THE CATHOLIC CENTER OF LEXINGTON

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2018 AND 2017

THE CATHOLIC CENTER OF LEXINGTON
LEXINGTON, KENTUCKY

CONTENTS

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INDEPENDENT AUDITORS' 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 organization and a division of the Roman Catholic Diocese of Lexington, Kentucky), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kring, Ray, Farley & Riddle, PSC

Lexington, Kentucky
December 12, 2018

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets:						
Cash and cash equivalents	$ 774,404	$ -	$ 774,404	$ 1,371,428	$ -	$ 1,371,428
Receivables:						
Assessments, less allowance for doubtful assessments of $212,583 ($63,691 in 2017)	3,035,728	-	3,035,728	3,126,104	-	3,126,104
Current portion of unconditional promises to give	32,582	-	32,582	32,582	209,523	242,105
Other	913,555	-	913,555	219,248	-	219,248
Current portion of long-term notes receivable, less allowance for doubtful accounts of $1,500 in 2017	-	-	-	2,574	-	2,574
Prepaid expenses	58,224	-	58,224	74,657	-	74,657
Total Current Assets	4,814,493	-	4,814,493	4,826,593	209,523	5,036,116
Property, Plant and Equipment:						
Land, buildings and equipment	4,435,340	-	4,435,340	4,435,340	-	4,435,340
Less accumulated depreciation	(2,340,487)	-	(2,340,487)	(2,195,066)	-	(2,195,066)
Net Property, Plant and Equipment	2,094,853	-	2,094,853	2,240,274	-	2,240,274
Other Assets:						
Unconditional promises to give, less current portion, and valuation allowance of $3,027 ($7,461 in 2017)	29,555	-	29,555	57,704	-	57,704
Other receivables, less allowance for uncollectible accounts of $731,731 ($882,792 in 2017)	100,000	-	100,000	100,000	-	100,000
Investments	10,716,920	3,633,100	14,350,020	12,166,332	3,946,295	16,112,627
Cash value of life insurance	554,696	-	554,696	527,439	-	527,439
Total Other Assets	11,401,171	3,633,100	15,034,271	12,851,475	3,946,295	16,797,770
Total Assets	$ 18,310,517	$ 3,633,100	$ 21,943,617	$ 19,918,342	$ 4,155,818	$ 24,074,160

The accompanying notes are an integral part of these financial statements.

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THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities:						
Line of credit payable	$ 778,373	$ -	$ 778,373	582,858	$ -	$ 582,858
Current portion of long-term debt	3,352	-	3,352	31,197	-	31,197
Current portion of capital lease obligations	40,271	-	40,271	41,049	-	41,049
Accounts payable	125,611	-	125,611	471,114	-	471,114
Other payables	790	-	790	925	-	925
Special Sunday collections payable	142,704	-	142,704	233,252	-	233,252
Self-insurance liability	1,338,778	-	1,338,778	1,502,533	-	1,502,533
Accrued expenses and withholdings	74,244	-	74,244	127,734	-	127,734
Deferred revenue	29,124	-	29,124	4,590	-	4,590
Total Current Liabilities	2,533,247	-	2,533,247	2,995,252	-	2,995,252
Other Liabilities:						
Long-term debt, less current portion	2,452,935	-	2,452,935	3,430,530	-	3,430,530
Capital lease obligations, less current portion	90,790	-	90,790	133,050	-	133,050
Priest's pension obligation	148,297	-	148,297	261,515	-	261,515
Post-retirement benefits obligation	2,819,938	-	2,819,938	2,970,174	-	2,970,174
Total Other Liabilities	5,511,960	-	5,511,960	6,795,269	-	6,795,269
Total Liabilities	8,045,207	-	8,045,207	9,790,521	-	9,790,521
Net Assets:						
Without Donor Restrictions:						
Operating	9,697,028	-	9,697,028	9,430,941	-	9,430,941
Council designated	568,282	-	568,282	696,880	-	696,880
With Donor Restrictions:						
Temporary in nature	-	1,933,850	1,933,850	-	2,456,568	2,456,568
Perpetual in nature	-	1,699,250	1,699,250	-	1,699,250	1,699,250
Total Net Assets	10,265,310	3,633,100	13,898,410	10,127,821	4,155,818	14,283,639
Total Liabilities and Net Assets	$ 18,310,517	$ 3,633,100	$ 21,943,617	$ 19,918,342	$ 4,155,818	$ 24,074,160

The accompanying notes are an integral part of these financial statements.

