

THE CATHOLIC CENTER OF LEXINGTON

FINANCIAL REPORT

JUNE 30, 2021

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

The Most Reverend John Stowe
The Catholic Center of Lexington
Lexington, Kentucky

We have audited the accompanying financial statements of The Catholic Center of Lexington (a nonprofit and a division of the Roman Catholic Diocese of Lexington, Kentucky), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Catholic Center of Lexington, as of June 30, 2021, 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.

Prior Period Financial Statements

The financial statements of The Catholic Center of Lexington, as of June 30, 2020, were audited by other auditors whose report dated November 12, 2020, expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
November 30, 2021

THE CATHOLIC CENTER OF LEXINGTON

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,017,304	\$ 1,528,731
Receivables		
Assessments, net	3,071,796	3,013,591
Unconditional promises to give	73,618	63,306
Other	341,136	138,099
Prepaid pension costs	612,161	224,960
Prepaid expenses	69,328	72,886
	<u>5,185,343</u>	<u>5,041,573</u>
Total current assets		
PROPERTY AND EQUIPMENT, NET	<u>1,831,327</u>	<u>1,835,039</u>
OTHER ASSETS		
Other receivables, net	133,700	6,238,050
Investments	19,107,657	15,375,790
Cash value of life insurance	591,620	561,746
	<u>19,832,977</u>	<u>22,175,586</u>
Total other assets		
	<u>\$ 26,849,647</u>	<u>\$ 29,052,198</u>

The Notes to Financial Statements are an integral part of these statements.

THE CATHOLIC CENTER OF LEXINGTON

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30, 2021 and 2020

	2021	2020
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 146,800	\$ 140,998
Current portion of capital lease obligations	27,266	38,160
Accounts payable	315,287	851,124
Special collections payable	199,206	106,775
Self-insurance liability	896,091	935,994
Accrued expenses and withholdings	132,307	227,404
Deferred revenue	--	123,832
	1,716,957	2,424,287
LONG-TERM LIABILITIES		
Long-term debt, less current portion	1,690,643	8,516,393
Capital lease obligations, less current portion	31,067	15,127
Priest's pension obligation	51,786	96,356
Post-retirement benefits obligation	2,826,604	2,777,076
	4,600,100	11,404,952
Total liabilities	6,317,057	13,829,239
NET ASSETS		
Without donor restrictions:		
Operating	14,500,904	9,850,544
Council designated	1,416,659	1,175,762
With donor restrictions:		
Temporary in nature	2,915,777	2,497,403
Perpetual in nature	1,699,250	1,699,250
	20,532,590	15,222,959
Total net assets	26,849,647	29,052,198

The Notes to Financial Statements are an integral part of these statements.

THE CATHOLIC CENTER OF LEXINGTON

**STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2021 and 2020**

	2021		
	Without Donor Restriction	With Donor Restriction	Total
Revenue and support			
Assessments	\$ 3,070,733	\$ --	\$ 3,070,733
Insurance premiums	4,632,792	--	4,632,792
Program activities	431,617	--	431,617
Grants	--	890,290	890,290
Gifts and donations	126,744	1,704,300	1,831,044
Insurance proceeds	--	--	--
Rentals	57,600	--	57,600
Interest income	715	--	715
Miscellaneous income	36,385	--	36,385
Net assets released from restriction	2,193,695	(2,193,695)	--
Total revenue and support	<u>10,550,281</u>	<u>400,895</u>	<u>10,951,176</u>
Expenses			
Program	4,940,858	--	4,940,858
General and administrative	5,171,801	--	5,171,801
Fundraising	276,873	--	276,873
Total expenses	<u>10,389,532</u>	<u>--</u>	<u>10,389,532</u>
	<u>160,749</u>	<u>400,895</u>	<u>561,644</u>
Other income (expense)			
Investment income, net of fees	285,295	17,479	302,774
Realized and unrealized gains on investments	5,023,130	--	5,023,130
Increase in cash value of life insurance	29,875	--	29,875
Pension benefit obligation gains	272,731	--	272,731
Interest expense	(77,497)	--	(77,497)
Transfer of equity to SPPS, net	(689,990)	--	(689,990)
Transfer of equity to CDL Reserve	(113,036)	--	(113,036)
Total other income	<u>4,730,508</u>	<u>17,479</u>	<u>4,747,987</u>
Increase (decrease) in net assets	4,891,257	418,374	5,309,631
Net assets, beginning of year	<u>11,026,306</u>	<u>4,196,653</u>	<u>15,222,959</u>
Net assets, end of year	<u>\$ 15,917,563</u>	<u>\$ 4,615,027</u>	<u>\$ 20,532,590</u>

The Notes to Financial Statements are an integral part of these statements.

