THE CATHOLIC CENTER OF LEXINGTON

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2017 AND 2016

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, 2017 and 2016, and the related statements of activities 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, 2017 and 2016, 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
November 9, 2017

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:								
Cash and cash equivalents	$ 1,371,428	$ -	$ -	$ 1,371,428	$ 1,015,166	$ -	$ -	$ 1,015,166
Receivables:								
Assessments, less allowance for doubtful assessments of $63,691 ($63,691 in 2016)	3,126,104	-	-	3,126,104	3,120,835	-	-	3,120,835
Current portion of unconditional promises to give	32,582	209,523	-	242,105	69,332	307,299	-	376,631
Other	219,248	-	-	219,248	159,765	-	-	159,765
Current portion of long-term notes receivable	2,574	-	-	2,574	2,687	-	-	2,687
Prepaid expenses	74,657	-	-	74,657	174,857	-	-	174,857
Total Current Assets	4,826,593	209,523	-	5,036,116	4,542,642	307,299	-	4,849,941
Property, Plant and Equipment:								
Land, buildings and equipment	4,435,340	-	-	4,435,340	5,060,485	-	-	5,060,485
Less accumulated depreciation	(2,195,066)	-	-	(2,195,066)	(2,405,367)	-	-	(2,405,367)
Net Property, Plant and Equipment	2,240,274	-	-	2,240,274	2,655,118	-	-	2,655,118
Other Assets:								
Unconditional promises to give, less current portion, and valuation allowance of $7,461 ($16,800 in 2016)	57,704	-	-	57,704	118,790	-	-	118,790
Other receivables, less allowance for uncollectible accounts of $697,664 ($639,997 in 2016)	100,000	-	-	100,000	99,131	-	-	99,131
Long-term notes receivable, less current portion and allowance for doubtful accounts of $1,500 ($1,500 in 2016)	-	-	-	-	3,600	-	-	3,600
Investments	12,166,332	2,247,045	1,699,250	16,112,627	10,295,518	2,331,765	1,699,250	14,326,533
Cash value of life insurance	527,439	-	-	527,439	526,764	-	-	526,764
Total Other Assets	12,851,475	2,247,045	1,699,250	16,797,770	11,043,803	2,331,765	1,699,250	15,074,818
Total Assets	$ 19,918,342	$ 2,456,568	$ 1,699,250	$ 24,074,160	$ 18,241,563	$ 2,639,064	$ 1,699,250	$ 22,579,877

Continued

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Liabilities:								
Line of credit payable	$ 582,858	$ -	$ -	$ 582,858	745,768	$ -	$ -	$ 745,768
Current portion of long-term debt	31,197	-	-	31,197	81,087	-	-	81,087
Current portion of capital lease obligations	41,049	-	-	41,049	45,021	-	-	45,021
Accounts payable	471,114	-	-	471,114	169,863	-	-	169,863
Other payables	925	-	-	925	525	-	-	525
Special Sunday collections payable	233,252	-	-	233,252	184,944	-	-	184,944
Self-insurance liability	1,502,533	-	-	1,502,533	1,450,045	-	-	1,450,045
Accrued expenses and withholdings	127,734	-	-	127,734	115,140	-	-	115,140
Deferred revenue	4,590	-	-	4,590	148,576	-	-	148,576
Total Current Liabilities	2,995,252	-	-	2,995,252	2,940,969	-	-	2,940,969
Other Liabilities:								
Long-term debt, less current portion	3,430,530	-	-	3,430,530	2,926,466	-	-	2,926,466
Capital lease obligations, less current portion	133,050	-	-	133,050	28,062	-	-	28,062
Pension and post-retirement benefits	3,231,689	-	-	3,231,689	3,495,243	-	-	3,495,243
Total Other Liabilities	6,795,269	-	-	6,795,269	6,449,771	-	-	6,449,771
Total Liabilities	9,790,521	-	-	9,790,521	9,390,740	-	-	9,390,740
Net Assets:								
Unrestricted:								
Operating	8,394,145	-	-	8,394,145	6,775,125	-	-	6,775,125
Council designated	1,733,676	-	-	1,733,676	2,075,698	-	-	2,075,698
Temporarily restricted	-	2,456,568	-	2,456,568	-	2,639,064	-	2,639,064
Permanently restricted	-	-	1,699,250	1,699,250	-	-	1,699,250	1,699,250
Total Net Assets	10,127,821	2,456,568	1,699,250	14,283,639	8,850,823	2,639,064	1,699,250	13,189,137
Total Liabilities and Net Assets	$ 19,918,342	$ 2,456,568	$ 1,699,250	$ 24,074,160	$ 18,241,563	$ 2,639,064	$ 1,699,250	$ 22,579,877

