

Roman Catholic Diocese of Memphis

2021 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, 2020 and ending June 30, 2021.
- 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 the auditor of record;
 - 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.ccwtn.org.
- Total assets of the Diocese (see page 4) increased by \$23.4 million from the prior year due to a positive value to the Pension accounts (\$5.5 million), increases in Cash (\$2.7 million), Investments (\$10.9 million), other receivables (\$2.9 million) and property and equipment (\$2.4 million).
- Total liabilities of the Diocese (see page 4) declined by \$32.5 million due to the removal of the pension liability adjustment of \$26.9 million (see below), a reduction in Long-term debt of \$4.0 million reflecting both payments on loans (see note 9) and the forgiveness of the Diocesan PPP loans, and an decrease in Derivative financial instruments (\$1.0 million). The current bank debt balance excluding PPP loans stands at \$18.3 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 remaining PPP government loans are expected to be

forgiven in 2022 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 an increase in net assets of \$55.9 million (see page 5). This is mainly due to the pension plan moving from underfunded in 2020 to over funded in 2021 (\$32.5 million). Additionally, net Income from operations was \$8.4 million higher than last year, \$4.1 million in PPP loans were forgiven but was offset by minimum pension liability adjustment (\$37 million).
- Operating expenses for the year were \$59.9 million, which is down 3.9% from the \$62.3 million incurred in the prior year – mainly due to reduction in tuition payments.
- Non-operating gains were \$45.2 million versus last year's loss of \$6.9 million. Again, this was due primarily to the change pension where the loss in 2020 is a gain in 2021. Additionally, it was effected by the \$4.1 million in PPP loans, \$6.2 million increase in net investment return, and \$2 million increase in fair value of derivatives (see Note 8).
- The pension adjustment in 2021 was a positive \$5.5 million while in 2020 it was a liability of \$26.9 million. These numbers reflect the amount needed to fully fund the retirement accounts for Priests and Lay Employees. When it is a liability, it means the accounts are underfunded; when it is an asset it means that they are overfunded. Due to market activity last year, the pension plans went from being under funded by \$26.9 million to over funded by \$5.5 million. 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 Finance 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,

David Zaleski
Chief Financial Officer