u>	<u>2,589,246</u>
Total net assets	(3,109,755)	2,589,246
	<u>\$ 69,675,615</u>	<u>\$ 69,841,839</u>

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

Statements of Activities

Years Ended June 30, 2020 and 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Catholic community support	\$ 6,669,513	\$ 1,043,785	\$ 7,713,298
Stewards of God's Grace contributions	-	95,009	95,009
Insurance and medical fees	14,101,713	-	14,101,713
Service fees	212,444	-	212,444
Net investment return	2,583,467	30,343	2,613,810
Change in beneficial interests in Foundation	-	(48,309)	(48,309)
Change in beneficial interests in Foundation – designated	(115,742)	-	(115,742)
Distributions from Foundation and other	768,409	-	768,409
Net assets released from restrictions	6,900,173	(6,900,173)	-
Total revenues, gains and other support	<u>31,119,977</u>	<u>(5,779,345)</u>	<u>25,340,632</u>
Expenses			
Adult formation	216,545	-	216,545
Catholic Center and other operations	4,759,345	-	4,759,345
Chancery	721,272	-	721,272
Education	541,165	-	541,165
Insurance and medical programs	12,778,817	-	12,778,817
Spanish speaking ministry	53,335	-	53,335
Ministry to priests and clergy assistance	229,688	-	229,688
Newspaper and communications	413,761	-	413,761
Office of Worship	96,924	-	96,924
Permanent diaconate	56,816	-	56,816
Subsidies	706,630	-	706,630
Tribunal	184,683	-	184,683
Vocation office	412,461	-	412,461
Safe Environment	42,866	-	42,866
Youth ministries, including Newman Centers	366,525	-	366,525
Lay employee retirement plan	1,415,365	-	1,415,365
Employee 403(b) benefits	832,816	-	832,816
Office of Family and Life	81,441	-	81,441
Bad debt expenses	-	-	-
Total program services	<u>23,910,455</u>	<u>-</u>	<u>23,910,455</u>
Management and general	2,369,364	-	2,369,364
Fundraising	204,828	-	204,828
Total support services	<u>2,574,192</u>	<u>-</u>	<u>2,574,192</u>
Total expenses	<u>26,484,647</u>	<u>-</u>	<u>26,484,647</u>
Change in Net Assets from Operating and Investing Activities	4,635,330	(5,779,345)	(1,144,015)
Change in Minimum Pension Liability	(4,554,986)	-	(4,554,986)
Change in Net Assets	80,344	(5,779,345)	(5,699,001)
Net Assets (Deficit), Beginning of Year	(12,144,776)	14,734,022	2,589,246
Net Assets (Deficit), End of Year	<u>\$ (12,064,432)</u>	<u>\$ 8,954,677</u>	<u>\$ (3,109,755)</u>

See Notes to Financial Statements

2019

Without Donor Restrictions	With Donor Restrictions	Total
\$ 6,152,239	\$ 97,929	\$ 6,250,168
-	389,184	389,184
13,918,427	-	13,918,427
240,963	-	240,963
2,281,691	33,689	2,315,380
-	140,191	140,191
412,346	-	412,346
334,993	-	334,993
3,837,289	(3,837,289)	-
27,177,948	(3,176,296)	24,001,652
219,547	-	219,547
403,636	-	403,636
680,263	-	680,263
555,061	-	555,061
13,969,920	-	13,969,920
160,286	-	160,286
222,011	-	222,011
377,100	-	377,100
104,403	-	104,403
57,148	-	57,148
602,653	-	602,653
178,878	-	178,878
577,220	-	577,220
34,943	-	34,943
358,869	-	358,869
1,332,482	-	1,332,482
758,348	-	758,348
14,428	-	14,428
3,580	-	3,580
20,610,776	-	20,610,776
2,620,964	-	2,620,964
293,067	-	293,067
2,914,031	-	2,914,031
23,524,807	-	23,524,807
3,653,141	(3,176,296)	476,845
(4,146,354)	-	(4,146,354)
(493,213)	(3,176,296)	(3,669,509)
(11,651,563)	17,910,318	6,258,755
\$ (12,144,776)	\$ 14,734,022	\$ 2,589,246

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

**Statement of Functional Expenses
Year Ended June 30, 2020**

	2020				
	Program Services				
	Formation & Education	Sacramental & Ministerial Support	Social Outreach	Ecclesiastical Services to Parishes	Total Program Services
Wages, taxes, and benefits	\$ 775,225	\$ 43,088	\$ -	\$ 1,239,698	\$ 2,058,011
Lay pension and 403(b) Plan	30,808	-	-	2,298,759	2,329,567
Property and liability claims	-	-	-	-	-
Clergy assistance	-	207,433	-	-	207,433
Seminary and theology tuition	-	-	-	312,149	312,149
Programs	283,852	33,207	3,074,521	813,986	4,205,566
Insurance premiums, fees and claims	-	998,421	-	11,780,396	12,778,817
Professional fees and services	7,893	-	-	8,816	16,709
Utilities	11,527	10,241	-	19,276	41,044
Technology	-	-	-	-	-
Travel, meals, and entertainment	16,082	1,886	-	15,513	33,481
Repairs and maintenance	5,904	6,019	-	5,960	17,883
Other occupancy expense	11,462	9,735	-	13,599	34,796
Training and development	16,575	41,200	-	13,130	70,905
Print production	287	-	-	85,621	85,908
Postage	848	-	-	67,452	68,300
Supplies and other	15,444	33	-	110,334	125,811
Interest expense	-	-	-	-	-
Contribution	-	-	-	1,522,412	1,522,412
Capital improvements	1,663	-	-	-	1,663
Total expenses included in the expense section on the statement of activities	<u>\$ 1,177,570</u>	<u>\$ 1,351,263</u>	<u>\$ 3,074,521</u>	<u>\$ 18,307,101</u>	<u>\$ 23,910,455</u>