2020		
Without Donor Restriction	With Donor Restriction	Total
\$ 3,016,938	\$ --	\$ 3,016,938
4,811,234	--	4,811,234
577,324	--	577,324
--	450,300	450,300
64,537	1,588,986	1,653,523
2,014	--	2,014
119,010	--	119,010
10,976	--	10,976
237	--	237
2,146,797	(2,146,797)	--
<u>10,749,067</u>	<u>(107,511)</u>	<u>10,641,556</u>
9,373,134	--	9,373,134
1,821,179	--	1,821,179
377,493	--	377,493
<u>11,571,806</u>	<u>--</u>	<u>11,571,806</u>
<u>(822,739)</u>	<u>(107,511)</u>	<u>(930,250)</u>
337,627	24,754	362,381
1,033,472	--	1,033,472
20,887	--	20,887
253,223	--	253,223
(82,305)	--	(82,305)
(689,990)	--	(689,990)
(215,102)	--	(215,102)
<u>657,812</u>	<u>24,754</u>	<u>682,566</u>
(164,927)	(82,757)	(247,684)
<u>11,191,233</u>	<u>4,279,410</u>	<u>15,470,643</u>
<u>\$ 11,026,306</u>	<u>\$ 4,196,653</u>	<u>\$ 15,222,959</u>

THE CATHOLIC CENTER OF LEXINGTON

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021

EXPENSES	2021			
	Program Services	Management and General	Fundraising	Total
Personnel costs:				
Salaries, wages and taxes	\$ 1,915,285	\$ 189,732	\$ 141,420	\$ 2,246,437
Employee benefits	223,208	17,597	13,412	254,217
Total personnel costs	2,138,493	207,329	154,832	2,500,654
Lay employees' health insurance claim:	28,868	--	--	28,868
Insurance	27,622	4,758,653	16,298	4,802,573
Assessments	74,847	--	--	74,847
Grants and subsidies	1,039,744	--	2,015	1,041,759
Program expenses	499,538	315	75,193	575,046
Utilities, rent and household expenses	143,877	--	--	143,877
Gifts	2,990	--	554	3,544
Repairs and maintenance	2,218	--	--	2,218
Travel and mileage	37,828	93	692	38,613
Stationery and printing	7,745	40	12,464	20,249
Postage	47,486	--	2,899	50,385
Telephone	34,446	458	--	34,904
Dues and subscriptions	24,810	404	347	25,561
Convention expenses	6,313	--	299	6,612
Advertising	34,776	--	--	34,776
Equipment leases	--	21,574	--	21,574
Hospitality	5,839	--	69	5,908
Professional services	328,592	180,312	5,285	514,189
Education	5,344	--	--	5,344
Supplies	25,483	1,700	--	27,183
Depreciation expense	138,460	--	--	138,460
Medical	132,027	--	--	132,027
Priest supplemental and housing, net	138,298	--	--	138,298
Miscellaneous expense	15,214	923	5,926	22,063
Total expenses	\$ 4,940,858	\$ 5,171,801	\$ 276,873	\$ 10,389,532

The Notes to Financial Statements are an integral part of this statement.

THE CATHOLIC CENTER OF LEXINGTON

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

	2020			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Personnel costs:				
Salaries, wages and taxes	\$ 1,998,604	\$ 169,948	\$ 148,804	\$ 2,317,356
Employee benefits	243,598	16,768	14,150	274,516
Total personnel costs	2,242,202	186,716	162,954	2,591,872
Lay employees' health insurance claims:				
Insurance	3,896,006	--	--	3,896,006
Assessments	93,652	1,303,256	11,718	1,408,626
Grants and subsidies	66,486	--	--	66,486
Program expenses	1,215,516	--	7,850	1,223,366
Donations	715,844	5,202	136,985	858,031
Utilities, rent and household expenses	826	--	--	826
Gifts	153,358	33,720	--	187,078
Repairs and maintenance	1,425	--	--	1,425
Travel and mileage	11,836	--	--	11,836
Stationery and printing	78,880	459	4,526	83,865
Postage	11,098	223	11,435	22,756
Telephone	48,150	--	5,151	53,301
Dues and subscriptions	42,323	378	--	42,701
Convention expenses	19,795	1,010	228	21,033
Advertising	12,267	--	1,630	13,897
Equipment leases	23,576	--	10,623	34,199
Hospitality	7,231	23,697	--	30,928
Professional services	16,669	609	--	17,278
Education	301,994	258,461	19,127	579,582
Supplies	7,964	1,300	97	9,361
Depreciation expense	18,223	1,904	671	20,798
Medical	142,888	--	--	142,888
Priest supplemental and housing, net	165,480	--	--	165,480
Miscellaneous expense	66,944	--	--	66,944
Total expenses	12,501	4,244	4,498	21,243
Total expenses	<u>\$ 9,373,134</u>	<u>\$ 1,821,179</u>	<u>\$ 377,493</u>	<u>\$ 11,571,806</u>

