

**THE ROMAN CATHOLIC DIOCESE OF  
MEMPHIS IN TENNESSEE**

**CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2023  
(with summarized financial information for 2022)



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**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**

**ROSTER OF OFFICIALS**

For the Year Ended June 30, 2023

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**Office of the Bishop**

Most Reverend David P. Talley, Bishop  
Very Reverend James M. Clark, Chancellor  
Mrs. Anna Lynn, Vice-chancellor

**Finance Council**

Joe Evangelisti, Council Chair  
John Bossier  
Christy Cornell  
Jim McMahon  
Tom Scherer  
Greg Barnes  
Ross Harris  
Ali Sinkular  
Very Reverend Keith Stewart, V.G.

**Management**

David Zaleski, Chief Financial Officer

## INDEPENDENT AUDITOR'S REPORT

His Excellency The Most Reverend David P. Talley  
The Roman Catholic Diocese of Memphis in Tennessee

### Qualified Opinion

We have audited the accompanying consolidated financial statements of the Roman Catholic Diocese of Memphis in Tennessee (a nonprofit organization) (the "Diocese"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Qualified Opinion

As more fully described in Note 1 to the consolidated financial statements, the Diocese has elected not to provide for depreciation of exhaustible property and equipment in accordance with accounting principles generally accepted in the United States of America. Additionally, the Diocese has not recorded the cost of certain land, as the cost of such land is not readily determinable. The effect of these omissions on the accompanying consolidated financial statements has not been reasonably determined.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Diocese and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Diocese's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules of financial position and activities and the consolidated schedule of parish intercompany bank indebtedness, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

## **Other Information**

Management is responsible for the other information included in the consolidated financial statements. The other information comprises the roster of officials but does not include the basic consolidated financial statements and our auditor's report thereon. Our opinion on the basic consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## **Report on Summarized Comparative Information**

We have previously audited the Roman Catholic Diocese of Memphis in Tennessee's 2022 financial statements, and we expressed a qualified audit opinion on those audited consolidated financial statements in our report dated July 27, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in black ink that reads "Watkins Mikusall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee  
July 10, 2024

**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

June 30, 2023

(with summarized financial information at June 30, 2022)

	<u>Assets</u>	
	2023	2022
Cash and cash equivalents	\$ 26,152,818	\$ 24,512,523
Receivables		
Unconditional promises to give, net	8,457,207	635,327
Tuition, net	138,132	81,979
Related party	347,999	777,606
Other	806,861	643,814
Prepaid expenses	244,566	89,865
Investments	51,963,179	51,612,076
Beneficial interest in trusts	5,671,090	6,411,064
Property and equipment	283,464,923	271,723,434
Pension asset	12,220,122	-
Derivative financial instruments	221,612	-
Right-of-use assets	648,913	715,366
Other assets	232,138	689,762
	<u>\$ 390,569,560</u>	<u>\$ 357,892,816</u>
	<u>Liabilities and Net Assets</u>	
Accounts payable and accrued expenses	\$ 4,228,004	\$ 4,180,923
Collections held for transmittal	514,380	529,723
Deferred revenue	3,067,694	2,893,394
Lease liabilities	602,823	673,935
Due to annuitants	221,614	239,664
Minimum pension liability	-	4,039,889
Post-retirement benefit obligation	3,798,802	4,733,186
Related party payables	2,958,896	646,587
Derivative financial instruments	-	734,444
Long-term debt	10,332,580	11,746,733
	<u>25,724,793</u>	<u>30,418,478</u>
Net Assets		
Without Donor Restrictions		
Investment in property and equipment, net of debt	273,132,343	259,976,701
Diocese-designated	9,201,382	8,518,157
Undesignated	41,496,022	25,717,157
	<u>323,829,747</u>	<u>294,212,015</u>
With Donor Restrictions		
Perpetual in nature	9,869,324	6,311,136
Purpose restrictions	29,085,624	24,305,158
Time-restricted for future periods	2,060,072	2,646,029
	<u>41,015,020</u>	<u>33,262,323</u>
Total net assets	<u>364,844,767</u>	<u>327,474,338</u>
Total liabilities and net assets	<u>\$ 390,569,560</u>	<u>\$ 357,892,816</u>

The accompanying notes are an integral part of the consolidated financial statements.

**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

June 30, 2023

(with summarized financial information at June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Total 2022
<b>Operating Support and Revenues</b>				
<b>Contributions and Grants</b>				
General contributions	\$ 27,951,437	\$ 15,917,188	\$ 43,868,625	\$ 34,713,359
Annual Catholic Appeal	-	1,868,082	1,868,082	2,464,250
Grant revenue	1,234,223	-	1,234,223	1,650,310
Estate donations	-	586,025	586,025	3,578
Government grants	-	-	-	827,772
Missions and societies	118,864	-	118,864	120,425
<b>Education</b>				
Tuition and fees, net	22,807,317	-	22,807,317	22,275,996
Other education revenue	5,283,555	-	5,283,555	4,767,948
Social and fundraising	3,579,988	-	3,579,988	3,346,617
Auxiliary services	695,816	-	695,816	707,391
Cemeteries	581,023	-	581,023	768,522
Other income	3,130,695	-	3,130,695	4,914,698
Net assets released from restrictions	11,595,871	(11,595,871)	-	-
Total operating support and revenues	<u>76,978,789</u>	<u>6,775,424</u>	<u>83,754,213</u>	<u>76,560,866</u>
<b>Operating Expenses</b>				
<b>Program Services</b>				
Cemeteries	535,441	-	535,441	523,943
Ministry	23,652,541	-	23,652,541	24,570,791
Education	25,101,826	-	25,101,826	24,683,133
Total program services	49,289,808	-	49,289,808	49,777,867
General and administration	15,564,416	-	15,564,416	15,249,724
Fundraising	1,257,593	-	1,257,593	2,104,263
Total operating expenses	<u>66,111,817</u>	<u>-</u>	<u>66,111,817</u>	<u>67,131,854</u>
Income from operations	10,866,972	6,775,424	17,642,396	9,429,012
<b>Nonoperating Gains (Losses)</b>				
Forgiveness of PPP loans	48,155	-	48,155	3,951,023
Change in value of beneficial interest in trusts	-	23,084	23,084	(708,350)
Net investment return (loss)	2,982,447	954,189	3,936,636	(6,993,980)
Change in fair value of derivatives	956,056	-	956,056	1,499,105
Minimum pension liability adjustment	13,460,011	-	13,460,011	(8,803,610)
Postretirement benefits adjustment	934,384	-	934,384	1,610,658
Loss on uncollectible promises to give	-	-	-	(15,055)
Gain (loss) on sale of assets	369,707	-	369,707	(683,258)
Total nonoperating gains (losses)	<u>18,750,760</u>	<u>977,273</u>	<u>19,728,033</u>	<u>(10,143,467)</u>
Change in net assets	29,617,732	7,752,697	37,370,429	(714,455)
Net assets, beginning of year	<u>294,212,015</u>	<u>33,262,323</u>	<u>327,474,338</u>	<u>328,188,793</u>
Net assets, end of year	<u>\$ 323,829,747</u>	<u>\$ 41,015,020</u>	<u>\$ 364,844,767</u>	<u>\$ 327,474,338</u>

The accompanying notes are an integral part of the consolidated financial statements.



**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2023  
(with summarized financial information for the year ended June 30, 2022)

	Program Services				Supporting Services		Totals	
	Cemeteries	Ministry	Education	Total Program Services	General & Administrative	Fundraising	2023	2022
Salaries and benefits	\$ 118,728	\$ 7,914,340	\$ 18,424,000	\$ 26,457,068	\$ 10,830,119	\$ 9,956	\$ 37,297,143	\$ 36,142,345
Operations	92,755	10,182,284	3,814,551	14,089,590	3,686,750	1,247,550	19,023,890	18,010,231
Occupancy costs	322,767	5,036,162	1,893,677	7,252,606	162,084	87	7,414,777	10,198,247
Technology	1,191	357,182	570,523	928,896	775,830	-	1,704,726	1,713,959
Interest	-	162,573	399,075	561,648	109,633	-	671,281	1,067,072
<b>Total expenses</b>	<b>\$ 535,441</b>	<b>\$ 23,652,541</b>	<b>\$ 25,101,826</b>	<b>\$ 49,289,808</b>	<b>\$ 15,564,416</b>	<b>\$ 1,257,593</b>	<b>\$ 66,111,817</b>	<b>\$ 67,131,854</b>

The accompanying notes are an integral part of the consolidated financial statements.

