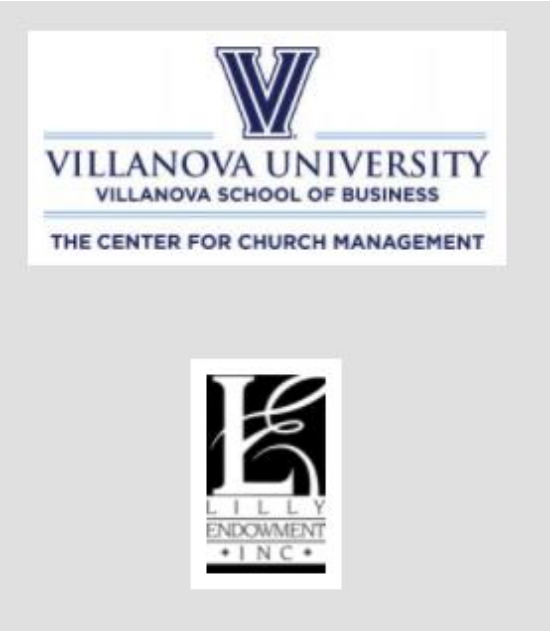
Catholic Foundations: An Analysis of Governance Structures, Transparency and Financial Performance



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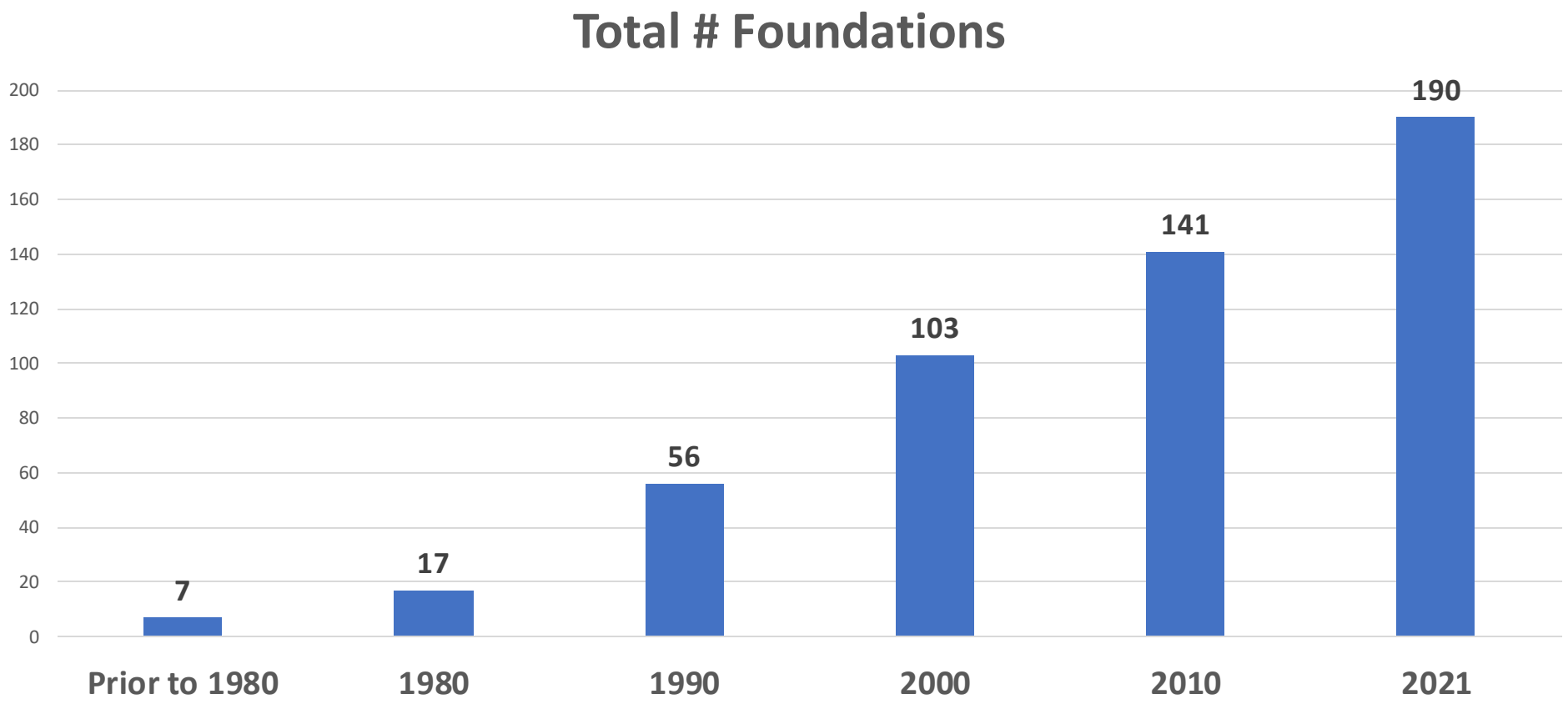
Why Study Catholic Foundations?