The Notes to Financial Statements are an integral part of this statement.

THE CATHOLIC CENTER OF LEXINGTON

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 5,309,631	\$ (247,684)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) operating activities		
Depreciation	138,460	142,888
Realized and unrealized (gain) on investments	(5,023,143)	(1,033,473)
Forgiveness of SBA PPP loan	(548,836)	--
Changes in assets and liabilities, net of the effects of investing and financing activities:		
Assessments receivable, net	(58,205)	75,051
Unconditional promises to give, net	(10,312)	10,491
Other receivables	(228,977)	168,141
Prepaid expenses	(383,643)	(229,772)
Cash value life insurance	(29,874)	(18,840)
Accounts and other payables	(535,837)	607,223
Special Sunday collections payable	92,431	(45,570)
Self-insurance liability	(39,903)	(392,508)
Accrued expenses and withholdings	(90,139)	36,638
Deferred revenue	(123,832)	28,011
Net cash (used in) operating activities	(1,532,179)	(899,404)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(87,973)	(10,595)
Proceeds from sale of investments, net	1,291,276	723,893
Net cash provided by investing activities	1,203,303	713,298
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	--	548,836
Principal payments on long-term debt	(140,822)	(24,707)
Payments of capital lease obligations	(41,729)	(35,187)
Net cash provided by (used in) financing activities	(182,551)	488,942
Net increase (decrease) in cash and cash equivalents	(511,427)	302,836
Cash and cash equivalents, beginning of year	1,528,731	1,225,895
Cash and cash equivalents, end of year	\$ 1,017,304	\$ 1,528,731
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 77,497	\$ 82,305

The Notes to Financial Statements are an integral part of these statements.

THE CATHOLIC CENTER OF LEXINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of business

The Catholic Diocese of Lexington (Catholic Diocese) is a non-profit religious organization consisting of fifty-nine parishes and missions, one secondary school, thirteen elementary schools, certain social and welfare facilities and activities, a spirituality center, and administrative offices. The Catholic Diocese serves the Bluegrass East, Bluegrass West, Big Sandy/Licking, Mountain East, Mountain West, and Fayette deaneries. Diocesan property vests in the Bishop of the Catholic Diocese and his successors; similarly, Diocesan obligations are those of the Bishop of the Catholic Diocese and his successors.

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of The Catholic Center of Lexington (Chancery) which includes all institutions and organizations providing services at the Diocesan level of administration and are fiscally responsible to the Bishop of the Catholic Diocese. Various religious orders, lay societies, and religious organizations, which operate within the Catholic Diocese, but are not fiscally responsible to the Bishop, as well as parishes and their related institutions, have not been included in the accompanying financial statements.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Chancery maintains its cash balances with certain financial institutions located in Lexington, Kentucky which may at times exceed the federally insured limit of \$250,000. The Chancery has not experienced any losses in such accounts. The Chancery considers the risk associated with its excess cash balances to be minimal.

Receivables

Substantially all accounts receivable, assessments receivable and loans receivable are due from Diocesan parishes and schools. Credit is furnished to the respective parishes and schools based on an evaluation of their financial condition and, generally, collateral is not required. Credit losses are provided in the financial statements based on management's evaluation of the entity's ability to pay based on current economic conditions. There are no uncollectible accounts or assessments recognized during the years ended June 30, 2021 and 2020, associated with such receivables less recovery of accounts previously recognized as uncollectible.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Investments

The Chancery carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Money market funds and related party notes are carried at cost which approximates fair market value. Fair value is determined by quoted market prices. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Property and equipment and depreciation

The Chancery capitalizes purchases greater than \$5,000 with an estimated useful life of more than one year. Property and equipment are stated at cost or, in the case of donated property, at the fair market value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. The cost of repairs and maintenance are expensed as incurred.