**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2023  
(with summarized financial information for the year ended June 30, 2022)

	2023	2022
Cash Flows From Operating Activities:		
Change in net assets	\$ 37,370,429	\$ (714,455)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Change in value of beneficial interest in trusts	(23,084)	708,350
Change in fair value of derivatives	(956,056)	(1,499,105)
Realized and unrealized (gains) and losses on investments	(3,008,071)	7,444,218
Minimum pension liability adjustment	(13,460,011)	8,803,610
Post-retirement benefits adjustment	(934,384)	(1,610,658)
(Gain)/Loss on uncollectible promises to give	-	15,055
(Gain)/Loss on sale of assets	(369,707)	683,258
Amortization of right-of-use-assets	257,744	371,755
Forgiveness of Paycheck Protection Program loans	(48,155)	(3,951,023)
Contributions received for capital expenditures	(12,468,348)	(5,246,017)
Contributions restricted for endowment	(1,717,412)	(2,071,837)
Changes in Operating Assets and Liabilities:		
Receivables	(608,952)	3,164,934
Prepaid expenses	(154,701)	48,800
Other assets	457,624	(257,623)
Accounts payable and accrued expenses	(325,520)	(792,913)
Collections held for transmittal	(15,343)	224,639
Deferred revenue	174,300	(374,454)
Related party payables	73,664	(297,237)
Net cash provided by operating activities	4,244,017	4,649,297
Cash Flows From Investing Activities:		
Purchases of investments	(3,227,994)	(4,556,822)
Proceeds from sales of investments	5,803,072	4,323,892
Proceeds from sale of property and equipment	441,942	4,998,750
Purchases of property and equipment	(11,441,122)	(8,961,154)
Distributions received from trusts	745,008	223,687
Net cash used for investing activities	(7,679,094)	(3,971,647)
Cash Flows From Financing Activities:		
Proceeds from contributions received for capital expenditures	4,986,362	5,554,341
Contributions restricted for endowment	1,717,412	2,071,837
Principal payments on lease liabilities	(262,404)	(453,835)
Principal payments on long-term debt	(1,365,998)	(6,580,100)
Net cash provided by financing activities	5,075,372	592,243
Net increase in cash and cash equivalents	1,640,295	1,269,893
Cash and cash equivalents, beginning of year	24,512,523	23,242,630
Cash and cash equivalents, end of year	\$ 26,152,818	\$ 24,512,523

The accompanying notes are an integral part of the consolidated financial statements.

**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**

**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

For the Year Ended June 30, 2023  
(with summarized financial information for the year ended June 30, 2022)

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	<u>2023</u>	<u>2022</u>
Supplemental Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 705,712</u>	<u>\$ 1,070,499</u>
Noncash Investing and Financing Activities:		
Increase (decrease) in related party receivables due to change in their respective pension liabilities	<u>\$ (479,465)</u>	<u>\$ 769,206</u>
Increase (decrease) in related party payables due to change in their investments	<u>\$ (81,890)</u>	<u>\$ (118,042)</u>
Increase in related party payables due to change in pension liabilities	<u>\$ 2,320,535</u>	<u>\$ -</u>
Property and equipment purchases included in accounts payable	<u>\$ 372,601</u>	<u>\$ 595,864</u>
Lease liabilities arising from obtaining right-of-use assets	<u>\$ 191,292</u>	<u>\$ 456,565</u>
Refinancing of long-term debt	<u>\$ -</u>	<u>\$ 7,448,518</u>

The accompanying notes are an integral part of the consolidated financial statements.

# THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(with summarized financial information for the year ended June 30, 2022)

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### NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Activities

The Roman Catholic Diocese of Memphis in Tennessee (the “Diocese”) is a non-profit religious organization established in 1971 with a mission of helping the faithful encounter the living Christ through conversion, communion, service, and unity. The Diocese consists of parishes and missions, grade schools, a high school, a cemetery, the administrative offices, and the Catholic Foundation of West Tennessee, Inc. (the “Foundation”). The Foundation was formed in 2022 for the purpose of investing, holding, and distributing endowment funds raised primarily from the United in Faith campaign. Title to Diocesan property vests in the Bishop and his successors; similarly, Diocesan obligations are those of the Bishop and his successors.

#### Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

#### Principles of Consolidation

The accompanying consolidated financial statements include the financial position, activities and cash flows of all parishes and missions, grade schools, high school, cemetery, the administrative offices, and the Foundation, which operate under Diocesan management and are fiscally responsible to the Bishop. All significant inter-organizational balances and transactions have been eliminated to the extent respective equity of those organizations is combined for presentation purposes. Various religious orders, lay societies, and religious organizations that operate within the Diocese, and are not fiscally responsible to the Bishop, have not been included in the accompanying consolidated financial statements.

#### Comparative Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but only by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the consolidated financial statements for the year ended June 30, 2022, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform with the current year presentation.

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

#### Revenue Recognition

The Diocese receives support from a variety of sources including contributions from individuals, estates, missions, and societies. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the condition on which they depend have been met.

Contributions derived from the Annual Catholic Appeal are used primarily for seminarian education, ministries of the Diocese and subsidies for various funded agencies. These contributions are restricted for use during the following fiscal year. Accordingly, all contributions for the Annual Catholic Appeal have been recognized as contributions with donor restrictions and will be released from restriction in the following fiscal year in order to support operations for that year.

The Diocese recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. Any fees received in advance of the applicable school year are reported as deferred revenue in the consolidated statement of financial position. Tuition revenue is reported net of discounts and financial aid awarded to students. Total discounts and financial aid awarded for the years ended June 30, 2023 and 2022 were \$3,854,167 and \$3,610,704, respectively.

Revenue from cemetery services is recognized when the services are performed, and in the case of lot sales, upon transfer of the lot.

### Concentrations of Credit Risks

The Diocese's credit risks primarily relate to cash and cash equivalents, receivables, investments, and derivatives. The Diocese maintains cash on deposit at local banks in excess of federally insured limits. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of \$250,000. The Diocese has minimized risk by depositing cash in banks with high credit standings. The Diocese has not experienced any losses of such funds, and management believes the Diocese is not exposed to significant risk on cash.

Investments, which are not insured by the FDIC, are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least possible that changes in the values of investments will occur in the near term and such changes could materially affect the Diocese's financial position and changes in its net assets. See Note 8 for credit risks related to derivatives.

At June 30, 2023, three donors comprised 86% of total unconditional promises to give, and one donor accounted for approximately 13% of total contributions and grants for the year then ended. There were no donor concentrations for 2022.

### Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Diocese considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. All certificates of deposit are considered to be cash equivalents since interest penalties for early withdrawal are insignificant. The Diocese has excluded money market funds and other cash equivalents held in investment accounts.

### Receivables

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Promises that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates, and amortization of the discounts is included in contribution revenue. Unconditional promises to give are stated at the amount management expects to collect. Management provides for an allowance based on historical collection rates and the evaluation of past due promises to give.

Tuition and other receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current

status of individual accounts. The allowance for uncollectible accounts for tuition and other receivables was \$433,277 and \$400,329 at June 30, 2023 and 2022, respectively. Balances that are still outstanding after a reasonable period of time has elapsed are generally written off through a charge to the valuation allowance and a credit to the appropriate receivable.

### Investments

Purchased investments are carried at their fair values in the consolidated statements of financial position. Donated investments are recorded at fair value at the date of donation. Net investment return (loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less any related investment advisory fees.

### Property and Equipment

The land for thirty-two of the forty-eight parishes and missions, as well as six other properties owned by the Diocese, has been excluded from the accompanying consolidated financial statements. The cost of such land is not readily determinable, since most of it was developed more than fifty years ago. Current zoning regulations indicate that this land is restricted for a single purpose and, accordingly, has no determinable commercial resale value. Due to the absence of certain records, most of the buildings and equipment recorded upon the founding of the Diocese in 1971 are stated at insurance appraisal value at that time.

Other property and equipment purchases in excess of \$5,000 are capitalized and stated at cost if purchased or constructed, or the estimated fair value on the date received if donated. The Diocese does not record depreciation expense for property and equipment.

### Leases

The Diocese follows the provisions of Topic 842 of the FASB Accounting Standards Codification. Topic 842 requires the recognition of right-of-use (“ROU”) assets and offsetting lease liabilities for substantially all leases. The Diocese determines if an arrangement is a lease at inception. Finance-type leases are included in ROU assets and lease liabilities on the consolidated statement of financial position. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Diocese’s leases do not provide an implicit rate, the Diocese uses the risk-free rate based on the information available at commencement date in determining the present value of lease payments. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

### Derivatives

Derivatives are recorded as either assets or liabilities in the consolidated statement of financial position at fair market value. The interest rate swap agreements described in Note 8 are derivative instruments whose fair values are based on the expected cash flows over the lives of the trades.

### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The Diocese has designated, from net assets without donor restrictions, net assets for endowment scholarship funds and other purposes as described in Note 14.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statement of activities as net assets released from restriction.

### Retirement Plans

The Diocese follows the provisions of the Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans Topic of the FASB Accounting Standards Codification. This topic requires plan sponsors to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through a change in net assets, apart from expenses, to the extent those changes are not included in the net periodic costs.

### Functional Expenses

The costs of program and supporting services have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Expenses that are identified with a specific program or support service are charged directly to the appropriate function. Other shared costs have been allocated among the programs and supporting services benefited based on management's estimate of the relative effort expended for the related functions.

### Advertising Costs

Advertising costs are expensed as incurred and totaled \$117,932 and \$147,503 for the years ended June 30, 2023 and 2022, respectively.

### Income Taxes

No provision for federal income taxes is required since the Diocese is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an Organization that is not a private foundation. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements.

### Donated Services

A substantial number of volunteers and contributors donated significant amounts of their time to the Diocese in promoting and assisting with various special fundraising events and other programs. No amounts have been included in the accompanying consolidated financial statements to reflect the value of such donated services since the criteria for recognition has not been met.

### Date of Management's Review

The Diocese evaluated its June 30, 2023 consolidated financial statements for subsequent events through July 10, 2024 the date the consolidated financial statements were available to be issued. Other than the event disclosed in Note 15, the Diocese is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.

## NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor purpose restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 26,152,818	\$ 24,512,523
Net unconditional promises to give due within one year	4,232,063	136,858
Tuition receivable	138,132	81,979
Other receivables	806,861	643,814
Investments		
Non-designated	29,868,729	34,259,481
Diocese-designated	9,201,382	8,518,157
Endowments	<u>12,893,068</u>	<u>8,834,438</u>
Total investments	<u>51,963,179</u>	<u>51,612,076</u>
	83,293,053	76,987,250
Less: Diocese-designated and endowment amounts	<u>(22,094,450)</u>	<u>(17,352,595)</u>
	<u>\$ 61,198,603</u>	<u>\$ 59,634,655</u>

The Diocese's goal is generally to maintain financial assets to meet 6 months of operating expenses (currently approximately \$33 million). As part of its liquidity plan, the Diocese's liquidity management focuses on investing its cash balances in short and longer-term investments to balance its needs between the short-term liquidity needs of its operations versus the long-term needs of future operations including its Priest and Lay retirement funds. These investments are managed by the investment committee of the Diocese, with additional oversight from the Diocesan Finance Council. Additional liquidity is available by drawing down on its line of credit with First Horizon Bank, as discussed in Note 7.

## NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

A summary of expected collections of unconditional promises to give, net of present value discounts and allowances at June 30 are as follows:

	<u>2023</u>	<u>2022</u>
Due within one year	\$ 5,682,048	\$ 281,660
Due within one to five years	<u>4,225,144</u>	<u>498,469</u>
	9,907,192	780,129
Less allowance for uncollectible promises	(1,069,933)	(108,714)
Less unamortized discount	<u>(380,052)</u>	<u>(36,088)</u>
Total net unconditional promises to give	<u>\$ 8,457,207</u>	<u>\$ 635,327</u>

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.87%.



A summary of gross unconditional promises to give by entity is as follows at June 30:

	<u>2023</u>	<u>2022</u>
Annual Catholic Appeal	\$ 445,298	\$ 44,404
St. Paul School	9,009,000	-
St. Philip	273,394	502,825
Cathedral of Immaculate Conception	179,500	232,900
	<u>\$ 9,907,192</u>	<u>\$ 780,129</u>

#### NOTE 4 – BENEFICIAL INTEREST IN TRUSTS

The Diocese is the beneficiary of certain irrevocable trusts that were created independently by donors and are held and administered by outside trustees designated by the donors. Therefore, the Diocese has neither possession nor control over the assets of the trusts but does however receive periodic distributions that are generally restricted for certain parishes or priest retirement housing. The Gauthreaux trust is a remainder trust for which the Diocese will receive a percentage of the remaining trust assets upon the death of the lead beneficiary. The other trusts are intended to continue indefinitely as there are no termination dates specified. The Diocese's beneficial interest in these trusts is carried at fair value in the consolidated statement of financial position based on the fair value of the underlying trust assets, with changes in fair value recognized in the consolidated statement of activities.

Beneficial interest in trusts consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Gauthreaux Trust	\$ 187,991	\$ 183,009
Lattus Trust	633,450	630,254
Carmer Trust	4,003,061	4,551,529
Jarboe Trust	846,588	1,046,272
	<u>\$ 5,671,090</u>	<u>\$ 6,411,064</u>

#### NOTE 5 – FAIR VALUE MEASUREMENTS

The Diocese reports certain assets at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the most advantageous market at the measurement date. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the Diocese. Unobservable inputs are inputs that reflect the Diocese's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities the Diocese has the ability to access.
- Level 2 – Inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that can be corroborated by observable market data.

- Level 3 – Inputs which are unobservable for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022. See Notes 4 and 11 for valuation methods used for beneficial interest in trusts, due to beneficiaries and charitable gift annuities.

*Common stock and mutual funds:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Limited partnerships:* Management uses unobservable inputs including information from fund managers and general partners. Management reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair values. Because of the inherent uncertainty of the valuation of these assets, the values reported in these financial statements may differ significantly from the values that would have been used had a ready market for the investments existed. The fund managers value these investments using the practical expedient based upon the Diocese’s proportional share of the net asset values (“NAV”) of the underlying securities or as reported by the underlying entities. Investments measured at NAV are presented in a separate column to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The following tables present the Diocese’s assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at June 30, 2023 and 2022:

	June 30, 2023				
	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
<b>Investments</b>					
Money market funds (at cost)	\$ -	\$ -	\$ -	\$ -	\$ 7,817,885
Mutual Funds					
Equity	10,767,078	-	-	-	10,767,078
Fixed income	12,592,997	-	-	-	12,592,997
Common stocks	7,576,863	-	-	-	7,576,863
Limited Partnerships					
Strategic hedge funds	-	-	-	7,080,354	7,080,354
Conservative hedge funds	-	-	-	6,128,002	6,128,002
Total investments	<u>30,936,938</u>	<u>-</u>	<u>-</u>	<u>13,208,356</u>	<u>51,963,179</u>
Beneficial interest in trusts	-	-	5,671,090	-	5,671,090
Derivative financial instruments	-	221,612	-	-	221,612
Total assets at fair value	<u>\$ 30,936,938</u>	<u>\$ 221,612</u>	<u>\$ 5,671,090</u>	<u>\$ 13,208,356</u>	<u>\$ 57,855,881</u>
<b>Liabilities</b>					
Due to annuitants	\$ -	\$ -	\$ 221,614	\$ -	\$ 221,614

June 30, 2022					
	Level 1	Level 2	Level 3	Investments	Total
				Measured at NAV	
Investments					
Money market funds (at cost)	\$ -	\$ -	\$ -	\$ -	\$ 6,386,253
Mutual Funds					
Equity	7,599,594	-	-	-	7,599,594
Fixed income	15,865,465	-	-	-	15,865,465
Common Stocks	8,951,348	-	-	-	8,951,348
Limited Partnerships					
Strategic hedge funds	-	-	-	6,867,201	6,867,201
Conservative hedge funds	-	-	-	5,942,215	5,942,215
Total investments	32,416,407	-	-	12,809,416	51,612,076
Beneficial interest in trusts	-	-	6,411,064	-	6,411,064
Total assets at fair value	<u>\$ 32,416,407</u>	<u>\$ -</u>	<u>\$ 6,411,064</u>	<u>\$ 12,809,416</u>	<u>\$ 58,023,140</u>
Liabilities					
Due to annuitants	\$ -	\$ -	\$ 239,664	\$ -	\$ 239,664
Derivative financial instruments	-	734,444	-	-	734,444
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 734,444</u>	<u>\$ 239,664</u>	<u>\$ -</u>	<u>\$ 974,108</u>

The Diocese serves as custodian for the investments for several religious organizations that operate outside the Diocese and are not consolidated. Investments for these organizations are offset by liabilities included in the consolidated statement of financial position as related party payables. The amount included in investments and related party payables at June 30, 2023 and 2022 was \$514,369 and \$596,259, respectively.

The table below presents additional information regarding investments whose fair value is estimated using the practical expedient of reported NAV at June 30, 2023 and 2022:

	Conservative Hedge Funds (1)	Strategic Hedge Funds (2)
Liquidity		
Initial lock-up	1 year	0 - 2 years
Redemption fees	Up to 5%	0 - 3%
Redemption frequency	Quarterly/semi-annual	Quarterly/semi-annual
Notice	95 days	90 - 105 days
Fair value at June 30, 2023	<u>\$ 6,128,002</u>	<u>\$ 7,080,354</u>
Fair value at June 30, 2022	<u>\$ 5,942,215</u>	<u>\$ 6,867,201</u>

(1) *Conservative hedge funds*: These are funds of funds that seeks consistent returns by primarily investing in funds that generally engage in more non-directional strategies such as Equity Market Neutral and Fixed Income Arbitrage. The funds do not contain an investor gate but there is an overall fund level gate which could limit the Diocese's redemptions to 20% of its fund balance if all investors were making redemption requests simultaneously.

(2) *Strategic hedge funds*: These are funds of funds that seek superior returns by primarily investing in funds that engage in more opportunistic strategies such as Emerging Markets, Sector specific, Equity Hedge, credit-related investments, and structured products.

## NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2023			
	Cost		1971 Appraisal	Total
	Land and Improvements	Buildings and Equipment		
Administrative offices	\$ 1,135,494	\$ 15,459,900	\$ 672,822	\$ 17,268,216
Parish churches and rectories	5,172,389	180,577,268	20,693,588	206,443,245
Parish and Diocesan schools	4,483,263	46,895,841	4,353,290	55,732,394
Cemeteries and other				
Diocesan institutions	10,875	3,261,720	748,473	4,021,068
	<u>\$ 10,802,021</u>	<u>\$ 246,194,729</u>	<u>\$ 26,468,173</u>	<u>\$ 283,464,923</u>

  

	2022			
	Cost		1971 Appraisal	Total
	Land and Improvements	Buildings and Equipment		
Administrative offices	\$ 1,135,494	\$ 14,591,170	\$ 665,622	\$ 16,392,286
Parish churches and rectories	5,244,654	170,907,491	20,682,052	196,834,197
Parish and Diocesan schools	4,483,263	45,655,143	4,353,290	54,491,696
Cemeteries and other				
Diocesan institutions	10,875	3,245,907	748,473	4,005,255
	<u>\$ 10,874,286</u>	<u>\$ 234,399,711</u>	<u>\$ 26,449,437</u>	<u>\$ 271,723,434</u>

## NOTE 7 – LINES OF CREDIT

The Diocese has a \$5,000,000 line of credit with a bank at a variable interest rate of 30-day Bloomberg Short-Term Bank Yield (BSBY) plus 225 basis points, currently 7.46%. There was no outstanding balance at June 30, 2023 and 2022. The line is secured by a negative pledge agreement and matured on July 20, 2023. The line of credit was closed upon maturity.