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, 2017 AND 2016

	2017					2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total
Support, Revenue and Other Additions (Losses):										
Assessments	$ 3,195,844	$ -	$ -	$ -	$ 3,195,844	$ 3,226,176	$ -	$ -	$ -	$ 3,226,176
Gifts and donations	329,067	1,343,616	-	-	1,672,683	363,403	1,036,953	-	-	1,400,356
Program activities	496,235	-	-	-	496,235	494,519	-	-	-	494,519
Grants	-	306,383	-	-	306,383	-	346,870	-	-	346,870
Mission network and co-op	-	252,415	-	-	252,415	-	265,855	-	-	265,855
Fees	152,565	-	-	(8,467)	144,098	148,069	-	-	(8,994)	139,075
Sales of materials and subscriptions	63,569	-	-	-	63,569	65,952	-	-	-	65,952
Fathers and Friends	4,050	-	-	-	4,050	5,300	-	-	-	5,300
Rentals	120,960	-	-	-	120,960	120,960	-	-	-	120,960
Increase in cash value of life insurance	675	-	-	-	675	22,506	-	-	-	22,506
Insurance premiums	5,028,855	-	-	(581,419)	4,447,436	5,125,997	-	-	(616,546)	4,509,451
Investment income	214,517	31,894	-	-	246,411	249,573	27,448	-	-	277,021
Net realized and unrealized gains (losses) on investments	999,024	153,769	-	-	1,152,793	(161,940)	(21,322)	-	-	(183,262)
Interest income	13,778	-	-	-	13,778	37,334	-	-	-	37,334
Gain on disposal of fixed assets	19,121	-	-	-	19,121	-	-	-	-	-
Miscellaneous income	14,916	-	-	-	14,916	29,135	-	-	-	29,135
Net assets released from restrictions	2,270,573	(2,270,573)	-	-	-	1,608,813	(1,608,813)	-	-	-
Total Support, Revenue and Other Additions (Losses)	12,923,749	(182,496)	-	(589,886)	12,151,367	11,335,797	46,991	-	(625,540)	10,757,248
Expenses:										
Assessments	75,586	-	-	-	75,586	67,751	-	-	-	67,751
Subsidies	1,110,609	-	-	-	1,110,609	1,075,950	-	-	-	1,075,950
Donations	153,000	-	-	-	153,000	194,662	-	-	-	194,662
Mission grants and education	210,000	-	-	-	210,000	231,295	-	-	-	231,295
Utilities, rent and household expenses	104,410	-	-	-	104,410	111,816	-	-	-	111,816
Gifts	1,716	-	-	-	1,716	325	-	-	-	325
Salaries	2,177,712	-	-	-	2,177,712	2,250,391	-	-	-	2,250,391
Employee benefits	204,932	-	-	-	204,932	200,819	-	-	-	200,819
Repairs and maintenance	63,969	-	-	-	63,969	108,541	-	-	-	108,541
Travel	81,633	-	-	-	81,633	79,024	-	-	-	79,024
Stationery and printing	5,490	-	-	-	5,490	7,402	-	-	-	7,402
Postage	49,981	-	-	-	49,981	59,966	-	-	-	59,966
Telephone	32,933	-	-	-	32,933	27,013	-	-	-	27,013
Dues and subscriptions	19,582	-	-	-	19,582	21,110	-	-	-	21,110
Convention expenses	24,272	-	-	-	24,272	17,185	-	-	-	17,185
Mission network and co-op	120,997	-	-	-	120,997	101,109	-	-	-	101,109
Program expenses	858,701	-	-	-	858,701	964,151	-	-	-	964,151