Cash surrender value of life insurance

The Chancery is the beneficiary of various life insurance policies obtained for certain member priests. Annual increases in the cash surrender value of the respective policies are recognized as revenue in the accompanying statements of activities. The cumulative value of the policies is recorded as an asset in the statements of financial position and is valued using Level 2 inputs.

Pension and Post-Retirement Benefits

Actuarial gains and losses, effects of plan amendments, and other amortizable changes in the pension obligation and plan assets are amortized over a range of years based on the underlying change, using the straight-line method.

Net assets

The Chancery classifies resources for accounting and reporting purposes into two net asset categories according to donor-imposed restrictions as follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and net assets that have been designated by the Finance Council for specific purposes.

Net Assets with Donor Restrictions – Net assets available for use subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as designations for a specific campaign or geographical area. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the funds be maintained in perpetuity. It is the Chancery's policy to treat all investment income and realized and unrealized gains and losses generated by donor restricted net assets as restricted revenue.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Net asset (continued)

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

Statement of cash flows

For purposes of the statements of cash flows, the Chancery considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Money market funds held in investment accounts have been excluded.

Functional allocation of expenses

The costs of providing program services, management and general services, and fundraising services have been summarized on a functional classification basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributable to a specific functional area of the Chancery are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on square footage. Accordingly, certain costs have been allocated among the program services, management and general services, and fundraising services benefited.

Income taxes

The Chancery qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for federal and state income taxes has been made in these financial statements.

The Chancery's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The Chancery has no uncertain tax positions resulting in an accrual of a tax expense or benefit.

Recent accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the year ending June 30, 2023.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard has been issued to increase transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. This standard will be effective for the year ending June 30, 2022.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements (continued)

Management is currently in the process of evaluating the impact of the adoption of these ASUs on the Chancery's financial statements.

Subsequent events

Management has evaluated subsequent events through November 30, 2021, the date the financial statements were available to be issued.

Reclassifications

Certain amounts presented in the 2020 financial statements have been reclassified to conform with the 2021 presentation.

Note 2. Liquidity and Availability of Resources

As of June 30, 2021 and 2020, the Chancery had total net assets without donor restrictions of \$15,917,563 and \$11,026,306, respectively. Certain net assets included in this balance are long-term assets and liabilities. Also, included in this balance are certain board-designated net assets which are generally not available for operating expenditures but could be drawn upon to meet unexpected liquidity needs, if necessary. Financial assets readily available for general expenditure within one year as of June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,017,304	\$ 1,528,731
Accounts and pledges receivable, net	3,412,932	3,151,690
	<u>\$ 4,430,236</u>	<u>\$ 4,680,421</u>

Note 3. Unconditional Promises to Give

Unconditional promises to give are received from parishes and members of the parishes within the Catholic Diocese. Unconditional promises to give at June 30, 2021 and 2020 were receivable in less than one year, and were \$73,618 and \$63,306, respectively.

There were no uncollectible pledges recognized for the years ended June 30, 2021 and 2020.

NOTES TO FINANCIAL STATEMENTS

Note 4. Fair Values of Financial Instruments

U.S. GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the Chancery's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. in an orderly transaction between market participants at the measurement date.

A fair value hierarchy has been established for financial reporting purposes, which requires the Chancery to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels within its hierarchy that may be used to measure fair value:

Level 1 inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 inputs: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 inputs: Significant unobservable inputs that reflect the Chancery's own assumptions about the assumption that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes an input from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair value of the Chancery's investments is based on quoted market values, surrender values or cost which approximates fair value. The Chancery did not hold financial instruments for trading purposes at June 30, 2021 and 2020.

The fair value of the Chancery's other financial instruments are based on estimates. These estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature, involve matters of judgment, and, therefore, cannot be determined with precision. Estimated fair values are significantly affected by the assumptions used.

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses, other assets, payables, accrued expenses and other liabilities as reported in the accompanying statements of financial position approximate the fair values due to their short-term maturity, to being readily converted to a known amount, other observable inputs. Also, the carrying amounts of current and long-term promises to give and current and long-term pledges payable approximate their fair values as present value techniques have been applied and no material fluctuations in interest rates have occurred. As such, these instruments are measured Level 1 inputs. The carrying amounts of current and long-term debt and obligations under capital leases also approximate their fair values as determined by lending institutions and Management using Level 2 inputs and are more fully disclosed in Notes 8 and 13.