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
Support, Revenue and Other Additions (Losses):								
Assessments	$ 3,106,287	$ -	$ -	$ 3,106,287	$ 3,195,844	$ -	$ -	$ 3,195,844
Recovery of bad debt	52,797	-	-	52,797	-	-	-	-
Insurance premiums	5,192,608	-	(492,678)	4,699,930	5,028,855	-	(581,419)	4,447,436
Program activities	195,907	-	-	195,907	496,235	-	-	496,235
Payroll service fees	190,008	-	(8,457)	181,551	152,565	-	(8,467)	144,098
Grants	-	207,521	-	207,521	-	306,383	-	306,383
Gifts and donations	689,607	787,530	-	1,477,137	329,067	1,343,616	-	1,672,683
Mission network and co-op	-	254,789	-	254,789	-	252,415	-	252,415
Sales of materials and subscriptions	75,292	-	-	75,292	63,569	-	-	63,569
Fathers and Friends	5,600	-	-	5,600	4,050	-	-	4,050
Rentals	151,660	-	-	151,660	120,960	-	-	120,960
Increase in cash value of life insurance	27,257	-	-	27,257	675	-	-	675
Investment income, net of fees	167,419	30,115	-	197,534	174,594	31,894	-	206,488
Interest income	11,672	-	-	11,672	13,778	-	-	13,778
Miscellaneous income	49,567	-	-	49,567	14,916	-	-	14,916
Net assets released from restrictions	1,913,610	(1,913,610)	-	-	2,270,573	(2,270,573)	-	-
Total Support, Revenue and Other Additions (Losses)	11,829,291	(633,655)	(501,135)	10,694,501	11,865,681	(336,265)	(589,886)	10,939,530
Expenses:								
Program	8,427,632	-	(501,135)	7,926,497	9,116,663	-	(589,886)	8,526,777
General and administrative	2,822,386	-	-	2,822,386	2,838,875	-	-	2,838,875
Fundraising	175,189	-	-	175,189	174,824	-	-	174,824
Total Expenses	11,425,207	-	(501,135)	10,924,072	12,130,362	-	(589,886)	11,540,476
Change in Net Assets before Non-Operating Items	404,084	(633,655)	-	(229,571)	(264,681)	(336,265)	-	(600,946)
Non-Operating Items:								
Realized and unrealized gains (losses) on investments	836,758	110,937	-	947,695	999,024	153,769	-	1,152,793
Pension benefit obligation gains (losses)	113,218	-	-	113,218	(103,829)	-	-	(103,829)
Gain on disposal of fixed assets	-	-	-	-	19,121	-	-	19,121
Transfer of equity from CDL Reserve Fund	-	-	-	-	932,812	-	-	932,812
Transfer of equity to Benedictus Bookstore, net	34,101	-	-	34,101	(121,719)	-	-	(121,719)
Transfer of equity to FBAMC	(70,378)	-	-	(70,378)	(82,914)	-	-	(82,914)
Transfer of equity to SPPS, net	(1,236,525)	-	-	(1,236,525)	(208,865)	-	-	(208,865)
Transfer of equity from CDLEX Management	56,231	-	-	56,231	108,049	-	-	108,049
Total Non-Operating Items	(266,595)	110,937	-	(155,658)	1,541,679	153,769	-	1,695,448
Change in Net Assets	137,489	(522,718)	-	(385,229)	1,276,998	(182,496)	-	1,094,502
Net Assets, beginning of year	10,127,821	4,155,818	-	14,283,639	8,850,823	4,338,314	-	13,189,137
Net Assets, end of year	$ 10,265,310	$ 3,633,100	$ -	$ 13,898,410	$ 10,127,821	$ 4,155,818	$ -	$ 14,283,639

The accompanying notes are an integral part of these financial statements.