2020

Support Services

Management and General	Fundraising	Total Support Services	Total
\$ 310,376	\$ 144,431	\$ 454,807	\$ 2,512,818
-	-	-	2,329,567
999	-	999	999
6,000	-	6,000	213,433
-	-	-	312,149
391,513	-	391,513	4,597,079
11,950	-	11,950	12,790,767
209,294	1,499	210,793	227,502
70,591	808	71,399	112,443
110,699	-	110,699	110,699
77	12,429	12,506	45,987
75,041	-	75,041	92,924
-	-	-	34,796
67,415	-	67,415	138,320
-	11,073	11,073	96,981
1,399	10,528	11,927	80,227
14,671	24,060	38,731	164,542
1,082,213	-	1,082,213	1,082,213
-	-	-	1,522,412
17,126	-	17,126	18,789
\$ 2,369,364	\$ 204,828	\$ 2,574,192	\$ 26,484,647

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

**Statement of Functional Expenses
Year Ended June 30, 2019**

	2019				
	Program Services				
	Formation & Education	Sacramental & Ministerial Support	Social Outreach	Ecclesiastical Services to Parishes	Total Program Services
Wages, taxes, and benefits	\$ 774,516	\$ 43,950	\$ -	\$ 1,095,732	\$ 1,914,198
Lay pension and 403(b) Plan	35,976	-	-	2,138,816	2,174,792
Property and liability claims	-	-	-	-	-
Clergy assistance	-	177,237	-	-	177,237
Seminary and theology tuition Programs	-	-	-	379,831	379,831
	381,242	55,739	933,642	7,096	1,377,719
Insurance premiums, fees and claims	-	1,318,470	-	12,686,028	14,004,498
Professional fees and services	7,900	-	-	15,571	23,471
Utilities	15,802	8,895	-	15,873	40,570
Technology	-	-	-	-	-
Travel, meals, and entertainment	31,893	815	-	24,322	57,030
Repairs and maintenance	1,912	7,001	-	85,367	94,280
Other occupancy expense	8,109	8,117	-	18,261	34,487
Training and development	21,953	41,445	-	16,647	80,045
Print production	320	-	-	90,535	90,855
Postage	687	-	-	57,815	58,502
Supplies and other	13,453	38	-	86,190	99,681
Interest expense	-	-	-	-	-
Bad debts	-	-	-	3,580	3,580
Capital improvements	-	-	-	-	-
Total expenses included in the expense section on the statement of activities	<u>\$ 1,293,763</u>	<u>\$ 1,661,707</u>	<u>\$ 933,642</u>	<u>\$ 16,721,664</u>	<u>\$ 20,610,776</u>

2019

Support Services

Management and General	Fundraising	Total Support Services	Total
\$ 311,149	\$ 22,448	\$ 333,597	\$ 2,247,795
-	-	-	2,174,792
944	-	944	944
4,000	-	4,000	181,237
-	-	-	379,831
39,484	1,015	40,499	1,418,218
11,526	-	11,526	14,016,024
290,659	5,702	296,361	319,832
72,830	122	72,952	113,522
103,013	-	103,013	103,013
-	1,293	1,293	58,323
63,661	-	63,661	157,941
-	-	-	34,487
64,073	-	64,073	144,118
-	5,320	5,320	96,175
273	7,014	7,287	65,789
22,334	36,022	58,356	158,037
866,555	-	866,555	866,555
-	214,131	214,131	217,711
770,463	-	770,463	770,463
<u>\$ 2,620,964</u>	<u>\$ 293,067</u>	<u>\$ 2,914,031</u>	<u>\$ 23,524,807</u>

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

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
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	272,729	(10,876,122)
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

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

Notes to Financial Statements

June 30, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Administrative Offices of the Catholic Diocese of Evansville (Chancery and Certain Diocesan Operations) (Diocese) is a not-for-profit organization the mission and principal activity of which is to provide administrative services to the parishes and various other institutions and operations within the Diocese of Southwestern Indiana. The primary sources of revenue for the Diocese are: (1) fees from Diocesan operations for Diocesan-wide programs sponsored and/or administered by The Administrative Offices, including property and liability insurance, clergy medical and lay medical, (2) investment income, (3) amounts received from the Catholic Parishes Campaign (Campaign) and (4) other bequests and donations.

Fees for Diocesan-wide programs are accrued each month. Each entity is billed based on the number of covered participants in the case of the medical plans and on physical property in the case of the property and liability insurance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Description of Chancery and Certain Diocesan Operations

The financial statements include the accounts of the following operations of the Diocese of Evansville, which are under the supervision of the Bishop of Evansville:

Chancery offices' operations	Newspaper/communications
Catholic Center operations	Office of Worship
Adult formation	Vocation office
Administrative support	Ministry to priests
Various other operations	Development
Youth ministry	Finance office operations
Education	Office of Family and Life
Office of Hispanic Ministry	

All significant transactions and account balances between operations included in the financial statements have been eliminated.

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

Notes to Financial Statements

June 30, 2020 and 2019

The financial statements do not include operations of the parishes, schools and certain other Diocesan operations, including subsidized operations and certain Diocesan-related foundations. Under canon law, these operations operate, in many ways, autonomously. Additionally, many of the operations do not have formalized accounting and record-keeping that would allow them to be combined in a cost-efficient manner.

Net Assets

The Diocese reports its financial position and activities according to the following net asset classifications, based on the existence or absence of donor or grantor restrictions:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Diocese. These net assets may be used at the discretion of the Diocese's management and the Diocesan finance council.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Diocese or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Cash and Cash Equivalents

The Diocese considers all liquid investments with original maturities of three months or less to be cash equivalents. Uninvested cash included in investment accounts are not considered to be cash and cash equivalents. At June 30, 2020 and 2019, the Diocese had no cash equivalents.

At June 30, 2020, the Diocese's cash accounts exceeded federally insured limits by approximately \$3,155,000.

Receivables

Receivables are stated at amounts billed to others (primarily related parties), plus any accrued or unpaid interest. The Diocese provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables expected to be uncollected have been written off. Catholic Parishes Campaign receivables are unrestricted and due within one year.

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

Notes to Financial Statements

June 30, 2020 and 2019

Contributions Receivable and Amounts Due to Related Parties

During 2020 and 2019, the Diocese received certain contributions as a part of the Stewards of God's Grace: *Providing for the Needs of the Church in Southwest Indiana* campaign (SOGG). These contribution receivables are recorded as revenues with donor restrictions based on the intent of the donor. The amounts were recorded at fair value, which represents the gross contribution, less allowances for an estimate of amounts that may be uncollectible and a discount based on a risk-adjusted interest rate applicable to the year in which the contribution was made.