The Diocese has a \$3,000,000 line of credit with a bank at a variable interest rate of the Prime Rate minus a margin of 0.80, currently 7.45%. There was no outstanding balance at June 30, 2023 and 2022. This line is secured by negative pledge agreements and matures on August 30, 2025.

## NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS

The Diocese entered into various interest rate swap contracts under which the Diocese pays a fixed rate of interest times a notional principal amount and receives in return an amount equal to a specified variable rate of interest times a notional principal amount. No other cash payments are made unless the contracts are terminated prior to maturity, in which case the amount paid or received in settlement is established by an agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contracts.

The interest rate swaps are considered to be economic hedges against the change in the amount of future cash flows associated with the Diocese's bond and bank loan interest payments (see Note 9). Outstanding interest rate swap contracts at June 30, 2023 and 2022 are summarized as follows:

Swap Inception	Notional Principal at 6/30/2023	Fixed Rate	Variable Rate	Termination Date	2023 Asset/ (Liability)	2022 Asset/ (Liability)
7/1/2003	\$ -	N/A	N/A	12/5/2022	\$ -	\$ (598,235)
9/4/2013	\$ 8,469,771	5.09%	1-month SOFR +1.70	9/1/2025	221,612	(136,209)
					<u>\$ 221,612</u>	<u>\$ (734,444)</u>

In the event that the counterparty fails to perform under the contract, the Diocese bears the risk that payments due to the Diocese may not be collected. The amounts recorded for all swap contracts have been combined as a net liability in the accompanying consolidated statement of financial position. The changes in fair value of the swaps are included in the consolidated statement of activities.

In December 2022, the Diocese terminated the interest rate swap contract with original maturity date of May 1, 2033 by paying a settlement to the counterparty in the amount of \$135,000.

In March 2023, the interest rate swap contract with original maturity date of September 1, 2025 was modified to change the variable rate from LIBOR to the 1-month CME Term SOFR rate plus 1.70%.

## NOTE 9 – LONG-TERM DEBT

### Bonds

In May 2003, the Diocese was involved in the issuance by the Health, Educational and Housing Facility Board of the County of Shelby, Tennessee of \$25,170,000 of variable rate demand revenue bonds for the St. Benedict at Auburndale High School Project. In July 2010, the 2003 variable rate demand revenue bonds were redeemed through the issuance of Series 2010 Revenue Refunding Bonds. In September 2013, the Series 2010 Revenue Refunding Bonds were redeemed through the issuance of Series 2013A and Series 2013B Revenue Refunding Bonds. Pursuant to the bond issuance, the Diocese entered into a loan agreement with a bank for \$20,000,000 (two \$10,000,000 tranches) at a fixed interest rate of 3.55% ("bank-qualified loans"). In May 2022, the bank-qualified loans were refinanced at a fixed interest rate of 3.50%.

### Bank Note

In September 2009, the Diocese entered into a loan agreement with a bank for \$11,000,000. In September 2013, the Diocese refinanced the note in the amount of \$13,336,667 at a variable rate of interest, which included additional indebtedness of \$4,000,000 for the purpose of paying down the line of credit. The specific terms of the loan agreement are presented in the following table. In connection with the refinancing, the Diocese entered into an interest rate swap agreement at the notional amount of \$13,039,514, effectively fixing the interest rate at approximately 5.09%. The swap agreement terminates on September 1, 2025. See Note 8 for additional information.

Effective March 1, 2023, the note was amended to change the interest rate from 1-month LIBOR plus 1.65% to the sum of the variable rate index of 1-month CME Term SOFR rate plus 1.70%.

The Diocese is subject to various restrictive debt covenant ratios for the bank loan agreements. At June 30, 2023, the Diocese was not aware of any non-compliance with such covenants.

## Paycheck Protection Program Loans

During 2020, the Diocese obtained unsecured loans totaling \$6,739,404 through the Paycheck Protection Program (“PPP”), a program implemented by the U.S. Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act. The loans bear interest at 1.00% per annum and are payable in monthly installments of principal and interest over two years. Payments are deferred until ten months after the end of the loan forgiveness covered period of 8 weeks. The loans and accrued interest are forgivable as long as the Diocese uses the loan proceeds for eligible purposes, including covered payroll costs, rent, and utilities, and maintains its payroll levels. During 2021, the Diocese was notified that the SBA had fully forgiven loans totaling \$4,096,096, and the forgiveness is recorded as a gain in the statement of activities. During 2022, the remaining first round PPP loans totaling \$2,643,308 were forgiven by the SBA.

During 2021, the Diocese obtained a second round of PPP loans totaling \$1,355,869, which bear interest at a fixed rate of 1.0% per annum, with the first ten months of principal and interest deferred, are payable over five years, and are unsecured and guaranteed by the SBA. The second round PPP loans are also forgivable to the extent the proceeds are used for qualifying expenditures such as payroll costs, covered rent and mortgage obligations, and covered utility payments. During 2022, the Diocese was notified that the SBA had fully forgiven loans totaling \$1,307,715, and the forgiveness is recorded as a gain in the statement of activities. During 2023, the remaining second round PPP loans totaling \$48,155 were forgiven by the SBA.

Outstanding long-term debt at June 30, 2023 and 2022 is summarized as follows:

	<u>2023</u>	<u>2022</u>
Bank qualified loan, Tranche A, payable in monthly installments of \$33,661 at 3.50% interest, matures on May 1, 2033, secured by a deed of trust on real estate.	\$ 3,380,006	\$ 3,663,245
Bank qualified loan, Tranche B, payable in monthly installments of \$33,987 at 3.50% interest, matures on May 1, 2033, secured by a deed of trust on real estate.	3,412,712	3,695,704
Bank note, principal payments ranging from \$33,017 to \$57,475 due monthly plus interest at a variable rate of 1-month CME Term SOFR plus 1.7%, currently 6.86%, matures September 1, 2025, secured by substantially all assets of the Diocese.	3,539,862	4,155,780
St. Brigid Church unsecured note payable, payable in three interest only payments then monthly installments of principal and interest of \$663, including interest at 2.00%, through January 10, 2025.	-	20,002
St. Michael's Church note payable, payable in 59 monthly installments of principal and interest of \$1,300, including interest at 4.00% with a balloon payment on July 20, 2025, secured by a deed of trust.	-	163,847
Paycheck Protection Program loans - round 2	-	48,155
	<u>\$ 10,332,580</u>	<u>\$ 11,746,733</u>

Principal maturities of long-term debt are as follows for the years ending June 30:

2024	\$ 1,234,227
2025	1,288,606
2026	2,828,866
2027	648,319
2028	671,378
Thereafter	3,661,184
	<u>\$ 10,332,580</u>

Interest expense on long-term debt totaled \$635,715 and \$1,025,236 for the years ended June 30, 2023 and 2022, respectively.

#### NOTE 10 – FINANCE-TYPE LEASES

The Diocese leases copiers, computer equipment, and postage machines under finance-type leases. Lease liabilities are calculated as the present value of lease payments not yet paid, using a weighted-average discount rate of rate of 4.96%. Right-of-use assets are amortized on a straight-line basis over the lease term, or over their useful lives, if shorter. At June 30, 2023 and 2022, the leases have a weighted-average remaining term of 3.0 years and 2.9 years, respectively.

Future maturities of lease liabilities are as follows for the years ending June 30:

2024	\$ 276,788
2025	142,203
2026	111,943
2027	84,856
2028	31,993
Less amount representing interest	(44,960)
	<u>\$ 602,823</u>

The components of lease expense were as follows for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Finance-Type Lease Costs:		
Amortization of right-of-use assets	\$ 257,744	\$ 371,755
Interest on lease liabilities	35,566	41,836
	<u>\$ 293,310</u>	<u>\$ 413,591</u>

#### NOTE 11 – CHARITABLE GIFT ANNUITIES

The Diocese is a party to charitable gift annuity arrangements under which donors make gifts to the Diocese and, in turn, receive income payments for the remainder of their lives. The expected future cash flows to be paid to the annuitants have been discounted to present values using a rate of 5.0% at June 30, 2023 and 2022. Related assets are recognized at fair value, with no contributions received in 2023 or 2022.

## **NOTE 12 – ENDOWMENT FUNDS**

The Diocese maintains endowment funds that have been established over the years by donors and are intended to support the various ministries of the Diocese in perpetuity. In 2023, separate endowments were established in the Foundation, as described more fully in the “United in Faith Campaign” paragraph below. These historical endowment funds are hereinafter referred to as the “Diocesan endowments” while the new endowments established in the Foundation are referred to as the “Foundation endowments” when separate distinction is necessary.