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THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Personnel Costs:								
Salaries, wages and taxes	$ 1,311,125	$ 663,470	$ 42,695	$ 2,017,290	$ 1,376,678	$ 737,383	$ 63,652	$ 2,177,713
Employee benefits	130,877	64,721	7,350	202,948	121,556	73,574	9,802	204,932
Total Personnel Costs	1,442,002	728,191	50,045	2,220,238	1,498,234	810,957	73,454	2,382,645
Lay employees' health insurance claims	3,805,084	-	-	3,805,084	3,716,491	-	-	3,716,491
Insurance	675,336	985,062	19,283	1,679,681	941,756	984,395	24,073	1,950,224
Assessments	66,088	-	-	66,088	75,586	-	-	75,586
Subsidies	791,598	-	-	791,598	924,471	84,000	-	1,008,471
Program expenses	652,300	124,167	74,087	850,554	841,916	14,126	52,658	908,700
Donations	69,599	3,983	-	73,582	150,000	3,000	-	153,000
Mission grants and education	260,681	-	-	260,681	215,000	-	-	215,000
Utilities, rent and household expenses	4,770	86,072	-	90,842	19,295	85,115	-	104,410
Gifts	700	816	-	1,516	20	1,696	-	1,716
Repairs and maintenance	7,853	68,625	-	76,478	5,697	58,198	-	63,895
Travel and mileage	53,738	15,054	18,770	87,562	57,545	14,836	9,252	81,633
Stationery and printing	2,275	998	3,871	7,144	2,396	1,192	1,901	5,489
Postage	44,257	11,380	1,934	57,571	40,860	7,362	1,759	49,981
Telephone	3,055	24,246	2,755	30,056	4,954	24,891	3,088	32,933
Dues and subscriptions	16,808	3,015	-	19,823	13,550	5,922	110	19,582
Convention expenses	18,594	4,194	-	22,788	20,519	3,754	-	24,273
Mission network and co-op	105,010	-	-	105,010	120,997	-	-	120,997
Advertising	7,311	-	-	7,311	659	454	-	1,113
Equipment leases	-	16,125	-	16,125	-	16,728	-	16,728
Fathers and Friends	13,577	-	-	13,577	13,363	-	-	13,363
Hospitality	24,169	8,621	-	32,790	14,782	12,718	-	27,500
Professional services	117,606	424,799	1,839	544,244	95,541	377,895	4,124	477,560
Education	2,541	960	-	3,501	5,471	35	-	5,506
Supplies	17,303	16,470	118	33,891	9,983	21,746	1,456	33,185
Depreciation expense	-	145,421	-	145,421	-	156,364	-	156,364
Medical	44,948	-	-	44,948	48,159	-	-	48,159
Priest supplemental and housing, net	134,749	-	-	134,749	214,941	-	-	214,941
Interest expense	-	147,499	-	147,499	-	142,626	-	142,626
Uncollectible accounts and assessments	38,587	-	-	38,587	59,134	-	-	59,134
Miscellaneous expense	7,093	6,688	2,487	16,268	5,343	10,865	2,949	19,157
Total Expenses	$ 8,427,632	$ 2,822,386	$ 175,189	$ 11,425,207	$ 9,116,663	$ 2,838,875	$ 174,824	$ 12,130,362

The accompanying notes are an integral part of these financial statements.