In conjunction with administering the SOGG campaign, the Diocese receives campaign payments directly from donors. Unless otherwise specified by the donor, the original pledge agreements provide that 50% of contributions, up to the respective organization's goal, are due directly to the parishes and other institutions named in the campaign pledge agreements. Donations between 101% and 125% of the organization's goal will be allocated 80/20 to the respective organization/Diocese. Donations exceeding 125% of the organization's goal will be allocated entirely to the respective organization. The amounts due directly to the parishes and other institutions do not represent revenue to the Diocese; therefore, the Diocese records amounts due to related parties for cash received on behalf of the parishes and other institutions not yet distributed.

Investments and Net Investment Return

Investments in equity securities having readily determinable fair values and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Diocese maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investments accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment

Fixed asset additions and capital improvements are expensed when purchased rather than capitalized and depreciated over their estimated useful lives. Accordingly, no depreciation expense is recognized by the Diocese. This practice is not in accordance with accounting principles generally accepted in the United States of America.

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

Notes to Financial Statements

June 30, 2020 and 2019

Paycheck Protection Program (PPP) Loan

The Diocese received \$850,000 of PPP loans established by the *Coronavirus, Aid, Relief, and Economic Security Act* (CARES Act), and has elected to account for the funding as a loan in accordance with Accounting Standards Codification Topic 470, *Debt*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as a gain in the financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration or lender; as a result of such audit, adjustments could be required to the recognition of revenue. As the Diocese believes all of the loan proceeds will be used for eligible payments, the Diocese expects substantially all of the loan will be forgiven. As of June 30, 2020, the loan forgiveness criteria has not all been met and, therefore, this loan is reflected as a note payable (see Note 6).

Contributions

Contributions are provided to the Diocese either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts—with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Diocese overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

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When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

In-Kind Contributions

In addition to receiving cash contributions, the Diocese receives in-kind contributions from various donors, which may consist of supplies or long-lived assets, such as equipment. It is the policy of the Diocese to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount, unless explicit donor stipulations specify how such assets are to be used, in which case, they are reported as with donor restrictions revenue. For the years ended June 30, 2020 and 2019, these contributions were minimal and, therefore, no amounts have been reflected in the financial statements for in-kind contributions.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair values only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contributions of services also include services received from personnel of an affiliate. The Diocese pays for most services requiring specific expertise; therefore, no amounts have been reflected in the financial statements for donated services.

Unearned Service Revenue

The Catholic Parishes Campaign is the method used to fund the annual assessment on each parish, which occurs in the fall. The funds are used for the operations of the Chancery, Diocesan programs and other Diocesan operations for the succeeding fiscal year. The Campaign funds of \$0 are included within unearned service revenue in the financial statements at June 30, 2020 and 2019. Additionally, the Diocese recognizes other revenues as unearned relating to other religious education programs and cathedral renovations.

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Income Taxes

The Diocese is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Diocese is subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general, and fundraising categories based on actual direct expenditures.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on change in net assets.

Note 2: Change in Accounting Principle

Grants and Contributions

In 2020, the Diocese adopted Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using the modified prospective basis to all agreements not completed as of adoption. ASU 2018-08 applies to all grants and contributions received and clarifies the accounting guidance applicable for grant accounting.

ASU 2018-08 provides guidance that unless the grantor is directly receiving value in the same amount as the services provided (an exchange transaction), the grant should be considered a contribution. In addition, if the grantor incorporates barriers into the contract and has a right of return, the transaction is considered to be a conditional contribution. Under the accounting guidance, conditional contributions are not recorded as revenue until the condition has been met.

Adoption of ASU 2018-08 resulted in changes in disclosures in the notes to the financial statements. The Diocese's adoption of the ASU had no impact on the 2020 financial statements or on the previously issued 2019 financial statements.

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Note 3: Contributions Receivable

Contributions receivable at June 30, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 1,206,127	\$ 3,472,468
Due in one to five years	43,495	1,384,506
	<u>1,249,622</u>	<u>4,856,974</u>
Less		
Allowance for uncollectible contributions	341,728	508,573
Unamortized discount	8,240	82,118
	<u>\$ 899,654</u>	<u>\$ 4,266,283</u>

The discount rate utilized was 3.15% and 2.86% for 2020 and 2019, respectively.

Contributions receivable designated for specific purposes and with time restrictions at June 30, 2020 and 2019, were as follows:

	<u>2020</u>	<u>2019</u>
Stewards of God's Grace campaign, undesignated (1)	\$ 882,680	\$ 4,134,807
Diocesan segment	5,235	60,869
Priests	2,935	22,725
Seminarians	4,342	33,549
Social outreach	1,953	-
Schools	1,622	7,776
Youth and young adult	50	3,592
Catechesis	837	2,965
	<u>\$ 899,654</u>	<u>\$ 4,266,283</u>

(1) The SOGG campaign is intended to support seminarians and priests, Catholic education and faith formation, social outreach, facility improvements, campaign costs and parishes.

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Note 4: Beneficial Interests in the Catholic Foundation of Southwest Indiana (Foundation)

The Diocese has transferred assets to the Foundation and retained a beneficial interest in those assets. The Diocese is to receive earnings as determined by the Foundation board annually, but none of the principal. The Diocese named itself as beneficiary of all future earnings. The cumulative amount of retained beneficial interests included in the statements of financial position was \$12,407,125 and \$9,998,311 at June 30, 2020 and 2019, respectively. Amounts within these beneficial interests with donor restrictions were \$4,158,050 and \$3,410,504 at June 30, 2020 and 2019, respectively.

Note 5: Property and Equipment

The Diocese owns properties that were purchased, constructed or donated. As is a common practice with religious organizations, these properties are not recorded in the financial statements. The Diocese believes many of these properties are single use, religious facilities with limited value, except to the Catholic community, and the cost related to these facilities is more a measure of contributions and general architectural styles at the time of construction, which may be significantly different from current styles or trends.

The replacement value of the buildings and equipment of all Diocesan operations for insurance purposes at June 30, 2020 and 2019, was approximately \$719,000,000 and \$739,000,000, respectively, of which approximately \$12,169,000 as of June 30, 2020 and 2019, was attributable to properties of operations included in these financial statements.