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments

The Chancery has adopted investment and spending policies, approved by the Finance Council, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Chancery's investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return at least 5%, net of investment fees. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Chancery relies on a total return strategy in which investments returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Chancery targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Chancery's endowed funds for program support. The current spending policy is to distribute sufficient earnings on endowed funds to net assets without donor restrictions for support of various programs within the Catholic Diocese. Over the long term, the Chancery does expect its current spending policy to allow its endowment assets to grow beyond the original endowment contribution.

Generally accepted accounting principles provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of International Funds Act of 2006 (UPMIFA). UMPIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds, was enacted by the Commonwealth of Kentucky in March 2010.

The Chancery has interpreted this law as requiring the preservation of the fair value of corpus of a donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chancery classifies as perpetually restricted net assets (a) the original value of gifts donated to endowment, (b) the original value of any subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments (Continued)

A reconciliation of invested funds as of June 30, is as follows:

	2021			Total Investments
	Without Donor Restrictions	With Donor Restrictions		
		Temporary	Perpetual	
Investments, July 1, 2020	\$ 11,242,443	\$ 2,434,097	\$ 1,699,250	\$ 15,375,790
Increase (decrease) in investments due to:				
Investment income, net of fees	285,295	17,479	--	302,774
Investment appreciation (depreciation) (realized and unrealized)	5,023,130	--	--	5,023,130
Contributions	--	2,433,467	--	2,433,467
Withdrawals	(4,027,504)	--	--	(4,027,504)
Interfund transfer, net	2,042,884	(2,042,884)	--	--
Investments, June 30, 2021	<u>\$ 14,566,248</u>	<u>\$ 2,842,159</u>	<u>\$ 1,699,250</u>	<u>\$ 19,107,657</u>
	2020			Total Investments
	Without Donor Restrictions	With Donor Restrictions		
		Temporary	Perpetual	
Investments, July 1, 2019	\$ 10,828,015	\$ 2,539,049	\$ 1,699,250	\$ 15,066,314
Increase (decrease) in investments due to:				
Investment income, net of fees	337,627	24,754	--	362,381
Investment appreciation (depreciation) (realized and unrealized)	1,033,472	--	--	1,033,472
Contributions	--	1,922,090	--	1,922,090
Withdrawals	(3,008,467)	--	--	(3,008,467)
Interfund transfer, net	2,051,796	(2,051,796)	--	--
Investments, June 30, 2020	<u>\$ 11,242,443</u>	<u>\$ 2,434,097</u>	<u>\$ 1,699,250</u>	<u>\$ 15,375,790</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments (Continued)

Investments as of June 30, 2021 and 2020, are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	2021		2020	
	Level 1 Inputs	Level 2 Inputs	Level 1 Inputs	Level 2 Inputs
Cash and cash equivalents	\$ 4,130,298	\$ --	\$ 1,925,413	\$ --
Government securities	2,151,949	--	5,155,303	--
Mutual funds	362,345	--	701,713	--
Corporate bonds	2,013,622	--	--	--
Deferred annuity	--	165,920	--	114,437
Catholic Umbrella Pool II	--	234,974	--	216,633
Corporate Stocks:				
Industrials	1,140,212	--	834,390	--
Consumer discretionary	1,636,792	--	1,081,300	--
Consumer staples	382,779	--	310,359	--
Energy	112,469	--	110,145	--
Financial	1,095,543	--	884,069	--
Materials	388,907	--	284,406	--
Information technology	2,823,457	--	2,270,101	--
Utilities	78,640	--	82,039	--
Healthcare	735,420	--	543,181	--
Real estate	647,417	--	208,543	--
Telecommunications	1,006,913	--	653,758	--
Total Investments	\$ 18,706,763	\$ 400,894	\$ 15,044,720	\$ 331,070

As of June 30, 2021 and 2020, no investments were valued using Level 3 inputs.

Investment advisory fees amounted to approximately \$77,000 and \$43,000 for the years ended June 30, 2021 and 2020, respectively.

The Chancery's endowment was composed of perpetually restricted funds totaling \$1,699,250 as of June 30, 2021 and 2020.