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in net assets before non-operating items	$ (229,571)	$ (600,946)
Adjustments to Reconcile Change in Net Assets Before Non-Operating Items to Net Cash Provided (Used) by Operating Activities:		
Depreciation	145,421	156,364
Provision for doubtful accounts, assessments and pledges	38,587	59,134
Increase in cash surrender value of life insurance	(27,257)	(675)
Changes in operating assets and liabilities:		
Assessments receivable	90,376	(5,269)
Unconditional promises to give, net	237,672	195,612
Other receivables	(732,894)	(119,486)
Prepaid expenses	16,433	100,200
Accounts and other payables	(345,638)	301,651
Special Sunday collections payable	(90,548)	48,308
Self-insurance liability	(163,755)	52,488
Accrued expenses and withholdings	(53,490)	12,594
Deferred revenue	24,534	(143,986)
Post-retirement benefits obligation	(150,236)	(367,383)
Net Cash Provided (Used) by Operating Activities	(1,240,366)	(311,394)
Cash Flows from Investing Activities:		
Purchases of property and equipment	-	(17,722)
Proceeds from the sale of property and equipment	-	435,283
Sale (Purchase) of investments, net	2,710,302	(633,301)
Transfer of net assets to related parties	(1,306,903)	(413,498)
Transfer of net assets from related parties	90,332	1,040,861
(Issuance) Repayment of notes receivable, net	2,574	3,713
Net Cash Provided (Used) by Investing Activities	1,496,305	415,336
Cash Flows from Financing Activities:		
Proceeds from notes payable	14,275,790	9,655,874
Payments of notes payable	(15,085,715)	(9,364,610)
Payments of capital lease obligations	(43,038)	(38,944)
Net Cash Provided (Used) by Financing Activities	(852,963)	252,320
Net Increase (Decrease) in Cash and Cash Equivalents	(597,024)	356,262
Cash and Cash Equivalents, beginning of year	1,371,428	1,015,166
Cash and Cash Equivalents, end of year	$ 774,404	$ 1,371,428
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 147,499	$ 142,626
Fixed assets purchased by capital lease	$ -	$ 193,127

The accompanying notes are an integral part of these financial statements.

Note A - Summary of Significant Accounting Policies:

Organization - The Catholic Diocese of Lexington (Catholic Diocese) is a nonprofit 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.

Basis of Accounting - The financial statements of the Chancery have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Basis of Presentation - The Chancery reports information regarding its financial position and activities according to the following classes of net assets:

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

Net Assets with Donor Restrictions - represents net assets subject to stipulations imposed by donors. Donor restrictions can be temporary in nature such as designations for a specific campaign or geographical area. Other donor restrictions are perpetual in nature, whereby the donor has stipulated 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.

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 Institutional Funds Act of 2006 (UPMIFA). UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds, was enacted by 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.

Continued

Note A - Summary of Significant Accounting Policies (Continued):

Estimates - The preparation of financial statements 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.

Investments - The Chancery carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values as determined by quoted market prices at year end. Money market funds and related party notes are carried at cost which approximates fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities.

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. The increase in the cash surrender value of the policies was approximately $27,300 at June 30, 2018 ($700 in 2017). Premiums are expensed as incurred. Net premiums expense was approximately $8,000 for the year ended June 30, 2018 ($9,300 in 2017).

Property and Equipment - 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.

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.

Income Taxes - The entity is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code on income from nonprofit related activities; however, the Chancery is liable for federal income tax on profit derived from the sale of advertising in its newspaper and rental of its facilities. As of June 30, 2018, there are no identified uncertain tax positions. With few exceptions, the Chancery is no longer subject to income tax examinations by taxing authorities for fiscal years before 2015.

Statements 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.

Statements of Functional Expenses - The costs of providing the various programs and supporting services have been allocated among the programs and supporting services benefited in the accompanying Statements of Functional Expenses.

Reclassifications - Certain amounts presented for the prior year have been reclassified to conform with the presentation used in the current year. No changes in net assets occurred due to these reclassifications.

Note B - Concentrations of Credit Risk:

The Chancery maintains its cash balances with certain financial institutions located in Lexington, Kentucky. At June 30, 2018, cash balances exceeded federally insured limits by approximately $886,000 ($1,394,000 in 2017). The Chancery considers the risk associated with its excess cash balances to be minimal.

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. Uncollectible accounts and assessments recognized during the year ended June 30, 2018, associated with such receivables less recovery of accounts previously recognized as uncollectible totaled $(14,209) ($59,134 for the year ended June 30, 2017).