### United in Faith Campaign

In August 2021, the Diocese began a four-year capital campaign (United in Faith) for the purpose of creating new endowments for the Diocese, funding specific projects outlined by the parishes, and funding the 2022 Annual Catholic Appeal. As of June 30, 2023, approximately \$11,260,000 in cash was collected, with approximately \$2,416,000 allocated to the 2022 Annual Catholic Appeal, \$3,575,000 for endowments, and \$5,269,000 for parish projects. Additional campaign commitments have been obtained from donors; however, since these are considered intentions to give, they are not reflected in the accompanying financial statements as they do not meet the criteria for recognition as contributions under GAAP, and accordingly, will be recognized when collected. In 2023, approximately \$3,575,000 was transferred to the Foundation to establish new endowments (the “Foundation endowments”). The Foundation endowments are governed by a separate Board of Directors which utilizes a different investment management company than the Diocesan endowments.

### Unaudited Information

The initial campaign target was \$22 million but as of the date of this report, the Diocese has over \$30 million in commitments. Of this total, \$5 million will go to the Seminarian Endowment, \$3 million to the Priest Retirement Endowment, \$2 million to the Youth/College/Young Adult Endowment and \$500,000 to the Permanent Diaconate Endowment. The remaining balance will be utilized by the individual parishes for their campaign projects.

### Spending Policy

To the extent allowed by donor stipulations, the spending policy of both the Diocesan endowments and Foundation endowment is to annually spend up to 5% of the five-year rolling average of the asset fair values. In the event the fair values of the assets fall below the original restricted gift amounts, the Diocese will make no appropriations until the original gift amounts are restored.

### Interpretation of Relevant Law

The Diocese is subject to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), which governs the State of Tennessee. The Diocese has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Diocese retains in perpetuity the following:

- (1) The original value of gifts donated to the endowments
- (2) Subsequent gifts to the endowments and
- (3) Accumulations to the endowments made in accordance with the direction of the applicable donor gift instrument



Donor-restricted amounts not retained in perpetuity are classified as donor-restricted until those amounts are appropriated for expenditure by the Finance Council or Foundation Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Diocese considers the following factors in making decisions related to appropriations for expenditures or accumulations of donor-restricted endowment funds:

- (1) The duration and preservation of the various funds
- (2) The purposes of the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Diocese and
- (7) The Diocese's investment policies

### Investment Policies

The Diocese follows an investment policy of placing endowments in its long-term investment portfolio because of their intended long-term duration. The overall objective of this portfolio is to preserve capital and achieve, at a minimum, a total return, net of investment management fees, which is sufficient to offset normal inflation plus reasonable spending.

The asset allocation ranges of the Diocesan endowments are as follows:

	<u>Minimum Weight</u>	<u>Maximum Weight</u>
Equities	30%	70%
Fixed income	10%	60%
Alternative investments	0%	30%
Cash/short-term bonds	0%	10%

The asset allocation ranges of the Foundation endowments are as follows:

	<u>Minimum Weight</u>	<u>Maximum Weight</u>
Equities	40%	80%
Fixed income	10%	30%
Alternative investments	0%	40%

The following tables set forth the net asset composition of the endowment funds at June 30:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Gadomski Scholarship Trust	\$ -	\$ 928,434	\$ 928,434
Forsdick Scholarship Trust	-	3,173,021	3,173,021
Canale Scholarship Trust	-	690,136	690,136
Walsh Trust	-	1,459,218	1,459,218
Hearst Scholarship Trust	-	152,296	152,296
Todd Education Trust	-	198,678	198,678
St. Louis Parish - Msgr. Clunan	2,664,276	1,778,644	4,442,920
OLPH School (Costa Family)	-	280,012	280,012
St. Francis School - Msgr. Buchignani	823,999	307,606	1,131,605
Dr. Sullivan Memorial	-	11,375	11,375
Sister Graeber Memorial	-	31,759	31,759
St. Benedict at Auburndale	79,615	306,384	385,999
Foundation Endowments	-	3,575,505	3,575,505
	<u>\$ 3,567,890</u>	<u>\$ 12,893,068</u>	<u>\$ 16,460,958</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Gadomski Scholarship Trust	\$ -	\$ 907,834	\$ 907,834
Forsdick Scholarship Trust	-	2,988,598	2,988,598
Canale Scholarship Trust	-	650,070	650,070
Walsh Trust	-	1,305,974	1,305,974
Hearst Scholarship Trust	-	143,425	143,425
Todd Education Trust	-	187,159	187,159
St. Louis Parish - Msgr. Clunan	2,447,849	1,781,021	4,228,870
OLPH School (Costa Family)	-	250,170	250,170
St. Francis School - Msgr. Buchignani	735,993	306,892	1,042,885
Dr. Sullivan Memorial	-	11,342	11,342
Sister Graeber Memorial	-	31,354	31,354
St. Benedict at Auburndale	76,564	270,599	347,163
	<u>\$ 3,260,406</u>	<u>\$ 8,834,438</u>	<u>\$ 12,094,844</u>

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Diocese to retain as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2023 and 2022.

The changes in endowment net assets for the year ended June 30, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,260,406	\$ 8,834,438	\$ 12,094,844
Net investment return	307,484	954,189	1,261,673
Transfers	-	3,513,218	3,513,218
Contributions	-	44,970	44,970
Appropriations	-	(453,747)	(453,747)
Endowment net assets, end of year	<u>\$ 3,567,890</u>	<u>\$ 12,893,068</u>	<u>\$ 16,460,958</u>

The changes in endowment net assets for the year ended June 30, 2022 are as follows:

	2022 Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,765,142	\$ 10,770,134	\$ 14,535,276
Net investment return (loss)	(504,736)	(1,576,398)	(2,081,134)
Contributions	-	95,236	95,236
Appropriations	-	(454,534)	(454,534)
Endowment net assets, end of year	<u>\$ 3,260,406</u>	<u>\$ 8,834,438</u>	<u>\$ 12,094,844</u>

### NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS

A summary of net assets with donor restrictions at June 30 is as follows:

	2023	2022
Purpose Restrictions:		
Capital projects	\$ 18,360,855	\$ 12,358,730
Education	4,489,400	4,303,467
Debt reduction	899,351	643,125
Housing - priests/retired priests	1,954,556	2,054,306
Other ministries	3,319,175	2,968,929
United in Faith future endowment	-	1,976,601
Foundation endowment earnings	62,287	-
	<u>29,085,624</u>	<u>24,305,158</u>
Time-restricted for future periods	2,060,072	2,646,029
Perpetual in nature	9,869,324	6,311,136
	<u>\$ 41,015,020</u>	<u>\$ 33,262,323</u>

A summary of releases from net assets with donor restrictions at June 30 is as follows:

	<u>2023</u>	<u>2022</u>
Satisfaction of Purpose Restrictions:		
Capital projects	\$ 6,686,955	\$ 3,110,955
Education	1,400,899	2,929,357
Debt reduction	802,252	668,110
Housing - priests/retired priests	200,677	421,719
Other ministries	42,066	648,433
Expiration of time restrictions	2,463,022	2,451,919
	<u>\$ 11,595,871</u>	<u>\$ 10,230,493</u>

#### **NOTE 14 – DIOCESE-DESIGNATED NET ASSETS**

Net assets without donor restrictions were designated by the Diocese for the following purposes at June 30:

	<u>2023</u>	<u>2022</u>
Holy Rosary school trust	\$ 942,076	\$ 993,651
Perpetual care for cemeteries	3,736,785	3,362,352
Retreat center	954,631	901,748
St. Louis Parish - Msgr. Clunan	2,664,276	2,447,849
St. Francis School - Msgr. Buchignani	823,999	735,993
St. Benedict at Auburndale	79,615	76,564
	<u>\$ 9,201,382</u>	<u>\$ 8,518,157</u>

#### **NOTE 15 – RETIREMENT PLANS**

##### 403(b) Plan

On July 1, 2011, the Diocese established a 403(b) retirement plan for employees with discretionary employer matching contributions up to 1% of compensation. All employees are immediately eligible to make contributions under the Plan. Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the employer contributions portion of their accounts is based on a 3-Year Cliff (0% Years 1-2, 100% at end of 3rd year). For the years ended June 30, 2023 and 2022, employer contributions to the plan totaled \$178,278 and \$178,764, respectively.

##### Priest Plan

On July 1, 1973, the Diocese adopted a non-contributory defined benefit plan covering all of its eligible priests (the "Priest Plan"). The Diocese acts as the receiving agent for parish and institutional contributions, which are forwarded to the trustee. Prior service costs are being funded over a thirty (30) year period, after giving effect to actuarial gains or losses.

##### Employee Plan

On July 1, 1974, a similar non-contributory defined benefit plan (the "1974 Employee Plan") was adopted covering all full-time lay employees of the Diocese and related organizations included in this report as well as those related entities not included in these financial statements. Prior service costs are being funded over a thirty (30) year period, after giving effect to actuarial gains or losses. The Diocese executed an agreement to

freeze accumulated benefits as of August 31, 2007. Accordingly, no new participants have been admitted to the Employee Plan after that date, and years of credited service were frozen on that date.

Additionally, On September 1, 2007, the Diocese adopted another non-contributory defined benefit plan (the "2007 Employee Plan") with similar terms as the 1974 Employee Plan. The Diocese executed an agreement to freeze accumulated benefits as of June 30, 2011. Accordingly, no new participants have been admitted to the 2007 Employee Plan after that date, and years of credited service were frozen on that date. The 1974 Employee Plan and the 2007 Employee Plan were merged effective December 31, 2012, hereinafter referred to as (the "Employee Plan").