Source: Dillingham, W. (Oct 2021) "Catholic Foundations in the U.S. Revisited", Wilmington Trust

Two Responses to Financial Headwinds

Bankruptcy Protection

Since 2004, **32** dioceses in the United States have filed for bankruptcy protection, including **five** in 2023.

Source: the watchdog group BishopAccountability.org (2023)

As U.S. Catholic churches struggle, their foundations' investments thrive

By Gertrude Chavez-Dreyfuss

3 MIN READ

NEW YORK (Reuters) - Assets managed by U.S. Catholic foundations have more than doubled over the last three years, propelled by increased donations and stable market performance, according to a study by wealth advisory firm Wilmington Trust.

The study showed U.S. Catholic foundations, set up by archdioceses and dioceses across the country, managed $9.5 billion as of the end of 2018, up 106 percent from $4.6 billion in 2016 when Wilmington Trust released its first report on the sector.

REUTERS

World Business Markets

WHERE TO INVEST IN 2021 JANUARY 9, 2019 / 4:20 PM / UPDATED 4 YEARS AGO

What is a "Catholic Foundation"?

Foundations attract, manage and invest donations and gifts to support the financial needs of parishes, schools, charities, and other ministries within the diocese

(Catholic Foundation of Northern Georgia, https://cfnga.org/about/purpose/)

Why Use a Foundation?

- helps dioceses be more effective in fundraising by offering a centralized, professionally managed fundraising resource
- acts as an investment management vehicle, which provides professional management of planned giving and endowment funds
- all funds invested in a foundation are legally separate from the diocese.

Purpose

To analyze the governance boards, financial transparency, and financial performance of 114 foundations by addressing the following **research questions**:

1. What is the size and makeup of the governance board of the foundation?
   - Board size, models, demographic characteristics, role of the bishop
2. Financial transparency - Does the foundation disclose its financial statements?
   - IRS Form 990 or audited financial statements
   - What is the financial transparency rating (GuideStar) of the foundation, if any?
3. What is the financial performance of the foundation?
   - Size and four-year growth rate of Assets
4. What are the interrelationships between 1, 2, and 3?

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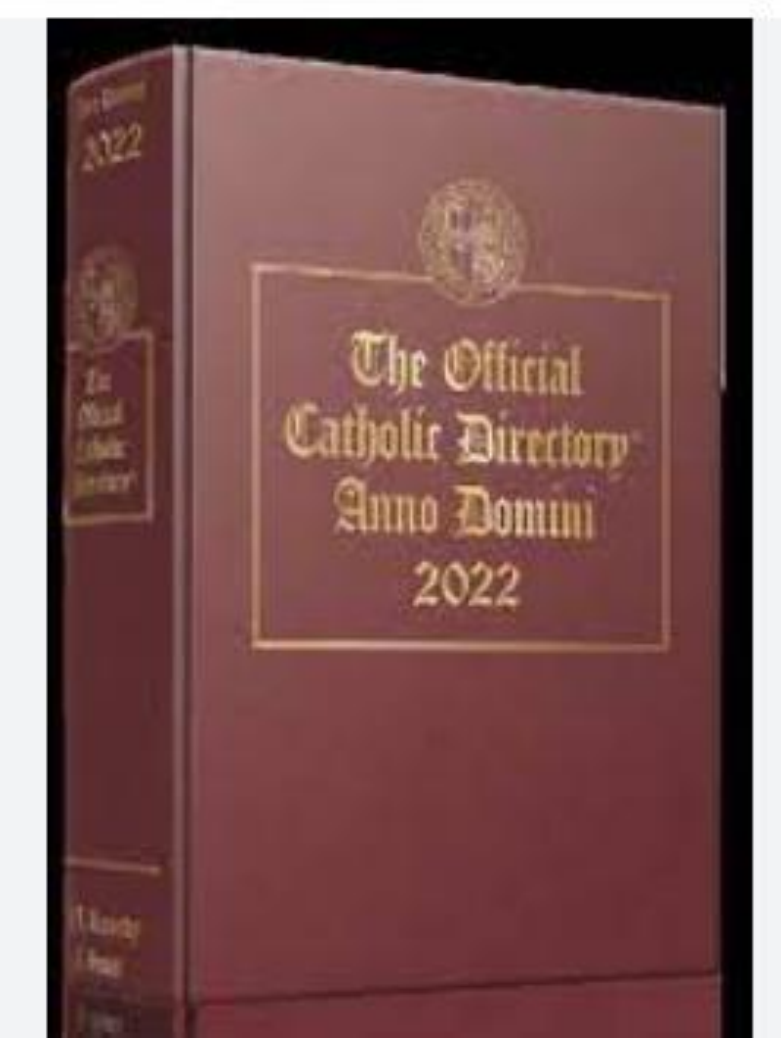
Identifying the Foundations