Note C - Fair Value of Financial Instruments:

For financial statement reporting purposes, fair value is defined as the price that would be received for 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.

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 assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes 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, 2018 and 2017.

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.

Continued

Note C - Fair Value of Financial Instruments (Continued):

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 their fair values due to their short-term maturity, to being readily converted to a known amount, or 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 using 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 J and M.

Note D - 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, 2018 and 2017, are as follows:

	2018	2017
Receivable in less than one year	$ 32,582	$ 242,105
Receivable in one to five years	32,582	65,165
Receivable thereafter	-	-
Total Unconditional Promises to Give	65,164	307,270
Less discount to net present value	(3,027)	(7,461)
Net Unconditional Promises to Give as of June 30, 2018 and 2017	$ 62,137	$ 299,809

The discount rate used on long-term promises to give was 5%. There were no uncollectible pledges recognized for the years ended June 30, 2018 and 2017. There were no allowances for unconditional promises to give recognized for the years ended June 30, 2018 and 2017.

Note E - Notes Receivable:

The Chancery has, in previous years, advanced funds to its parishes as well as related organizations and individuals for various needs. The notes accrued interest from 0% - 3.75% and were generally issued for five-year terms which could be extended as needed. Interest on the loans was recognized over the term of the loan and was calculated using the simple-interest method on principal amounts outstanding. Related party notes and applicable accrued interest are not considered past due as there is no stated maturity date in most cases.

Notes receivables at June 30, 2018 and 2017, are as follows:

Parish/Related Organization/Individual	Maturity Date	June 30, 2018	June 30, 2017
Priests, Seminarians and Other	Various	$ -	$ 4,074
Less Allowance for Doubtful Accounts		-	(1,500)
Total Notes Receivable, net		$ -	$ 2,574

Note F - 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 investment 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 unrestricted net assets 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.

Investment advisory fees amounted to approximately $48,000 for the year ended June 30, 2018 ($42,000 for 2017).

Level 2 valuations are measured using quoted valuations from insurance companies or cost which approximates fair value. Valuation techniques for these investments were the same for the years ended June 30, 2018 and 2017.

The Chancery's endowment was composed of perpetually restricted funds totaling $1,699,250 for both years June 30, 2018 and 2017.

A reconciliation of invested funds as of June 30, 2018 and 2017, is as follows:

	2018			
	Without Donor Restrictions	With Donor Restrictions Temporary	With Donor Restrictions Perpetual	Total Investments
Investments, July 1, 2017	$ 12,166,332	$ 2,247,045	$ 1,699,250	$ 16,112,627
Increase (decrease) in investments due to:				
Investment income, net of fees	167,419	30,115	-	197,534
Investment appreciation (depreciation) (realized and unrealized)	836,758	110,937	-	947,695
Contributions	-	-	-	-
Withdrawals	(2,907,836)	-	-	(2,907,836)
Interfund transfers, net	454,247	(454,247)	-	-
Investments, June 30, 2018	$ 10,716,920	$ 1,933,850	$ 1,699,250	$ 14,350,020

Continued

Note F - Investments (Continued):

	2017			
	Without Donor	With Donor Restrictions		Total
	Restrictions	Temporary	Perpetual	Investments
Investments, July 1, 2016	$10,295,518	$2,331,765	$1,699,250	$14,326,533
Increase (decrease) in investments due to:				
Investment income, net of fees	174,594	31,894	-	206,488
Investment appreciation (depreciation) (realized and unrealized)	999,024	153,769	-	1,152,793
Contributions	932,813	-	-	932,813
Withdrawals	(506,000)	-	-	(506,000)
Interfund transfers, net	270,383	(270,383)	-	-
Investments, June 30, 2017	$12,166,332	$2,247,045	$1,699,250	$16,112,627

