Roman Catholic Diocese of Memphis

2020 Financial Report Highlights

- The financial statements of the Diocese of Memphis are independently audited by Watkins-Uiberall of Memphis. The entire report is given below, reflecting the fiscal health of the Diocese for the period beginning July 1, 2019 and ending June 30, 2020.

- As has been the case since the Diocese first started to be audited years ago, the results reflect a "qualified opinion", which means that the auditors were unable to give an unqualified, or clean, audit opinion due to one or more issues in the financial statements. In the case of the Diocese, the reasons for the qualified opinion are as follows:
  - The Diocese did not receive the records needed to record the accounting cost of land associated with the establishment of the Diocese in 1971;
  - Disposals, retirements, and related gains and losses have not been recorded;
  - The Diocese has recorded acquired assets only since Watkins-Uiberall has been our auditor;
  - Additionally, the Diocese has elected not to book depreciation of assets.

To approximate these missing values, insurance appraisals or current tax estimates are used as net values for these assets. For a more detailed discussion, please see Note 1 of the audit. This qualified opinion is acceptable to our lenders and creditors.

- Other than the reasons for the qualified opinion, Watkins-Uiberall believes that the Diocesan financial statements present fairly the financial position of the Diocese and the changes in its net assets and cash flow for the year.

- These audited statements include activities and cash flows of all the parishes and missions, grade schools, high schools, cemeteries, and the Chancery. Various religious orders, lay societies, and religious organizations that operate within the Diocese, but are not fiscally responsible to the Bishop, are excluded. Additionally, Catholic Charities of West Tennessee is audited as a separate entity and is excluded from the figures below. To see a copy of the Catholic Charities audit report, please visit their website at www.ccwttn.org.

- The Jubilee Schools are not included in the 2020 results as they were closed at the end of June 2019; Jubilee Schools are included in the 2019 results which are reported by way of a comparison. CMUS, the funding arm associated with the Jubilee Schools is included as holding a cash balance in both years and it is expected to be dissolved in 2021.

- Total assets of the Diocese (see page 3) increased by $8.1 million from the prior year due to increases in Cash ($3.8 million), Investments ($2.4 million), and in Property and Equipment ($2.2 million).
• Total liabilities of the Diocese (see page 3) increased by $12.6 million due to an increase in pension liability adjustment of $7.0 million (see below), an increase in Post-retirement benefit obligation ($1.4 million), an increase in Derivative financial instruments ($1.0 million) and an increase in Long-term debt ($5.3 million). The Long-term debt reflects an increase of $6.7 million in PPP government loans but is offset by $1.4 million in payments on the other Bank debt (see Note 8). The current bank debt balance excluding PPP loans stands at $19.6 million, down from $43.6 million in 2012. The Diocese has had a moratorium on new debt in place for a number of years. Finally, the PPP government loans are expected to be forgiven in 2021 per the federal government program and will be removed from the debt section of the balance sheet at that time.

• For the end of the fiscal period, the Diocese reported a decrease in net assets of $4.5 million (see page 4). Net Income from operations was $2.4 million positive versus a negative $6.8 million last year but was offset by minimum pension liability adjustment ($6.6 million), Postretirement benefits adjustment ($1.4 million), change in fair value of derivatives ($1.0 million) and partially offset by Net investment return ($2.7 million).

• Operating expenses for the year were $62.3 million, which is down 19.6% from the $77.5 million incurred in the prior year – mainly due to the closure of the Jubilee Schools ($9 million) and the effects of the pandemic. Combining revenues and operating expenses yields the net income from operations of $2.4 million in the current year versus the $6.8 million loss in the prior year.

• Non-operating losses were $6.9 million versus last year’s loss of $2.7 million. This was due primarily to the change in fair value of derivatives and the pension liability adjustment along with the net investment return. The fair value of derivatives is explained in Note 11 below.

• The pension liability adjustment of $6.6 million is the amount needed to fully fund the retirement accounts for Priests and Lay Employees. Although investment returns increased the value of the pension assets, there was an overall increase of $6.6 million in the required pension liability due to the discount rate used by the actuaries to estimate future payouts. See Note 15.

• The Diocesan Finance Council meets regularly and serves as the primary advisory body to the Bishop in the area of financial administration. In addition to reviewing the annual budget and the annual audit, canon law requires that the Council be consulted on acts of extraordinary financial administration, such as the purchase or sale of real estate, the borrowing of large amounts, and major new construction projects.

• The Financial Office has the responsibility of supporting and assisting the Bishop in the stewardship of the temporal resources needed to carry out the mission of the Diocese. It fulfills this responsibility by seeing that the resources of the Catholic Center offices, as well as those of the parishes, schools, and Diocesan-affiliated entities are administered in a prudent manner in accordance with church law. It also includes onsite evaluations of the financial practices of parishes and schools to ensure their assets are properly safeguarded, that proper internal controls are in place, and that there is compliance with Diocesan policies.
• Should you have any questions concerning the audit report, please contact the Finance Department at FinanceDept@cc.cdom.org or call us at 901-373-1200.

God bless you,

[Signature]

David Zaleski
Chief Financial Officer