### Subsequent Event

On March 26, 2024, the Diocese entered into an agreement with an insurance company to purchase group annuity contracts to provide annuity payments for 1,471 participants and their beneficiaries of the Employee Plan, with a benefit takeover date of June 1, 2024, for a single premium totaling approximately \$58,875,000. Upon the benefit takeover date, the Diocese will have no further liabilities to these participants and beneficiaries. There are approximately 340 participants remaining in the Employee Plan. The Diocese's gain from the transaction was approximately \$23,000,000.

The following tables provide a reconciliation of benefit obligations, plan assets, and funded status of the Plans for the years ended June 30:

	2023		
	Priest Plan	Employee Plan	Total
<b>Change in Projected Benefit Obligation:</b>			
Projected benefit obligation, beginning of year	\$ 9,289,023	\$ 75,610,314	\$ 84,899,337
Service cost	99,963	-	99,963
Interest cost	388,720	3,178,014	3,566,734
Plan amendments	353,213	-	353,213
Actuarial (gain)/loss	(1,124,125)	(4,557,551)	(5,681,676)
Benefits paid	(505,337)	(4,863,571)	(5,368,908)
Projected benefit obligation, end of year	<u>\$ 8,501,457</u>	<u>\$ 69,367,206</u>	<u>\$ 77,868,663</u>
<b>Change in Plan Assets:</b>			
Fair value of plan assets, beginning of year	\$ 7,733,412	\$ 73,126,036	\$ 80,859,448
Actual return on plan assets, net of expenses	1,242,506	11,186,896	12,429,402
Employer contributions	122,528	2,046,315	2,168,843
Benefits paid	(505,337)	(4,863,571)	(5,368,908)
Fair value of plan assets, end of year	<u>\$ 8,593,109</u>	<u>\$ 81,495,676</u>	<u>\$ 90,088,785</u>
Funded status	<u>\$ 91,652</u>	<u>\$ 12,128,470</u>	<u>\$ 12,220,122</u>

	2022		
	Priest Plan	Employee Plan	Total
Change in Projected Benefit Obligation:			
Projected benefit obligation, beginning of year	\$ 8,847,820	\$ 94,846,433	\$ 103,694,253
Service cost	129,309	-	129,309
Interest cost	218,581	2,362,910	2,581,491
Plan amendments	2,038,232	-	2,038,232
Actuarial (gain)/loss	(1,518,401)	(16,764,134)	(18,282,535)
Benefits paid	(426,518)	(4,834,895)	(5,261,413)
Projected benefit obligation, end of year	<u>\$ 9,289,023</u>	<u>\$ 75,610,314</u>	<u>\$ 84,899,337</u>
Change in Plan Assets:			
Fair value of plan assets, beginning of year	\$ 10,085,230	\$ 99,141,950	\$ 109,227,180
Actual return on plan assets, net of expenses	(2,029,898)	(22,894,240)	(24,924,138)
Employer contributions	104,598	1,713,221	1,817,819
Benefits paid	(426,518)	(4,834,895)	(5,261,413)
Fair value of plan assets, end of year	<u>\$ 7,733,412</u>	<u>\$ 73,126,036</u>	<u>\$ 80,859,448</u>
Funded status	<u>\$ (1,555,611)</u>	<u>\$ (2,484,278)</u>	<u>\$ (4,039,889)</u>

Since the accumulated benefits have been frozen for the employee plan, the accumulated benefit obligation is equal to the projected benefit obligation. The accumulated benefit obligation for the priest plan is equal to the projected benefit obligation as the plan benefits are not based on compensation of the priests.

The additional minimum pension asset/liability as reflected on the consolidated statement of financial position is offset by related party payables/receivables for the portion of this liability owed to/owed by Catholic Charities, Inc. The portion of the additional minimum pension asset attributed to Catholic Charities, Inc. totaled \$2,320,535 at June 30, 2023. The portion of the additional minimum pension liability attributed to Catholic Charities, Inc. totaled \$479,465 at June 30, 2022.

Weighted-average actuarial assumptions used to calculate the projected benefit obligation were as follows for June 30:

	2023	
	Priest Plan	Employee Plan
Discount rate	4.86%	4.87%
Rate of compensation increase	N/A	N/A
	2022	
	Priest Plan	Employee Plan
Discount rate	4.32%	4.35%
Rate of compensation increase	N/A	N/A

The components of the net periodic pension cost for the years ended June 30 are as follows:

	2023		
	Priest Plan	Employee Plan	Total
Net Periodic Pension Cost:			
Service cost	\$ 99,963	\$ -	\$ 99,963
Interest cost	388,720	3,178,014	3,566,734
Expected return on plan assets	(562,785)	(5,369,750)	(5,932,535)
Amortization of prior service cost	127,151	-	127,151
Amortization of net loss	103,618	2,334,872	2,438,490
	<u>\$ 156,667</u>	<u>\$ 143,136</u>	<u>\$ 299,803</u>

  

	2022		
	Priest Plan	Employee Plan	Total
Net Periodic Pension Cost:			
Service cost	\$ 129,309	\$ -	\$ 129,309
Interest cost	218,581	2,362,910	2,581,491
Expected return on plan assets	(742,222)	(7,308,998)	(8,051,220)
Amortization of prior service cost	10,596	-	10,596
Amortization of net loss	23,106	62,543	85,649
	<u>\$ (360,630)</u>	<u>\$ (4,883,545)</u>	<u>\$ (5,244,175)</u>

Weighted-average actuarial assumptions used to calculate the net periodic benefit cost for the years ended June 30 are as follows:

	2023	
	Priest Plan	Employee Plan
Discount rate	4.32%	4.35%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

  

	2022	
	Priest Plan	Employee Plan
Discount rate	2.48%	2.56%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

The rate used for the expected return on plan assets is within an acceptable range of typical long-term expected return on plan assets assumptions used by actuaries and is based upon the expected return on each asset class together with consideration of the long-term asset strategy of the plan sponsor.

A reconciliation of prepaid pension cost is as follows for the years ended June 30:

	2023		
	Priest Plan	Employee Plan	Total
Prepaid Pension Cost:			
Balance, beginning of year	\$ 3,061,917	\$ 21,257,414	\$ 24,319,331
Net periodic pension credit (cost)	(156,667)	(143,136)	(299,803)
Employer contributions	122,528	2,046,315	2,168,843
Balance, end of year	<u>\$ 3,027,778</u>	<u>\$ 23,160,593</u>	<u>\$ 26,188,371</u>

  

	2022		
	Priest Plan	Employee Plan	Total
Prepaid Pension Cost:			
Balance, beginning of year	\$ 2,596,689	\$ 14,660,648	\$ 17,257,337
Net periodic pension credit (cost)	360,630	4,883,545	5,244,175
Employer contributions	104,598	1,713,221	1,817,819
Balance, end of year	<u>\$ 3,061,917</u>	<u>\$ 21,257,414</u>	<u>\$ 24,319,331</u>

Expected future benefit payments for the next ten years ending June 30 are as follows:

	Priest Plan	Employee Plan	Total
2024	\$ 559,000	\$ 5,105,000	\$ 5,664,000
2025	584,000	5,122,000	5,706,000
2026	649,000	5,086,000	5,735,000
2027	685,000	5,067,000	5,752,000
2028	692,000	5,037,000	5,729,000
2029 - 2033	3,160,000	24,364,000	27,524,000
	<u>\$ 6,329,000</u>	<u>\$ 49,781,000</u>	<u>\$ 56,110,000</u>

### Funding

The Diocese has historically funded its pension plans using a formula of approximately 8% of employee salaries. In 2019, management increased the annual amount funded per priest to \$2,880. Management anticipates continuing this funding approach in the foreseeable future and estimates employer contributions to the plans in 2024 will be approximately \$1,800,000.

### Investment Strategy for Plan Assets

The Retirement Allowance Committee of the Diocese has established four primary objectives for the plans which include (1) to maximize total return within reasonable and prudent levels of risk, (2) to provide annual cash flow sufficient to meet the annual benefit and cash expenditures, (3) to control costs of administering and managing the plans and managing the investments, and (4) to ensure that the investment portfolios are managed responsibly and in compliance with investment manager defined guidelines.