Financial Accounting Standards Board (FASB) guidance requires capitalization of land, buildings and equipment and recognition of depreciation expense thereon. The Diocese currently does not intend to adopt this particular FASB guidance in its financial reporting and no attempt has been made by management to determine the impact of not adopting this standard.

Note 6: Note Payable

During 2020, the Diocese received an \$850,000 PPP note payable from Old National Bank. The note is due in April 2022 with monthly payments of \$47,835 beginning in November 2020, including a 1% interest rate. The note is unsecured.

In October 2020, the *Paycheck Protection Program Flexibility Act* was issued which extended the deferral period for borrower payments of principal and interest to the date that SBA remits the borrower's loan forgiveness amount to the lender, or 10 months after the end of the borrower's loan forgiveness period.

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Aggregate annual maturities of notes payable at June 30, 2020, were:

2021	\$ 373,831
2022	<u>476,169</u>
	<u>\$ 850,000</u>

Note 7: Loans and Deposits – Related Parties

The Administrative Offices operate a centralized financing program. Diocesan operations remit funds in excess of immediate operating needs to the Diocese throughout the year. Other Diocesan operations may borrow from the fund at rates below the prevailing commercial rates (6.00% for fiscal periods 2020 and 2019), for operational needs or construction projects. This program gives operations with excess funds the opportunity to assist other operations. Interest is paid on funds on deposit at 3.75% and 2.75% for fiscal years 2020 and 2019, respectively. The interest rate differential covers administrative costs. The deposits are payable on demand. The loans are payable based upon the terms of the note agreements, which typically range from on demand to seven years from substantial completion of the financed project. One loan has been extended beyond its original due date to be amortized on a straight-line method over 15 years.

The loans outstanding and deposits on hand from operations at June 30, 2020 and 2019, are summarized below:

	<u>2020</u>		<u>2019</u>	
	<u>Loans</u>	<u>Deposits</u>	<u>Loans</u>	<u>Deposits</u>
Parishes	\$ 1,526,809	\$ 20,918,049	\$ 743,644	\$ 23,234,326
Institutions	-	7,390,914	-	5,733,358
	<u>1,526,809</u>	<u>28,308,963</u>	<u>743,644</u>	<u>28,967,684</u>
Less allowance	<u>28,169</u>	<u>-</u>	<u>28,169</u>	<u>-</u>
	<u>\$ 1,498,640</u>	<u>\$ 28,308,963</u>	<u>\$ 715,475</u>	<u>\$ 28,967,684</u>

Interest expense relative to the deposits on hand for the years ended June 30, 2020 and 2019, was \$1,082,213 and \$866,555, respectively.

As of June 30, 2020 and 2019, no loans were past due under the Diocese's loan program.

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Note 8: Net Assets

Without Donor Restrictions – Designated

Net assets without donor restrictions at June 30, 2020 and 2019, are restricted for the following purposes:

	2020	2019
Disaster relief	\$ 3,584	\$ 3,584
Plant funds	50,000	50,000
Office machine operations	63,603	63,603
Evansville Catholic schools	108,510	108,510
Religious education	272,550	272,550
Property acquisition	158,058	158,058
Insurance reserve	17,129,629	14,663,387
Stewards of God’s Grace campaign held in beneficial interest in Foundation various endowments	<u>8,064,475</u>	<u>6,459,525</u>
	<u><u>\$ 25,850,409</u></u>	<u><u>\$ 21,779,217</u></u>

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Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019, are restricted for the following purposes:

	<u>2020</u>	<u>2019</u>
Subject expenditure for specified purpose		
Human development	\$ 51,187	\$ 48,951
Evansville Catholic high schools	166,300	166,300
Religious education and pooled income funds	805,632	731,348
Communications	112,200	107,610
Stewards of God's Grace campaign (1)	903,134	4,648,560
	<u>2,038,453</u>	<u>5,702,769</u>
Subject to passage of time		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>1,215,904</u>	<u>4,134,807</u>
Endowments		
Investment in perpetuity, the income of which is expendable to support		
Diocesan general operations (life income)	61,936	61,936
Religious education	942,660	942,660
Religious education of Diocesan seminarians	192,196	192,196
Stewards of God's Grace campaign (1)	167,225	167,225
Stewards of God's Grace campaign held in beneficial interest in Foundation various endowments	178,253	121,925
Beneficial interests in Foundation various endowments, primarily religious education	<u>4,158,050</u>	<u>3,410,504</u>
	<u>5,700,320</u>	<u>4,896,446</u>
	<u>\$ 8,954,677</u>	<u>\$ 14,734,022</u>

(1) The SOGG campaign is intended to support seminarians and priests, Catholic education and faith formation, social outreach, facility improvements, campaign costs and parishes.

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Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2020	2019
Purpose restrictions accomplished		
Communications	\$ 5,576	\$ 3,197
Drake trust	-	300
Pooled income fund	4,500	6,000
Religious education	130,759	229,980
Stewards of God's Grace campaign	6,759,338	3,597,812
	\$ 6,900,173	\$ 3,837,289

Note 9: Endowment

The Diocese's endowment consists of 21 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Diocese's governing body is subject to the *State of Indiana Prudent Management of Institutional Funds Act* (SPMIFA) as requiring the preservation of the fair value of original gifts as of the gift date of donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of the interpretation, the Diocese classifies as net assets with donor restriction (a) the original value of gifts donated to the endowment and (b) any accumulations to the fund that are required to be maintained in the perpetuity in accordance with the direction of the applicable donor gift instrument. In accordance with SPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Diocese and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments

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- 6. Other resources of the Diocese
- 7. Investment policies of the Diocese

The composition of net assets by type of endowment fund at June 30, 2020 and 2019, was:

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Donor-restricted endowment funds	\$ -	\$ 2,236,859	\$ 2,236,859
Designated endowment funds	272,550	-	272,550
Total endowment funds	\$ 272,550	\$ 2,236,859	\$ 2,509,409

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Donor-restricted endowment funds	\$ -	\$ 2,184,546	\$ 2,184,546
Designated endowment funds	272,550	-	272,550
Total endowment funds	\$ 272,550	\$ 2,184,546	\$ 2,457,096