The Official Catholic Directory

- an “authoritative Catholic reference resource” that provides statistics, personnel listings, agencies, ministries and other information about each diocese.
- The data and entries for each diocese are updated on an annual basis, and are confirmed by the diocese
- Identified 114 foundations



Results: Board Models

Three Models of Governance		
Bishop is member and chair of board	(Model 1)	38.3%
Bishop is a board member, not chair	(Model 2)	32.7%
Bishop does not serve on board	(Model 3)	29.3%

n = 107 (104 foundations that identify all board members plus 3 that identify the role of the bishop only)

Models of Governance and Board Characteristics

	Average Size	% Female	% Clergy	% Independent
Model 1	14.9	27.5	21.5*	73.0*
Model 2	17.2	28.2	19.9	78.6
Model 3	14.1	28.6	14.9*	83.3*

% Female – no significant differences between the models

* % Clergy and % Independent – significant differences between Model 1 and Model 3 ($p<.05$)

Results: Transparency & Disclosure

(n=114 foundations)

Type of Financial Disclosure	Identify Board (n=104)		Do Not Identify Board (n=10)	
	#	%	#	%
IRS Form 990	19	18.3%	0	0.0%
Audited Financials	32	30.8%	3	30.0%
Both	32	30.8%	0	0.0%
None	21	20.2%*	7	70.0%*

**significant difference at p<0.001*

Results: Models of Governance & Financial Transparency

	Model 1	Model 2	Model 3
Disclose Financials	26	28	30
Do Not Disclose Financials	15	7	1
Percent Disclosing	**63.4%***	**80.0%**	**96.8%***

**significant difference between Model 1 and Model 3 at p<0.002*

**Also, combined Models 1 and 2 compared to Model 3, significant difference at p<0.007*

Models of Governance and GuideStar Transparency Ratings

GuideStar Rating	Model 1	Model 2	Model 3	Total
None	34	24	21	**86**
Bronze	0	0	1	**1**
Silver	0	2	2	**4**
Gold	6	4	2	**12**
Platinum	1	5	5	**11**

Results of this analysis were more notable in the absence of ratings than in any meaningful comparison between the models. Over 75% of the foundations (86 of 114) had no GuideStar rating.

Results: Models of Governance & Financial Performance

	2022 Total Assets (Average)	CAGR 2018-2022	n
Model 1	$92,335,274	4.23%*	24
Model 2	$101,956,642	13.67%*	25
Model 3	$80,295,985	9.77%	22

complete dataset for the four-year period to measure asset growth rates was available for 71 of the foundations

**significant difference between Model 1 and Model 2 at $p<0.05$*

Why? (a) Some foundations started with Assets=0; others were funded initially by the diocese
(b) not all foundations follow the same FY calendar

Conclusion

- This study sheds new light on Catholic foundations
- **Three models of governance** were identified based on the role of the bishop
  - The models are statistically different from each other in some important ways.
  - Governance boards chaired by the bishop have a greater proportion of clergy and diocesan employees than boards on which the bishop does not serve (less independent).
- **Financial Transparency**
  - 78.5% of foundations disclose their audited financial statements but only 24.5% have a GuideStar transparency rating
  - When the bishop is either chair or member of the governance board, the foundation is less likely to disclose its audited financial statements
- **Financial Performance**
  - Over the four year period of the study, Model 2 foundations outperformed Model 1 foundations

Implications

- Good news – over 78% disclose financial statements – but why not 100%?
  - Transparency is expected and …
  - The business case for transparency …
    - Zech and Butler (2006) found that **53%** of Catholic parishioners felt they had enough information about parish finances compared to about **75%** of Protestant congregation members
    - Catholic parishioners who thought they had enough information contributed **32%** more than those that didn't
- Education needed on value of GuideStar Transparency Ratings
- Identify board members & post financials on website
- Catholic Foundations are doing good work
  - Tell your story!

Thank you!

Research Methods

- Personal interviews of Foundation leaders (n=5)
  - to better understand the alternative models of the foundations, including their legal and governance relationships with the dioceses, and how to access information about them
- Website searches, including a review of audited financial statements and IRS Form 990s (of foundations that disclose their financial data)
  - GuideStar, ProPublica, and the foundation websites