NOTES TO FINANCIAL STATEMENTS

Note 6. Property and Equipment

Property and equipment consists of the following at June 30:

	2021	2020
Land	\$ 200,000	\$ 200,000
Buildings and improvements	4,012,859	3,924,886
Furniture and fixtures	26,292	26,292
Automobiles	55,290	55,290
Equipment	260,509	257,993
	4,554,950	4,464,461
Less accumulated depreciation	(2,723,623)	(2,629,422)
	\$ 1,831,327	\$ 1,835,039

Note 7. Self-Insurance Liability

Property self-insurance – insurance premium rates are computed based on the claims history of the Catholic Diocese. The rates are calculated using a pre-set deductible basis and funds are generated for reserve by using a loading factor. Every location contributes to this reserve. This reserve then pays for claims between \$1,000 and \$25,000. The balance in the reserve is considered when determining the annual loading factor. A portion of this reserve, approximately \$235,000 and \$217,000 as of June 30, 2021 and 2020, respectively, is held by the insurance carrier and is included in investments in the statements of financial position.

Medical self-insurance – insurance premiums rates are computed by the Catholic Diocese based on its claim history. These premium rates are intended to cover 125% of the claims anticipated for the coming year. The Chancery buys re-insurance to cover any claims over 125% of anticipated claims. A reserve builds when actual claims are less than anticipated claims. The Chancery considers its insurance reserve balance when determining rates charged to participants. The reserve is represented on the statements of financial position as designated funds of approximately \$1,074,000 and \$780,000 as of June 30, 2021 and 2020, respectively. The liability recorded by the Chancery for estimated incurred but not reported and outstanding claims was zero at June 30, 2021 and 2020. Effective January 1, 2020, the Catholic Diocese moved from the self-insured plan to a fully-insured plan.

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-term Debt

Long-term debt consisted of the following at June 30:

	2021	2020
Promissory note payable, secured by real property, principal and interest due in monthly payments of \$314 through February 2022, 3.75% interest rate	\$ 226	\$ 226
Promissory note payable, secured by real property and other business assets, interest only payments through April 2020, principal and interest due in monthly payments of \$18,184 beginning May 2020, final payment due April 2023, 3.99% interest rate	1,837,217	1,978,039
Loan payable from the Paycheck Protection Program, unsecured, principal and interest were due in monthly payments of \$375,881, 1.00% interest rate, loan forgiveness was granted in June 2021 (see Note 14).	--	6,679,126
	1,837,443	8,657,391
Less current portion	146,800	140,998
	\$ 1,690,643	\$ 8,516,393

Future maturities of long-term debt for the next two years and thereafter are as follows:

2022	\$ 146,800	
2023	1,690,643	
	\$ 1,837,443	

Note 9. Related Party Transactions

The Catholic Diocese has an economic interest in various religious organizations, schools and parishes which are located in its region. These organizations are under the direction of the Bishop but are controlled by separate governing councils.

Because of the nature of Diocesan operations, the majority of all transactions occur between the organizations, which include insurance and payroll preparation services, subsidies and grants to supplement various ministries, the assessment of fees to help support the operating services of the Catholic Diocese and rental of office space. Therefore, the majority of revenue, expenses, receivables and payables recorded in the Chancery's financial statements are the result of related party transactions.

NOTES TO FINANCIAL STATEMENTS

Note 9. Related Party Transactions (Continued)

The Chancery receives an annual administrative fee for managing and investing excess funds of Diocesan parishes and schools. The funds are invested in a master trust account and the fee to the Chancery is equal to 0.45% of assets held in the trust. As of June 30, 2021 and 2020, the Chancery recognized revenue of \$64,132 and \$54,145, respectively, related to administration fees for services rendered to the trust during the fiscal year.

The Catholic Diocese has guaranteed certain debts for schools and parishes within its boundaries. The management to the Catholic Diocese guarantees the notes based on their judgment that the respective school or parish will be able to meet its proposed obligation. At June 30, 2021 and 2020, the Catholic Diocese has guaranteed debts of \$28,616,621 and \$29,763,002, respectively, as follows as of June 30:

<u>Parish/School</u>	<u>2021</u>	<u>2020</u>
Good Shepherd	\$ 2,296,775	\$ 2,702,904
Mary Queen	4,237,179	4,422,189
Pax Christi	416,172	--
St. Andrew	219,783	287,056
St. Leo	5,119,755	5,304,798
St. Mark	910,369	1,017,724
Lexington Catholic High School	3,746,360	3,894,443
Lexington Catholic High School	194,231	237,825
St. Elizabeth Ann Seton	1,687,071	1,734,199
Cathedral of Christ the King	--	368,827
St. Peter and Paul School	9,148,117	9,515,582
St. Francis and John	400,000	--
St. Francis of Assisi Church	72,564	96,979
St. Paul	143,245	180,476
St. Clare	25,000	--
Total	\$ 28,616,621	\$ 29,763,002

In addition, the Chancery routinely transfers funds to satisfy payment obligations and operating expenses for certain schools and parishes holding guaranteed debt. The Chancery transferred net equity of \$803,026 and \$905,092 for the years ended June 30, 2021 and 2020, respectively, related to these payments. Should the schools and parishes have sufficient funds in the future, the amounts repaid to the Chancery would be recognized as an increase in net assets without donor restrictions. During the years ended June 30, 2021 and 2020, the Chancery received zero to reimburse funds previously transferred.

At June 30, 2021 and 2020, the total value of the real property of the Catholic Diocese and its related organizations is estimated to be \$390,907,000 and \$370,642,000, respectively, based on insurance estimates. Liabilities owed by all Diocesan organizations (without elimination of inter-company transactions) are estimated at \$56,137,414 and \$64,371,000 as of June 30, 2021 and 2020, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 10. Net Assets with Donor Restrictions

Council designated net assets consisted of the following at June 30:

	2021	2020
Human Resources	\$ 1,074,061	\$ 779,164
Catholic Education	342,598	396,598
	\$ 1,416,659	\$ 1,175,762

Donor restricted net assets consisted of the following at June 30:

	2021	2020
Temporary:		
Education	\$ 18,076	\$ 68,998
Development	1,500	--
Pastoral life programs	226,629	242,430
Mission programs	894,948	702,702
Minorities programs	18,000	18,000
Annual appeal campaign	364,580	144,298
Educational programs	311,442	307,809
Father Beiting Appalachian Mission	34,066	34,066
Geary Fund for the Poor	467,718	467,718
Peace and Justice	28,731	--
Family and youth ministry	349	--
Catholic Center	2,924	--
Seminary and vocations	98,825	164,457
Hispanic programs	85,481	85,042
Scholarships	190,140	220,140
Father Sichko's Ministry	150,000	--
Latin American Sisters Program	15,614	35,589
Permanent Diaconate	6,754	6,154
Total temporary	\$ 2,915,777	\$ 2,497,403
Perpetual:		
Priest and seminarians	\$ 401,107	\$ 401,107
Educational programs	112,070	112,070
Feeding and clothing of the poor	186,073	186,073
Mission programs	1,000,000	1,000,000
Total perpetual	\$ 1,699,250	\$ 1,699,250

NOTES TO FINANCIAL STATEMENTS

Note 11. Litigation

The Catholic Diocese of Lexington and other related parties are named in four ongoing litigations. Any liabilities incurred as a result of the litigations are expected to be fully covered by an insurance policy maintained by the Diocese once the deductible of \$25,000 has been met. Legal fees related to the litigations will be the obligation of the related parties. Consequently, no liability has been accrued on the Chancery's financial statements as of June 30, 2021 and 2020, as a result of the litigations.

Note 12. Retirement and Post-Retirement Benefits

Lay Employee's Pension Plan – The Chancery participates in a multi-employer pension plan with the Catholic Diocese of Covington and other unrelated employers. The plan covers all eligible lay employees who elect to participate. Benefits are based on participants' years of service and annual compensation as defined in the plan. Eligibility requirements allow all employees who have reached age 21 and work 20 or more hours per week and 5 or more months per year to participate in the plan. Participant contributions are required. Pension costs for lay employees for the years ended June 30, 2021 and 2020, amounted to \$69,763 and \$65,799, respectively. The employees of the Chancery represent only a small portion of the total participants in the plan, and, as a result, disclosures pertaining to the obligations and funded status of the entire plan would not be meaningful, and accordingly, are not included.

Priest Retirement Plan – The Chancery administers a retirement plan (the Plan) for all Diocesan priests. Priests do not make contributions to the Plan. Contributions are made to the Plan by the respective parishes, through assessments, and by the Chancery. Though the Chancery has the responsibility for the Plan, the majority of funding for the Plan is expected to come from outside sources. As of June 30, 2021 and 2020, the parish contributions payable to Orders with priests serving in the Diocese are \$51,786 and \$96,356, respectively.