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Changes in endowment net assets for the years ended June 30, 2020 and 2019, were:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 272,550	\$ 2,184,546	\$ 2,457,096
Investment return			
Investment income	-	30,335	30,335
Net depreciation	-	(132)	(132)
Total investment return	-	30,203	30,203
Contributions	-	56,533	56,533
Appropriation of endowment assets for expenditure	-	(34,423)	(34,423)
Endowment net assets, end of year	<u>\$ 272,550</u>	<u>\$ 2,236,859</u>	<u>\$ 2,509,409</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 272,550	\$ 2,144,274	\$ 2,416,824
Investment return			
Investment income	-	33,204	33,204
Net depreciation	-	(42)	(42)
Total investment return	-	33,162	33,162
Contributions	-	51,696	51,696
Appropriation of endowment assets for expenditure	-	(44,586)	(44,586)
Endowment net assets, end of year	<u>\$ 272,550</u>	<u>\$ 2,184,546</u>	<u>\$ 2,457,096</u>

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Investment and Spending Policies

The Diocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment, while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Diocese must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Diocese's policies, endowment assets are invested in a manner that is intended to produce favorable results while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Diocese relies on a total return strategy in which investment returns are achieved through both current yield (investment income, such as dividends and interest) and capital appreciation (both realized and unrealized). The Diocese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Annually, the Diocese evaluates designated endowments and determines any changes and appropriations.

Underwater Endowment

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Diocese is required to retain as a fund of perpetual duration pursuant to donor stipulation of SPMIFA. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature, if any, are reported in net assets with donor restrictions and such amounts were \$0 for 2020 and 2019. Deficiencies, if any, may result from unfavorable market fluctuations that occur after investment of new contributions with donor restrictions and continued appropriation for certain purposes deemed prudent by the governing body.

The practice of the Diocese does not permit distributions from endowments to invade the corpus of the endowment. If earnings are not sufficient to fully fund the calculated annual distribution from the endowment, only the amount of available earnings is distributed for spending. This practice does not preclude the Diocese from permitting spending from underwater endowments in accordance with SPMIFA if deemed prudent by the governing body, if necessary. The Diocese has interpreted SPMIFA to permit spending from underwater endowment funds in accordance with the prudent measures required by law.

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Note 10: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2020 and 2019, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash	\$ 3,291,537	\$ 3,018,808
Other receivables	2,716,311	2,757,603
Investments	48,916,193	48,482,209
Contributions receivable, net	<u>899,654</u>	<u>4,266,283</u>
 Total financial assets	 <u>55,823,695</u>	 <u>58,524,903</u>
 Less		
Donor-imposed restrictions		
Restricted funds	2,038,453	5,702,769
Endowments	5,700,320	4,896,446
Deposits held for parishes and other Diocesan operations	28,308,963	28,967,684
Contributions receivable due in one to five years	43,495	1,384,506
Loans receivable due in one to five years	<u>1,372,245</u>	<u>457,388</u>
	<u>37,463,476</u>	<u>41,408,793</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 18,360,219</u>	 <u>\$ 17,116,110</u>

The Diocese's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment is subject to an annual spending policy of appropriating for expenditure as the board deems prudent each year. Although the Diocese does not intend to spend from this board-designated endowment, these amounts could be made available if necessary.

The Diocese manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

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Note 11: Medical Plans

Lay Employees

The medical plan for benefits for lay employees at the various parishes and schools throughout the entire Diocese of Evansville, including the lay employees at The Administrative Offices, is partially self-funded and is administered by a third-party administrator. The plan is funded by direct billings to the operations of the various parishes and schools based upon the number of employees participating in the program at rates determined by The Administrative Offices on an annual basis. Coverage for The Administrative Offices' employees is provided at no charge to the employee for single-covered employees. An employee can elect to pay an additional amount for family coverage. Losses in excess of \$150,000 per participant are insured with a general insurance carrier for the years ended June 30, 2020 and 2019. Lay medical and health care expense (including actual claims paid, insurance premiums paid for the stop loss coverage and accruals for the estimate of claims incurred but not paid) for the years ended June 30, 2020 and 2019, was approximately \$9,900,000 and \$10,700,000, respectively. The Chancery, through action of the Bishop, funds any shortfall in this Diocesan-wide plan.

Clergy

The medical plan for clergy (Clergy Medical Plan) is administered by a third-party administrator. The plan is partially self-funded with losses in excess of \$150,000 per participant insured with a general insurance carrier. The Clergy Medical Plan provides medical and health benefits to all current and retired clergy in the entire Diocese of Evansville (approximately 90), including priests assigned to The Administrative Offices.

The plan is funded by direct billings to each parish, school or other entity within the entire Diocese. Each operation pays a predetermined amount to the plan for clergy assigned to it at rates determined by The Administrative Offices on an annual basis. Clergy medical and health care expense (including actual claims paid, insurance premiums paid for the stop loss coverage and an accrual for the estimate of claims incurred but not paid) for the years ended June 30, 2020 and 2019, was approximately \$1,068,000 and \$1,412,000, respectively. The Chancery, through action of the Bishop, funds any shortfall in this Diocesan-wide plan.

The Diocese has an unwritten commitment to provide and pay for clergy's medical expenses after retirement. As of June 30, 2020, there are approximately 28 retired clergy covered under this commitment. Accounting principles generally accepted in the United States of America require that a liability be recorded for the present value of that commitment. The Diocese has elected not to determine the extent of that liability or record it with the understanding that, through action of the Bishop, the Chancery will fund any future shortfalls in this plan. For the years ended June 30, 2020 and 2019, there were overages (shortfalls) of \$438,280 and \$(11,314), respectively, relating to premiums collected in excess of claims paid.

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Note 12: Pension Plan

The Diocese has a noncontributory defined benefit pension plan, which covered substantially all full-time lay employees throughout the Diocese, including those at the administrative offices, through July 1, 2013. During 2013, the Diocese amended its pension plan to remove all plan participants under the age of 40 and freeze the plan to new participants as of July 1, 2013.

Although this plan covers employees from related Diocesan operations, which operations are not included in these financial statements, the Diocese would fund any shortfall or retain any overfunding of this plan in the event the plan is terminated. The Catholic Diocese of Evansville Retirement Income Plan provides benefits based on years of credited service multiplied by 1.125% of the participant's average compensation, as defined, over the preceding five years. The Diocese makes annual contributions to fund the plan. The most recent actuarial valuation report, which was prepared as of June 30, 2020, indicates the Diocese is expected to contribute \$2,664,000 to the plan in fiscal year 2021.