Investments as of June 30, 2018 and 2017, are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	2018		2017	
	Level 1 Inputs	Level 2 Inputs	Level 1 Inputs	Level 2 Inputs
Cash and Cash Equivalents	$ 308,658	$ -	$ 505,160	$ -
Government Securities	5,060,598	-	4,194,167	-
Mutual Funds	650,564	-	1,406,702	-
Corporate Bonds	28,093	-	39,880	-
Deferred Annuity	-	99,876	-	88,105
Catholic Umbrella Pool II	-	236,048	-	257,432
Related Party Notes	-	329,107	-	317,483
Corporate Stocks:				
Industrials	847,356	-	1,108,005	-
Consumer discretionary	1,159,139	-	1,268,927	-
Consumer staples	579,255	-	847,299	-
Energy	514,102	-	491,165	-
Financial	1,263,686	-	1,588,907	-
Materials	287,872	-	391,268	-
Information technology	1,756,300	-	1,830,512	-
Utilities	163,901	-	243,549	-
Healthcare	898,991	-	1,261,801	-
Real estate	105,408	-	165,355	-
Telecommunications	61,066	-	106,910	-
Total Investments	$ 13,684,989	$ 665,031	$ 15,449,607	$ 663,020

As of June 30, 2018 and 2017, no investments were valued using level 3 inputs.

Note G - Property and Equipment:

Property and equipment consisted of the following at June 30, 2018 and 2017.

	2018	2017
Land	$ 200,000	$ 200,000
Buildings and improvements	3,895,765	3,895,765
Furniture and fixtures	26,293	26,293
Automobiles	55,290	55,290
Equipment	257,992	257,992
	4,435,340	4,435,340
Less accumulated depreciation	(2,340,487)	(2,195,066)
Property and Equipment, net	$ 2,094,853	$ 2,240,274

Note H - Retirement and Post-Retirement Benefits:

Lay Employees' 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 year ended June 30, 2018, amounted to $67,238 ($60,660 for the year ended 2017). 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 assessment, 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.

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 benefits other than pensions must be recognized on an accrual basis as the priests perform services to earn benefits.

Continued

Note H - Retirement and Post-Retirement Benefits (Continued):

Details of the priests' retirement and post-retirement benefit obligations are as follows at June 30, 2018 and 2017:

	2018		2017	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Benefit obligation	$ 5,863,091	$ 2,771,057	$ 5,782,258	$ 2,880,123
Fair value of plan assets	(4,187,089)	-	(3,949,166)	-
Funded status (over) under	1,676,002	2,771,057	1,833,092	2,880,123
Unrecognized prior service costs	(147,568)	-	(243,636)	-
Unrecognized net (loss) gain	(1,380,137)	-	(1,327,941)	-
Accrued Benefit Cost	$ 148,297	$ 2,771,057	$ 261,515	$ 2,880,123
Weighted-average assumptions:				
Discount rate	4.25%	5.00%	4.00%	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.

	2018		2017	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Benefit cost	$ 359,374	$ (119,809)	$ 368,475	$ (53,975)
Employer contribution	335,103	159,478	596,711	115,991
Benefits paid	(327,909)	159,478	(325,346)	115,991

The Chancery expects to contribute $259,550 to its pension plan and $0 to its other post-retirement benefits plan in fiscal year 2019.

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

Year(s)	Retirement Benefits	Other Benefits
2019	$ 389,000	$ 165,000
2020	369,000	170,000
2021	368,000	175,000
2022	378,000	180,000
2023	408,000	185,000
2024 - 2028	1,986,000	1,015,000
Total	$ 3,898,000	$ 1,890,000

Continued

Note H - Retirement and Post-Retirement Benefits (Continued):

The weighted average asset allocation of the pension plan by category is as follows:

	Target	2018	2017
Equity	65%	60%	54%
Debt	35%	35%	38%
Real Estate	0%	0%	0%
Other	0%	5%	8%
		100%	100%

The priests' retirement plan's accumulated benefit obligation as of June 30, 2018, was $5,863,091 ($5,782,258 as of June 30, 2017).

Note I - 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 $236,000 as of June 30, 2018 ($257,000 as of June 30, 2017), is held by the insurance carrier and is included in investments in the Statements of Financial Position.