Post-Retirement Benefits for Priests – The Chancery provides post-retirement benefits to priests of the Catholic Diocese. Benefits include various supplemental medical insurance benefits and reasonable living expenses not covered by other retirement income. The costs of post-retirement benefit other than pensions must be recognized on an accrual basis as the priests perform services to earn benefits.

NOTES TO FINANCIAL STATEMENTS

Note 12. Retirement and Post-Retirement Benefits (Continued)

Details of the priests' retirement and post-retirement benefit obligations are as follows at June 30:

	2021		2020	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Benefit obligation	\$ 7,153,861	\$ 2,826,604	\$ 7,016,997	\$ 2,777,076
Fair value of plan assets	(6,091,941)	--	(4,617,103)	--
Funded status (over) under	1,061,920	2,826,604	2,399,894	2,777,076
Unrecognized prior service costs	(269,596)	--	(130,206)	--
Unrecognized net (loss) gain	(1,404,485)	--	(2,494,648)	--
Accrued (prepaid) benefit cost	<u>\$ (612,161)</u>	<u>\$ 2,826,604</u>	<u>\$ (224,960)</u>	<u>\$ 2,777,076</u>
Weighted-average assumptions:				
Discount rate	2.75%	5.00%	3.50%	5.00%
Expected return on plan assets	7.00%		7.00%	

For measurement purposes, the benefits are projected to increase an average of 3% over the life of the plan.

	2021		2020	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Benefit cost	\$ 1,285,593	\$ 49,528	\$ 130,623	\$ (17,927)
Employer contribution	551,009	39,919	365,919	37,414
Benefits paid	(361,764)	(39,919)	(366,881)	37,414

The Chancery expects to contribute \$280,000 to its pension plan and zero to its other post-retirement benefits plan in fiscal year 2022.

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid:

Year(s)	Retirement Benefits	Other Benefits
2022	\$ 370,087	\$ 180,000
2023	400,426	185,000
2024	403,916	191,000
2025	400,642	197,000
2026	397,165	203,000
2027-2031	<u>1,806,242</u>	<u>1,108,000</u>
Total	<u>\$ 3,778,478</u>	<u>\$ 2,064,000</u>

NOTES TO FINANCIAL STATEMENTS

Note 13. Capital Lease Obligations

The Chancery leases office equipment under capital leases which expire at various dates through August 2024 and have a combined capitalized cost of \$239,268, and accumulated depreciation of \$180,217. The obligations under the capital lease have not been recorded in the accompanying financial statements at the present value of the future minimum lease payments as interest rates related to the obligations are inconsequential to the Chancery's overall financial position.

Future minimum lease payments and the present value of future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 27,266
2023	14,374
2024	14,737
2025	1,956
Thereafter	- -
	<u><u>\$ 58,333</u></u>

Note 14. Payroll Protection Program Loan

In April 2021, the Diocese applied for and was granted a forgivable loan of \$6,679,126 from the United States Small Business Administration (SBA) Payroll Protection Program (PPP). Under the CARES Act, subject to limitations, as defined, the loan may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the covered period following receipt of the loan. Any amount not forgiven will be payable in 24 monthly installments of principal and interest at 1% and will be unsecured. The Diocese is accounting for the loan proceeds as a conditional contribution in accordance with ASC 958-605. The Diocese applied for and was granted forgiveness of the PPP Loan on June 17, 2021. As such, the Diocese has recognized \$6,679,126 as loan forgiveness income as of June 30, 2021 based on payroll and other qualified expenses. The Chancery's portion of the loan forgiveness income is \$548,836 and is included in grant income on the Statement of Activities.

Note 15. Annual Appeal

Each year, the Diocese conducts an Annual Appeal to help support parishes, schools, and other ministries that apply for funding through the Mission and Ministry program. The Annual Appeal also provides supplemental funding for multiple programs including priest retirement and seminarian education. Annual Appeal gross revenues of \$1,176,270 and \$1,127,746 for the years ended June 30, 2021 and 2020, respectively are included in gifts and donations on the Statements of Activities.

NOTES TO FINANCIAL STATEMENTS

Note 16. Risks and Uncertainties

In April of 2020 local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Diocese as of November 30, 2021, management believes that a material impact on the Diocese's financial position and results of future operations is reasonably possible.