The Diocese uses a June 30 measurement date for the plan. Information about the plan's funded status follows:

	<u>2020</u>	<u>2019</u>
Benefit obligation	\$ (79,545,564)	\$ (73,847,153)
Fair value of plan assets	<u>39,506,184</u>	<u>38,719,620</u>
Funded status	<u>\$ (40,039,380)</u>	<u>\$ (35,127,533)</u>

Amounts recognized in the statements of financial position as of June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Accrued pension liability	<u>\$ (40,039,380)</u>	<u>\$ (35,127,533)</u>

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit position costs as of June 30, 2020 and 2019, consist of:

	<u>2020</u>	<u>2019</u>
Net loss	\$ 24,341,432	\$ 19,674,048
Prior service cost	<u>623,817</u>	<u>736,215</u>
	<u>\$ 24,965,249</u>	<u>\$ 20,410,263</u>

The accumulated benefit obligation for the defined benefit pension plan was \$72,493,258 and \$67,027,230 at June 30, 2020 and 2019, respectively.

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Components of net periodic benefit costs for the years ended June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Service cost	\$ 1,547,581	\$ 1,542,429
Interest cost	2,541,832	2,655,358
Expected return on assets	(2,717,117)	(2,572,452)
Amortization of prior service costs	112,398	81,481
Recognition of net loss	<u>1,536,167</u>	<u>1,113,406</u>
Net periodic benefit costs	<u>\$ 3,020,861</u>	<u>\$ 2,820,222</u>

Other significant balances and costs are:

	<u>2020</u>	<u>2019</u>
Net benefit costs	\$ 3,020,861	\$ 2,820,222
Employer contributions	\$ 2,664,000	\$ 2,664,000
Benefits paid	\$ 3,164,558	\$ 2,951,879

The following amounts have been recognized in the statements of activities for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Amounts arising during the period		
Net loss	\$ 6,203,551	\$ 5,093,905
Net prior service cost	\$ -	\$ 247,336
Amounts reclassified as components of net periodic benefit costs during the period		
Net loss	\$ 1,536,167	\$ 1,113,406
Prior service cost	\$ 112,398	\$ 81,481

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit costs over the next fiscal year is \$2,048,359 and \$112,398, respectively.

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Significant assumptions include:

	2020	2019
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.00%	3.50%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine benefit costs		
Discount rate	3.50%	4.00%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%

The Diocese has estimated the long-term return on plan assets based primarily on review of target asset allocation, an underlying inflation rate assumption and the effects of asset diversification and periodic fund rebalancing.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2020:

2021	\$ 3,197,387
2022	3,209,721
2023	3,372,384
2024	4,182,957
2025	3,432,358
2026–2030	22,780,898
	\$ 40,175,705

Plan assets are administered by Prudential Retirement, which invests the plan assets in accordance with the provisions of the plan agreement. The plan's asset allocation is designed using modern portfolio theory, which quantifies the impact of diversification among various asset classes. Current target allocation percentages are 40%–60% invested in equities and 40%–60% invested in fixed income assets and 5% invested in other. No additional asset categories are included beyond equity securities, debt securities and other.

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At June 30, 2020 and 2019, plan assets by category are as follows:

	2020	2019
Weighted-average asset allocation		
Equity securities	55%	55%
Debt securities	44	42
Other	1	3
	100%	100%

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash and mutual funds invested in U.S. stocks, international stocks, U.S. bonds and stable value funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. The plan did not have any Level 2 or Level 3 assets.

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The fair values of the Diocese's pension plan assets at June 30, 2020 and 2019, by asset class, are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2020				
Plan assets				
Mutual funds				
Large cap	\$ 8,286,034	\$ 8,286,034	\$ -	\$ -
Mid cap	1,209,772	1,209,772	-	-
Small cap	3,526,819	3,526,819	-	-
T. Rowe Price	4,596,676	4,596,676	-	-
International stocks	4,082,491	4,082,491	-	-
U.S. bonds	13,434,514	13,434,514	-	-
Stable value	4,017,470	4,017,470	-	-
Cash	352,408	352,408	-	-
	<u>\$ 39,506,184</u>	<u>\$ 39,506,184</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2019				
Plan assets				
Mutual funds				
Large cap	\$ 8,347,223	\$ 8,347,223	\$ -	\$ -
Mid cap	1,211,510	1,211,510	-	-
Small cap	3,593,259	3,593,259	-	-
T. Rowe Price	4,549,683	4,549,683	-	-
International stocks	3,824,876	3,824,876	-	-
U.S. bonds	12,750,604	12,750,604	-	-
Stable value	3,495,315	3,495,315	-	-
Cash	947,150	947,150	-	-
	<u>\$ 38,719,620</u>	<u>\$ 38,719,620</u>	<u>\$ -</u>	<u>\$ -</u>

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403(b) Plan

The Diocese has a 403(b) plan, which covers substantially all eligible full-time employees throughout the Diocese, including those at The Administrative Offices. Effective July 1, 2013, the Diocese amended its defined contribution 403(b) plan to allow the Diocese to make matching contributions of 50% of employee deferral amounts up to 5% of employees' eligible compensation. During 2020 and 2019, the Diocese has also elected a 2.5% discretionary contribution for eligible participants. The Diocese's 2020 employer contribution to the plan consisted of approximately \$360,000 of matching contribution and approximately \$470,000 of discretionary contributions. The Diocese's 2019 employer contribution to the plan consisted of approximately \$317,000 of matching contribution and approximately \$439,000 of discretionary contributions.

Note 13: Property and Liability Insurance

A partially self-insured property and liability insurance program is administered by the Chancery for all Diocesan facilities. For property coverage, the Diocese's initial deductible is \$225,000 with total coverage of \$70,000,000. The additional liability program is funded by assessments billed to all Diocesan operations and it pays the initial \$695,000 of certain claims with insurance coverage of \$750,000 in excess of these claims. Claims in excess of these limits are insured with various general insurance carriers through an overall risk manager who charges a fee for providing insurance management services. Property and liability insurance expense for the years ended June 30, 2020 and 2019, was approximately \$2,029,000 and \$1,985,000, respectively, comprised of \$1,462,000 and \$1,347,000, respectively, for premiums to general insurance carriers; \$85,000 and \$90,000, respectively, for fees to an overall risk manager; \$482,000 and \$306,000, respectively, for claims incurred; and \$0 and \$243,000, respectively, for rebates of excess reserves.