To achieve its investment objectives, the following asset allocation mix has been established:

	Minimum Weight	Maximum Weight
Equities	30%	70%
Fixed income	10%	60%
Alternative investments	0%	30%
Cash and equivalents	0%	10%

The following tables present the Plans' assets that are measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at June 30:

	2023		
	Priest Plan	Employee Plan	Total
<u>At Cost</u>			
Money market funds	\$ 427,923	\$ 2,808,757	\$ 3,236,680
<u>Level 1</u>			
Mutual Funds			
Equities	4,706,738	45,963,045	50,669,783
Fixed income	564,936	5,498,044	6,062,980
Total level 1	<u>5,271,674</u>	<u>51,461,089</u>	<u>56,732,763</u>
<u>Investments Measured at NAV</u>			
Limited Partnerships			
Conservative hedge fund	1,359,804	12,938,936	14,298,740
Strategic hedge fund	1,533,708	14,286,894	15,820,602
Total investments measured at NAV	<u>2,893,512</u>	<u>27,225,830</u>	<u>30,119,342</u>
Total plan assets at fair value	<u>\$ 8,593,109</u>	<u>\$ 81,495,676</u>	<u>\$ 90,088,785</u>
	2022		
	Priest Plan	Employee Plan	Total
<u>At Cost</u>			
Money market funds	\$ 356,985	\$ 2,538,458	\$ 2,895,443
<u>Level 1</u>			
Mutual Funds			
Equities	4,274,599	40,899,295	45,173,894
Fixed income	643,799	5,756,791	6,400,590
Total level 1	<u>4,918,398</u>	<u>46,656,086</u>	<u>51,574,484</u>
<u>Investments Measured at NAV</u>			
Limited Partnerships			
Conservative hedge fund	967,467	10,046,659	11,014,126
Strategic hedge fund	1,490,562	13,884,833	15,375,395
Total investments measured at NAV	<u>2,458,029</u>	<u>23,931,492</u>	<u>26,389,521</u>
Total plan assets at fair value	<u>\$ 7,733,412</u>	<u>\$ 73,126,036</u>	<u>\$ 80,859,448</u>

See Note 5 for a description of the valuation methodologies used for assets measured at fair value.

The table below presents additional information regarding plan assets whose fair value is estimated using the practical expedient of reported NAV at June 30, 2023 and 2022:

	Conservative Hedge Funds (1)	Strategic Hedge Funds (2)
Liquidity		
Initial lock-up	1 year	0 - 2 years
Redemption fees	Up to 5%	0 - 3%
Redemption frequency	Quarterly/semi-annual	Quarterly/semi-annual
Notice	95 days	90 - 105 days
Fair value at June 30, 2023	\$ 14,298,740	\$ 15,820,602
Fair value at June 30, 2022	\$ 11,014,126	\$ 15,375,395

The following are descriptions of the investment strategies and any restrictions of the Plan's hedge funds:

- (1) *Conservative hedge funds*: These are funds of funds that seeks consistent returns by primarily investing in funds that generally engage in more non-directional strategies such as Equity Market Neutral and Fixed Income Arbitrage. The funds do not contain an investor gate but there is an overall fund level gate which could limit the Diocese's redemptions to 20% of its fund balance if all investors were making redemption requests simultaneously.
- (2) *Strategic hedge funds*: These are funds of funds that seek superior returns by primarily investing in funds that engage in more opportunistic strategies such as Emerging Markets, Sector specific, Equity Hedge, credit-related investments, and structured products.

## NOTE 16 – POST-RETIREMENT BENEFIT OBLIGATION

The Diocese pays all healthcare costs incurred for its retired priests. The following table presents a summary of Plan assets, projected benefit obligation, funded status and benefit activity of the Plan for the years ended June 30, 2023 and 2022:

	2023	2022
Change in Projected Benefit Obligation:		
Projected benefit obligation, beginning of year	\$ 4,733,186	\$ 6,343,844
Service cost	141,881	190,394
Interest cost	205,415	169,469
Actuarial (gain)/loss	(1,161,940)	(1,875,107)
Benefits paid	(119,740)	(95,414)
Projected benefit obligation, end of year	3,798,802	4,733,186
Fair value of plan assets	-	-
Funded status	\$ (3,798,802)	\$ (4,733,186)

The components of net periodic post-retirement benefit cost are as follows for the years ended June 30:

	2023	2022
Net Periodic Benefit Cost:		
Service cost	\$ 141,881	\$ 190,394
Interest cost	205,415	169,469
Amortization of prior service cost	-	172,330
Amortization of net (gain)/loss	(220,985)	(117,220)
Net periodic benefit cost	\$ 126,311	\$ 414,973

Weighted-average actuarial assumptions used to calculate the projected benefit obligation and net periodic benefit cost were as follows for 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Discount rate	<u>4.89%</u>	<u>4.42%</u>

For the next six years, the healthcare cost trend rate is 7% and graded to 4% in year seven and beyond.

Accrued post-retirement benefit costs at June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Prepaid (Accrued) Benefit Cost:		
Balance, beginning of year	\$ (9,056,070)	\$ (8,736,511)
Net periodic benefit cost	126,311	414,973
Employer contributions	119,740	95,414
Balance, end of year	<u>\$ (9,062,641)</u>	<u>\$ (9,056,070)</u>

As this obligation is unfunded, the projected benefit obligation exceeds the fair value of the Plan assets requiring recognition of an additional post-retirement liability at June 30, 2023 and 2022.

Expected future benefit payments are as follows for the next ten years ending June 30:

2024	\$ 134,000
2025	147,000
2026	170,000
2027	188,000
2028	202,000
2029 - 2033	1,045,000
	<u>\$ 1,886,000</u>

#### **NOTE 17 – OTHER EMPLOYEE BENEFIT PLANS**

It is Diocesan policy to self-insure for health and medical benefits for its employees. The Diocese accrues its estimated liability for these self-insured benefits, including an estimate for incurred but not reported claims, and maintains stop-loss insurance for those individual claims exceeding \$175,000 for 2023 and 2022. Amounts accrued totaled \$441,897 and \$329,082 at June 30, 2023 and 2022, respectively.

The Diocese maintains an Employee Flexible Benefits Plan (the “Plan”) for full-time employees. The Plan is qualified under Section 125 of the Internal Revenue Code, Cafeteria Compensation Plans. The Plan includes various medical and life insurance coverage, childcare reimbursement accounts, medical care reimbursement accounts, and other qualified pre-tax benefits. The Plan is funded by both employer and employee contributions depending upon the benefits selected. The Diocese serves as the receiving agent in the administration of the funding for this Plan.

#### **NOTE 18 – CATHOLIC UMBRELLA POOL**

The Diocese participates in a self-insurance fund for certain Dioceses of the Roman Catholic Church in North America (the “Pool”) which provides excess liability coverages for its membership. Participating Dioceses share in the operating and investment income and expenses of the Pool based on their contributions for each fiscal year. Participants are responsible for claims and claim expenses incurred during fiscal years in which they participate in the Pool; however, historically claims have been less than participant equity. Management

believes the Pool's reserve for unpaid claims and claim expenses is adequate. The Diocese's equity in the pool at June 30, 2023 and 2022, of \$210,595 and \$193,959, respectively, is included in other assets on the consolidated statement of financial position.

#### NOTE 19 – RELATED PARTY TRANSACTIONS

The Diocese advances and borrows amounts on behalf of related party religious organizations which operate within the Diocese. Amounts due from related parties consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Related Party Receivables		
Catholic Charities, Inc.		
Pension liability	\$ -	\$ 479,465
Employee pension plan contributions	66,999	-
Cafeteria benefits	257,452	334,840
Other	16,707	3,288
Loan receivable	<u>237,159</u>	<u>237,159</u>
	578,317	1,054,752
Less allowance	<u>(230,318)</u>	<u>(277,146)</u>
Total related party receivables	<u>\$ 347,999</u>	<u>\$ 777,606</u>
Related Party Payables		
Custodial investments held for related parties (see Note 5)	\$ 514,369	\$ 596,259
Other amounts due to related parties	123,992	50,328
Catholic Charities, Inc. - pension asset	<u>2,320,535</u>	<u>-</u>
Total related party payables	<u>\$ 2,958,896</u>	<u>\$ 646,587</u>

#### NOTE 20 – COMMITMENTS

The Diocese has entered into various contracts for the construction and renovation of its facilities. The construction contracts totaled approximately \$3,120,000 and remaining commitments on the contracts at June 30, 2023 totaled approximately \$1,200,000.

## **SUPPLEMENTAL SCHEDULES**

**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

June 30, 2023

(with summarized financial information at June 30, 2022)