Medical Self-Insurance - Insurance premium rates are computed by the Catholic Diocese based on its claims 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 the insurance reserve balance when determining rates charged to participants. The reserve is represented on the Statements of Financial Position as designated funds of approximately $643,000 ($610,000 as of June 30, 2017). The liability recorded by the Chancery for estimated incurred but not reported and outstanding claims is approximately $275,000 at June 30, 2018 ($550,000 as of June 30, 2017).

Note J - Notes Payable and Long-Term Debt:

Long-term debt consisted of the following at June 30, 2018 and 2017:

	2018	2017
Promissory note payable, secured by real property, principal and interest due in monthly payments of $314 through February 2022, 3.75% interest rate	$ 6,287	$ 10,893
Commercial note payable, secured by real property and other business assets, interest only payments through February 2018, principal and interest due in monthly payments of $21,088 beginning March 2018, final payment due March 2038, 4.00% interest rate	-	3,450,834
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	2,450,000	-
	2,456,287	3,461,727
Less Current Portion	3,352	31,197
Notes Payable - Long Term Portion	$ 2,452,935	$ 3,430,530

The Chancery has an unsecured line of credit with maximum borrowings up to $1,300,000 to fund operating activities. Interest accrues at the bank's designated index rate, not to fall below 3.5%, and is payable monthly. The line of credit expires April 2019 and had an outstanding balance of $778,373 as of June 30, 2018 ($582,859 as of June 30, 2017).

The Chancery also has another unsecured line of credit with maximum borrowings up to $600,000 to fund operating activities. Interest accrues at the bank's designated index rate, not to fall below 3.5%, and is payable monthly. The line of credit expires April 2019. There was no outstanding balance on this line of credit at June 30, 2018 or 2017.

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

Year ending June 30,	Amount
2019	$ 3,352
2020	22,737
2021	121,917
2022	126,953
2023	2,181,328
Thereafter	-
	$ 2,456,287

Note K - Restrictions and Designations on Net Assets:

Council designated net assets consisted of the following at June 30, 2018 and 2017:

	2018	2017
Central Pay	$ (610,447)	$ (492,158)
Health and Life Insurance	643,431	610,458
Pension	-	39,689
Catholic Education	504,598	505,822
Father Beiting Appalachian Mission Center	30,700	33,069
	$ 568,282	$ 696,880

Donor restricted net assets consisted of the following at June 30, 2018 and 2017:

	2018	2017
Temporary:		
Education	$ 50,769	$ 45,251
General	64,576	56,244
Pastoral life programs	304,376	285,246
Mission programs	44,754	37,517
Minorities programs	25,500	26,000
Annual Appeal campaign	-	689,641
Worship	4,084	1,790
Educational programs	294,635	279,385
Father Beiting Appalachian Mission	101,843	47,798
Geary Fund for the Poor	454,061	410,293
Deacon Community Fund	4,324	4,750
Family and youth ministry	3,009	6,428
Vicar General - Hero Book	-	500
Seminary and Vocations	172,511	168,294
Hispanic programs	85,416	78,092
Scholarship	280,140	310,155
Priests	32,657	5,000
Parish assistance	11,195	-
Permanent Diaconate	-	4,184
Total Temporary	$ 1,933,850	$ 2,456,568
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

Note L - 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.

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 .45% of assets held in the trust. As of June 30, 2018, the Chancery recognized revenue of $48,924 related to administration fees for services rendered to the Trust during the fiscal year ($58,733 in 2017).