Provisions for losses expected under these programs are recorded based upon the Diocese's estimates of the aggregate liability for claims incurred and totaled approximately \$330,000 and \$80,000 for the years ended June 30, 2020 and 2019, respectively. The amount of actual losses incurred could differ materially from the estimates reflected in these financial statements. The Diocese has provided letters of credit totaling \$625,000 in connection with these insurance programs, which renews automatically on an annual basis. These letters of credit are collateralized by certificates of deposit totaling \$625,000.

Note 14: Disclosures About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2020 and 2019.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2020				
Investments				
Money market mutual funds	\$ 3,433,339	\$ 3,433,339	\$ -	\$ -
Certificates of deposit (1)	779,346	-	-	-
U.S. Government securities	63,668	-	63,668	-
Corporate debt securities	194,040	-	194,040	-
U.S. Treasury securities	2,386,420	-	2,386,420	-
Common stocks	145,287	145,287	-	-
Mutual funds				
International	5,928,606	5,928,606	-	-
Small cap	3,793,717	3,793,717	-	-
Short term	6,158,765	6,158,765	-	-
Intermediate term	12,055,739	12,055,739	-	-
Large growth	13,977,266	13,977,266	-	-
	<u>\$ 48,916,193</u>	<u>\$ 45,492,719</u>	<u>\$ 2,644,128</u>	<u>\$ -</u>
Beneficial interests in Foundation	<u>\$ 12,407,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,407,125</u>

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019				
Investments				
Money market mutual funds	\$ 3,026,446	\$ 3,026,446	\$ -	\$ -
Certificates of deposit (1)	1,166,884	-	-	-
U.S. Government securities	103,631	-	103,631	-
Corporate debt securities	160,988	-	160,988	-
U.S. Treasury securities	2,183,423	-	2,183,423	-
Common stocks	139,438	139,438	-	-
Mutual funds				
International	5,813,060	5,813,060	-	-
Small cap	3,531,560	3,531,560	-	-
Short term	6,394,919	6,394,919	-	-
Intermediate term	12,682,577	12,682,577	-	-
Large growth	13,279,283	13,279,283	-	-
	<u>\$ 48,482,209</u>	<u>\$ 44,867,283</u>	<u>\$ 2,448,042</u>	<u>\$ -</u>
Beneficial interests in Foundation	<u>\$ 9,998,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,998,311</u>

(1) Nonbrokered certificates – no leveling

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2020. For assets classified within Level 1, 2 and 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Beneficial Interests in Foundation

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the statements of financial position using significant observable (Level 3) inputs:

	Beneficial Interests in Foundation	
	2020	2019
Balance, July 1	\$ 9,998,311	\$ 6,831,990
Total realized and unrealized gains included in change in beneficial interests in Foundation	257,261	682,501
Purchases	2,572,407	2,616,624
Distributions	(420,854)	(132,804)
	\$ 12,407,125	\$ 9,998,311
Balance, June 30		
Total gains for the period included in net investment return on beneficial interests in Foundation attributable to the change in unrealized gains and losses related to assets still held at the reporting date	\$ 257,261	\$ 682,501

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Realized and unrealized gains and losses included in net investment return on beneficial interests in Foundation for the years ended June 30, 2020 and 2019, are reported in the statements of activities as follows:

	Beneficial Interests in Foundation	
	2020	2019
Total gains	\$ 257,261	\$ 682,501
Change in unrealized gains and losses relating to assets still held at the statements of financial position date	\$ 257,261	\$ 682,501

	Unobservable (Level 3) Inputs			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
June 30, 2020				
Beneficial interests in Foundation	\$ 12,407,125	Discounted cash flows	Discount rates market return rates	N/A
June 30, 2019				
Beneficial interests in Foundation	\$ 9,998,311	Discounted cash flows	Discount rates market return rates	N/A

Note 15: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions Receivable

During 2020 and 2019, there were no significant concentrations within contributions. As of June 30, 2020 and 2019, the Diocese has recorded significant pledges receivable. The estimated allowances for uncollectible amounts and discounts are based on factors that could change in the near term and for which such changes could materially affect the amount reported in the financial statements.

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Litigation

The Diocese is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Diocese. However, events could occur that would change this estimate materially in the near term.

Pension Plan

The Diocese has recorded certain liabilities as more fully described in Note 12. Certain assumptions and estimates made by the Diocese in calculating these liabilities may be different in the future.

Note 16: Commitments and Contingent Liabilities

Diocesan operations, separate from The Administrative Offices, have entered into various agreements and activities that could, by action of the Bishop, become liabilities of The Administrative Offices.

The Diocese of Evansville clergy are provided with a defined benefit retirement plan. Donations were received to fund the initial cost of the plan. The most recent actuarial valuation report, which was prepared as of July 1, 2020, indicates that the fair value of plan assets exceeds the present value of the accumulated benefits by approximately \$1,276,044 for 80 participants. This is not a receivable of The Administrative Offices. However, The Administrative Offices could, by action of the Bishop, incur expenses in subsequent years in connection with the funding of this plan. The Bishop has not determined how a plan deficiency will be funded.

Note 17: Risks and Uncertainties

Investments

The Diocese invests in various investment securities, has beneficial interests held at the Foundation and funds its defined benefit pension plan with investment securities. Investment securities and beneficial interests are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and beneficial interests, it is at least reasonably possible that changes in the values of investment securities and beneficial interests will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

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Loans – Parishes and Institutions

The Diocese has unsecured loans to its various parishes and institutions, which are exposed to the risks that the cash flows of these entities may not be adequate to provide for full payment of principal and interest due to the level of risk associated with these loans. It is at least reasonably possible that changes in values may occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Management's Liquidity Plan

The Diocese has an ongoing significant deficit of assets without donor restrictions. There are several economic factors and uncertainties that affect the financial health of the Diocese. The ongoing deficit is primarily the result of the impact of its noncontributory defined benefit pension plan, which covers a significant number of the full-time employees throughout the Diocese. The Diocese contributes annually to the plan through assessments to its parishes and various other institutions. The liability associated with this plan is largely computed based on discount rates, which fluctuate with market conditions, expected mortalities of the participants and the investments held by the plan to fund this liability.