	Diocesan Activities						Eliminations	2023 Consolidated Total	2022 Consolidated Total
	Diocesan Administrative Offices	Parishes		St. Benedict at Auburndale High School	Cemeteries	Combined Total			
		Churches	Schools						
<b>Assets</b>									
Cash and cash equivalents	\$ 7,223,584	\$ 18,675,118	\$ 3,046,557	\$ (2,213,561)	\$ 19,885	\$ 26,751,583	\$ (598,765)	\$ 26,152,818	\$ 24,512,523
Receivables									
Unconditional promises to give, net	374,299	387,058	7,695,850	-	-	8,457,207	-	8,457,207	635,327
Tuition, net	-	1,400	107,642	30,313	-	139,355	(1,223)	138,132	81,979
Related party	15,409,635	8,491,695	2,021,765	479,444	129,823	26,532,362	(26,184,363)	347,999	777,606
Other	2,529,315	22,380	(3,633)	-	245,304	2,793,366	(1,986,505)	806,861	643,814
Prepaid expenses	196,683	16,009	107,248	8,000	-	327,940	(83,374)	244,566	89,865
Investments	34,060,457	9,205,451	4,957,577	-	3,739,694	51,963,179	-	51,963,179	51,612,076
Beneficial interest in trusts	1,034,579	4,636,511	-	-	-	5,671,090	-	5,671,090	6,411,064
Property and equipment	17,268,216	206,443,245	21,889,808	33,842,586	4,021,068	283,464,923	-	283,464,923	271,723,434
Pension asset	12,220,122	-	-	-	-	12,220,122	-	12,220,122	-
Derivative financial instruments	221,612	-	-	-	-	221,612	-	221,612	-
Right-of-use assets	648,913	-	-	-	-	648,913	-	648,913	715,366
Other assets	215,454	16,684	-	-	-	232,138	-	232,138	689,762
<b>Total assets</b>	<b>\$ 91,402,869</b>	<b>\$ 247,895,551</b>	<b>\$ 39,822,814</b>	<b>\$ 32,146,782</b>	<b>\$ 8,155,774</b>	<b>\$ 419,423,790</b>	<b>\$ (28,854,230)</b>	<b>\$ 390,569,560</b>	<b>\$ 357,892,816</b>
<b>Liabilities and Net Assets</b>									
Accounts payable and accrued expenses	\$ 1,507,455	\$ 2,844,865	\$ 1,278,218	\$ 271,367	\$ 20,597	\$ 5,922,502	\$ (1,694,498)	\$ 4,228,004	\$ 4,180,923
Line of credit	-	2,959,446	-	34,850	-	2,994,296	(2,994,296)	-	-
Collections held for transmittal	310,325	153,107	23,691	27,257	-	514,380	-	514,380	529,723
Deferred revenue	138,059	167,963	1,338,956	1,420,426	2,290	3,067,694	-	3,067,694	2,893,394
Lease liabilities	686,197	-	-	-	-	686,197	(83,374)	602,823	673,935
Due to annuitants	221,614	-	-	-	-	221,614	-	221,614	239,664
Due to beneficiaries	-	-	-	-	-	-	-	-	-
Minimum pension liability	-	-	-	-	-	-	-	-	4,039,889
Post-retirement benefit obligation	3,798,802	-	-	-	-	3,798,802	-	3,798,802	4,733,186
Related party payables	12,418,001	7,080,562	3,728,325	-	3,814,070	27,040,958	(24,082,062)	2,958,896	646,587
Derivative financial instruments	-	-	-	-	-	-	-	-	734,444
Long-term debt	3,539,861	-	-	6,792,719	-	10,332,580	-	10,332,580	11,746,733
<b>Total liabilities</b>	<b>22,620,314</b>	<b>13,205,943</b>	<b>6,369,190</b>	<b>8,546,619</b>	<b>3,836,957</b>	<b>54,579,023</b>	<b>(28,854,230)</b>	<b>25,724,793</b>	<b>30,418,478</b>
<b>Net assets</b>	<b>68,782,555</b>	<b>234,689,608</b>	<b>33,453,624</b>	<b>23,600,163</b>	<b>4,318,817</b>	<b>364,844,767</b>	<b>-</b>	<b>364,844,767</b>	<b>327,474,338</b>
<b>Total liabilities and net assets</b>	<b>\$ 91,402,869</b>	<b>\$ 247,895,551</b>	<b>\$ 39,822,814</b>	<b>\$ 32,146,782</b>	<b>\$ 8,155,774</b>	<b>\$ 419,423,790</b>	<b>\$ (28,854,230)</b>	<b>\$ 390,569,560</b>	<b>\$ 357,892,816</b>

See independent auditor's report.

**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**

**CONSOLIDATING SCHEDULE OF ACTIVITIES**

For the Year Ended June 30, 2023  
(with summarized financial information for the year ended June 30, 2022)

	Diocesan Activities						Eliminations	2023 Consolidated Total	2022 Consolidated Total
	Diocesan Administrative Offices	Parishes		St. Benedict at Auburndale High School	Cemeteries	Combined Total			
		Churches	Schools						
Operating Support and Revenues									
Contributions and Grants									
General contributions	\$ 4,234,685	\$ 29,030,577	\$ 9,622,171	\$ 989,823	\$ 30,234	\$ 43,907,490	\$ (38,865)	\$ 43,868,625	\$ 34,713,359
Annual Catholic Appeal	1,868,082	-	-	-	-	1,868,082	-	1,868,082	2,464,250
Grant revenue	-	325,000	1,358,335	123,875	-	1,807,210	(572,987)	1,234,223	1,650,310
Estate donations	220,061	365,964	-	-	-	586,025	-	586,025	3,578
Government grants	-	-	-	-	-	-	-	-	827,772
Missions and societies	118,864	-	-	-	-	118,864	-	118,864	120,425
Education									
Tuition and fees, net	-	891,024	16,693,466	5,222,827	-	22,807,317	-	22,807,317	22,275,996
Other education revenue	-	1,288,342	3,321,479	673,734	-	5,283,555	-	5,283,555	4,767,948
Social and fundraising	290	3,234,819	343,278	1,601	-	3,579,988	-	3,579,988	3,346,617
Auxiliary services	481,128	224,340	15,644	16,734	-	737,846	(42,030)	695,816	707,391
Cemeteries	-	88,435	-	-	492,588	581,023	-	581,023	768,522
Assessments and subsidies	3,712,561	-	-	-	-	3,712,561	(3,712,561)	-	-
Other income	1,189,706	1,780,673	250,851	18,554	24,856	3,264,640	(133,945)	3,130,695	4,914,698
<b>Total operating support and revenue</b>	<b>11,825,377</b>	<b>37,229,174</b>	<b>31,605,224</b>	<b>7,047,148</b>	<b>547,678</b>	<b>88,254,601</b>	<b>(4,500,388)</b>	<b>83,754,213</b>	<b>76,560,866</b>

See independent auditor's report.

**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**

**CONSOLIDATING SCHEDULE OF ACTIVITIES (continued)**

For the Year Ended June 30, 2023  
(with summarized financial information for the year ended June 30, 2022)

	Diocesan Activities						2023 Consolidated Total	2022 Consolidated Total	
	Diocesan Administrative Offices	Parishes		St. Benedict at Auburndale High School	Cemeteries	Combined Total			Eliminations
		Churches	Schools						
Operating Expenses									
Program Services									
Cemeteries	\$ -	\$ -	\$ -	\$ -	\$ 535,441	\$ 535,441	\$ -	\$ 535,441	\$ 523,943
Ministry	3,178,520	20,657,706	-	-	-	23,836,226	(183,685)	23,652,541	24,570,791
Education	-	-	19,226,342	5,912,364	-	25,138,706	(36,880)	25,101,826	24,683,133
Total program services	3,178,520	20,657,706	19,226,342	5,912,364	535,441	49,510,373	(220,565)	49,289,808	49,777,867
General and administration	4,891,138	6,087,330	4,147,575	598,036	193,793	15,917,872	(353,456)	15,564,416	15,249,724
Fundraising	916,040	137,187	163,636	40,730	-	1,257,593	-	1,257,593	2,104,263
Total operating expenses	8,985,698	26,882,223	23,537,553	6,551,130	729,234	66,685,838	(574,021)	66,111,817	67,131,854
Income (loss) from operations	2,839,679	10,346,951	8,067,671	496,018	(181,556)	21,568,763	(3,926,367)	17,642,396	9,429,012
Nonoperating Gains (Losses)									
Subsidies - Diocesan entities	(942,533)	(3,943,199)	324,517	283,970	-	(4,277,245)	(4,277,245)	-	-
Forgiveness of PPP loans	-	48,155	-	-	-	48,155	-	48,155	3,951,023
Change in value of beneficial interest in trusts	66,205	(43,121)	-	-	-	23,084	-	23,084	(708,350)
Net investment return (loss)	2,402,970	1,043,232	468,961	17,358	354,993	4,287,514	(350,878)	3,936,636	(6,993,980)
Change in value of derivatives	357,821	-	-	598,235	-	956,056	-	956,056	1,499,105
Minimum pension liability adjustment	13,460,011	-	-	-	-	13,460,011	-	13,460,011	(8,803,610)
Postretirement benefits adjustment	934,384	-	-	-	-	934,384	-	934,384	1,610,658
Loss on uncollectible promises to give	-	-	-	-	-	-	-	-	(15,055)
Gain (loss) on sale of assets	-	369,707	-	-	-	369,707	-	369,707	(683,258)
Total nonoperating gains (losses)	16,278,858	(2,525,226)	793,478	899,563	354,993	15,801,666	(4,628,123)	19,728,033	(10,143,467)
Change in net assets	19,118,537	7,821,725	8,861,149	1,395,581	173,437	37,370,429	-	37,370,429	(714,455)
Net assets, beginning of year	49,664,018	226,867,883	24,592,475	22,204,582	4,145,380	327,474,338	-	327,474,338	328,188,793
Net assets, end of year	\$ 68,782,555	\$ 234,689,608	\$ 33,453,624	\$ 23,600,163	\$ 4,318,817	\$ 364,844,767	\$ -	\$ 364,844,767	\$ 327,474,338

See independent auditor's report.



**THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE**  
**CONSOLIDATED SCHEDULE OF PARISH INTERCOMPANY BANK INDEBTEDNESS**

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
St. Ann Church, Bartlett	\$ 1,458,114	\$ 1,840,306
St. Anne Church	309,286	298,808
St. Benedict at Auburndale School	34,848	122,728
St. Brigid Church	-	210,285
St. Mary Church, Memphis	1,192,046	1,344,916
Additional payments by the Diocese	545,568	338,737
	<u>\$ 3,539,862</u>	<u>\$ 4,155,780</u>
 Bank note balance (Note 9)	 <u>\$ 3,539,862</u>	 <u>\$ 4,155,780</u>

The above figures do not include non-bank related inter-Parish debts.

See independent auditor's report.