The Catholic Diocese has guaranteed certain debts for schools and parishes within its boundaries. The management of the Catholic Diocese guarantees the notes based on their judgment that the respective school or parish will be able to meet the proposed obligation. At June 30, 2018, the Catholic Diocese has guaranteed debts of $33,534,564 ($37,853,021 in 2017), as follows:

Parish/School	2018	2017
Father Beiting Applachian Mission Center	$ 685,059	$ 688,284
Good Shepherd	3,033,645	3,458,791
Mary Queen	4,661,577	4,960,789
Pax Christi	406,202	440,374
St. Andrew	59,652	115,234
St. Leo	5,584,010	5,852,377
St. Mark	1,160,983	1,209,811
Lexington Catholic High School	4,189,656	4,314,256
Lexington Catholic High School	319,651	358,147
St. Elizabeth Ann Seton	1,820,269	1,898,014
Cathedral of Christ the King	681,457	928,185
Sts. Peter and Paul School	-	175,000
Sts. Peter and Paul School	-	550,000
Sts. Peter and Paul School	-	500,000
Sts. Peter and Paul School	10,000,000	10,000,000
St. Peter Claver Church	797,551	2,242,154
St. Francis of Assisi Church	134,852	161,605
Total	$ 33,534,564	$ 37,853,021

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 $1,216,571 in 2018 ($305,449 in 2017) 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.

Note L - Related Party Transactions (Continued):

Also, during the year ended June 30, 2017, the Chancery received an equity transfer from the Catholic Diocese of Lexington (CDL) Reserve Fund of $932,812. The transfer represented discretionary investment funds held within the Diocesan Deposit and Loan account.

At June 30, 2018, the total value of the real property of the Catholic Diocese and its related organizations is estimated to be $365,095,000 ($354,128,000 as of June 30, 2017), based on insurance estimates. Liabilities owed by all Diocesan organizations (without elimination of inter-company transactions) are estimated at $63,400,000 as of June 30, 2018 ($67,500,000 in 2017).

Note M - Capital Lease Obligations:

The Chancery leases office equipment under capital leases which expire at various dates through March 2022 and have a combined capitalized cost of $210,325, and accumulated depreciation of $75,684. The obligations under the capital leases 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 lease payments and the present value of future lease payments are as follows:

Year ending June 30,	Amount
2019	$ 40,271
2020	39,492
2021	38,160
2022	13,138
Thereafter	-
	$ 131,061

Note N - Litigation:

The Catholic Diocese of Lexington and other related parties were named in litigation during the year ended June 30, 2017. Any liability incurred as a result of the litigation is 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 litigation will be the obligation of the related parties. Consequently, no liability has been accrued on the Chancery's financial statements as of June 30, 2018 and 2017, as a result of the litigation.

Note O - Bequests:

During 2018, the Catholic Diocese was awarded a bequest of $619,377 to support general operations. This amount was outstanding as of June 30, 2018, and is presented in the accompanying financial statements under Other Receivables. The award has been subsequently paid in full.

During 2017, the Catholic Diocese received a bequest of $354,623 to support the priests' retirement fund. These funds were subsequently transferred to the Priests Retirement Plan to reduce the accrued pension obligation.

Note P - New Accounting Pronouncements:

During the year ended June 30, 2018, the Chancery adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 addresses the complexity and understandability of net asset classifications and enhances the disclosure requirements regarding liquidity and availability of the Chancery's assets. There was no effect on net assets of the Chancery as a result of adoption of this new accounting pronouncement. Certain amounts presented for the prior year have been reclassified to conform to the presentation used in the current year.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which will require all leases to be recognized on the Chancery's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short-term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Chancery would have to recognize: 1) a lease liability for the Chancery's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Chancery's right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, the Chancery will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for the Chancery for the fiscal year ending June 30, 2021, with early adoption permitted. The Chancery is currently evaluating the effect that the new standard will have on its financial statements.

Note Q - Available Resources and Liquidity:

As of June 30, 2018, the Chancery had total net assets without donor restrictions of $10,313,940. Certain net assets included in this balance are long-term assets and liabilities, which are not considered readily available to meet liquidity needs within one year. 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 available for general expenditure within one year as of June 30, 2018, consists of the following:

Cash and cash equivalents	$ 774,404
Less liabilities due within one year	2,533,247
Net cash available for use	(1,758,843)
Accounts and pledges receivable, net	3,981,865
Net assets available for general expenditure within one	$ 2,223,022

Note R - Date of Management's Review:

Subsequent events have been evaluated through December 12, 2018, which is the date the financial statements were available to be issued.