Note 18: Future Changes in Accounting Pronouncements

Revenue Recognition

FASB amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Diocese is in the process of evaluating the effect the amendment will have on the financial statements.

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Note 19: Revision of Prior Year Statement of Financial Position and Statement of Activities

During 2020, the Diocese corrected the release of net assets with donor restriction in its previously reported 2019 financial statements. This correction had no net impact on the previously reported total net assets as of June 30, 2019, or change in net assets for the year ended June 30, 2019.

The following tables include changes in financial statement line items as previously reported as of and for the year ended June 30, 2019, as a result of the revision discussed in the preceding paragraph.

	Statement of Financial Position		
	As Adjusted 2019	Correction of Error	As Previously Reported 2019
Net Assets			
Without donor restrictions – undesignated	\$ (33,923,993)	\$ (236,460)	\$ (34,160,453)
Total net assets without donor restrictions	\$ (12,144,776)	\$ (236,460)	\$ (12,381,236)
With donor restrictions	\$ 14,734,022	\$ 236,460	\$ 14,970,482
	Consolidated Statement of Activities		
	As Adjusted 2019	Correction of Error	As Previously Reported 2019
Net assets released from restrictions			
Without donor restrictions	\$ 3,837,289	\$ (185,394)	\$ 3,651,895
With donor restrictions	\$ (3,837,289)	\$ 185,394	\$ (3,651,895)
Change in net assets			
Without donor restrictions	\$ (493,213)	\$ (185,394)	\$ (678,607)
With donor restrictions	\$ (3,176,296)	\$ 185,394	\$ (2,990,902)
Net assets, beginning of year			
Without donor restrictions	\$ (11,651,563)	\$ (51,066)	\$ (11,702,629)
With donor restrictions	\$ 17,910,318	\$ 51,066	\$ 17,961,384
Net assets, end of year			
Without donor restrictions	\$ (12,144,776)	\$ (236,460)	\$ (12,381,236)
With donor restrictions	\$ 14,734,022	\$ 236,460	\$ 14,970,482

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Note 20: Subsequent Events

Subsequent events have been evaluated through January 6, 2021, which is the date the financial statements were available to be issued.

Supplementary Information

**The Administrative Offices of the
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Statement of Activities for Net Assets Without Donor Restrictions
Year Ended June 30, 2020**

	Operating Fund	Insurance Fund	Interfund Eliminations		Total
			Debit	Credit	
Revenues, Gains and Other Support					
Catholic community support					
Catholic Parishes Campaign	\$ 6,164,739	\$ -	\$ -	\$ -	\$ 6,164,739
Bequests and donations	504,774	-	-	-	504,774
	<u>6,669,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,669,513</u>
Insurance and medical fees					
Property and liability insurance	-	2,996,147	99,457	-	2,896,690
Clergy medical plan	-	1,505,990	618,900	-	887,090
Lay medical plan	-	10,742,922	424,989	-	10,317,933
	<u>-</u>	<u>15,245,059</u>	<u>1,143,346</u>	<u>-</u>	<u>14,101,713</u>
Service fees					
Newspaper and communications	119,932	-	-	-	119,932
Catholic Center	92,512	-	-	-	92,512
	<u>212,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,444</u>
Interest income					
Investments	27,233	-	-	-	27,233
Parishes	46,469	-	-	-	46,469
	<u>73,702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,702</u>
Net realized and unrealized investment gains	2,509,765	-	-	-	2,509,765
Change in beneficial interests in Foundation – designated	(115,742)	-	-	-	(115,742)
Distributions from Foundation and other	768,409	-	-	-	768,409
Net assets released from restrictions	6,900,173	-	-	-	6,900,173
	<u>17,018,264</u>	<u>15,245,059</u>	<u>1,143,346</u>	<u>-</u>	<u>31,119,977</u>
Total revenues, gains and other support					

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**Statement of Activities for Net Assets Without Donor Restrictions (Continued)
Year Ended June 30, 2020**

	Operating Fund	Insurance Fund	Interfund Eliminations		Total
			Debit	Credit	
Expenses					
Adult formation	\$ 252,395	\$ -	\$ -	\$ 35,850	\$ 216,545
Catholic Center and other operations	4,932,199	-	-	172,854	4,759,345
Chancery	814,362	-	-	93,090	721,272
Education	587,035	-	-	45,870	541,165
Lay employee retirement plan	1,415,365	-	-	-	1,415,365
Employee 403(b) benefits	832,816	-	-	-	832,816
Fundraising	216,778	-	-	11,950	204,828
General and administrative					
Interest expense					
Parishes	814,967	-	-	-	814,967
Institutions	267,246	-	-	-	267,246
	1,082,213	-	-	-	1,082,213
Miscellaneous	1,844,161	-	-	557,010	1,287,151
	2,926,374	-	-	557,010	2,369,364
Insurance and medical programs					
Property and liability insurance	-	2,028,991	-	-	2,028,991
Clergy medical plan	-	998,421	-	-	998,421
Lay medical plan	-	9,751,405	-	-	9,751,405
	-	12,778,817	-	-	12,778,817
Spanish speaking ministry	59,347	-	-	6,012	53,335
Ministry to priests	250,318	-	-	20,630	229,688
Newspaper and communications	463,005	-	-	49,244	413,761
Office of Worship	108,874	-	-	11,950	96,924
Permanent diaconate	56,816	-	-	-	56,816
Subsidies					
Catholic Charities	600,000	-	-	-	600,000
Christian sharing	106,630	-	-	-	106,630
	706,630	-	-	-	706,630
Tribunal	208,583	-	-	23,900	184,683
Vocation office	469,657	-	-	57,196	412,461
Safe Environment	42,866	-	-	-	42,866
Youth ministries, including					
Newman Centers	412,365	-	-	45,840	366,525
Office of Family and Life	93,391	-	-	11,950	81,441
Total expenses	14,849,176	12,778,817	-	1,143,346	26,484,647
Change in Net Assets from Operating and Investing Activities	<u>\$ 2,169,088</u>	<u>\$ 2,466,242</u>	<u>\$ 1,143,346</u>	<u>\$ 1,143,346</u>	<u>\$ 4,635,330</u>