Continued

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF ACTIVITIES (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017					2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total
Expenses (Continued):										
Advertising	$ 1,113	$ -	$ -	$ -	$ 1,113	$ 1,100	$ -	$ -	$ -	$ 1,100
Equipment leases	16,728	-	-	-	16,728	22,467	-	-	-	22,467
Fathers and Friends	13,363	-	-	-	13,363	14,687	-	-	-	14,687
Hospitality	27,501	-	-	-	27,501	31,897	-	-	-	31,897
Insurance	1,950,224	-	-	(581,419)	1,368,805	2,293,192	-	-	(616,546)	1,676,646
Lay employees' health insurance claims	3,716,491	-	-	-	3,716,491	3,452,875	-	-	-	3,452,875
Professional services	477,560	-	-	-	477,560	499,336	-	-	-	499,336
Education	5,505	-	-	-	5,505	5,902	-	-	-	5,902
Supplies	33,112	-	-	-	33,112	26,880	-	-	-	26,880
Depreciation expense	156,364	-	-	-	156,364	179,253	-	-	-	179,253
Medical	48,159	-	-	-	48,159	48,813	-	-	-	48,813
Priest retirement expense, net	183,462	-	-	-	183,462	135,183	-	-	-	135,183
Post-retirement benefit costs	88,170	-	-	-	88,170	185,154	-	-	-	185,154
Interest expense	142,626	-	-	-	142,626	174,137	-	-	-	174,137
Uncollectible accounts and assessments	59,134	-	-	-	59,134	93,326	-	-	-	93,326
Miscellaneous expense	59,079	-	-	(8,467)	50,612	77,373	-	-	(8,994)	68,379
Total Expenses	12,274,114	-	-	(589,886)	11,684,228	12,760,085	-	-	(625,540)	12,134,545
Total Change in Net Assets before Other Changes	649,635	(182,496)	-	-	467,139	(1,424,288)	46,991	-	-	(1,377,297)
Other Changes in Net Assets:										
Transfer of equity from CDL Reserve Fund	932,812	-	-	-	932,812	-	-	-	-	-
Transfer of equity to Benedictus Bookstore, net	(121,719)	-	-	-	(121,719)	(163,256)	-	-	-	(163,256)
Transfer of equity to FBAMC	(82,914)	-	-	-	(82,914)	(190,625)	-	-	-	(190,625)
Transfer of equity (to) from Sts. Peter and Paul School, net	(208,865)	-	-	-	(208,865)	175,983	-	-	-	175,983
Transfer of equity (to) from CDLEX Management / Casa San Pio	108,049	-	-	-	108,049	(126,289)	-	-	-	(126,289)
Total Other Changes in Net Assets	627,363	-	-	-	627,363	(304,187)	-	-	-	(304,187)
Change in Net Assets	1,276,998	(182,496)	-	-	1,094,502	(1,728,475)	46,991	-	-	(1,681,484)
Net Assets, beginning of year	8,850,823	2,639,064	1,699,250	-	13,189,137	10,579,298	2,592,073	1,699,250	-	14,870,621
Net Assets, end of year	$ 10,127,821	$ 2,456,568	$ 1,699,250	$ -	$ 14,283,639	$ 8,850,823	$ 2,639,064	$ 1,699,250	$ -	$ 13,189,137

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, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	$ 1,094,502	$ (1,681,484)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation	156,364	179,253
Transfer of net assets to related parties	413,498	480,170
Transfer of net assets from related parties	(1,040,861)	(175,983)
Provision for doubtful accounts, assessments and pledges	59,134	93,326
Realized and unrealized (gains) losses on investments	(1,152,793)	183,262
Gain on disposal of fixed assets	(19,121)	-
Increase in cash surrender value of life insurance	(675)	(22,506)
Changes in operating assets and liabilities:		
Assessments receivable	(5,269)	(474,191)
Unconditional promises to give, net	195,612	24,957
Other receivables	(119,486)	238,346
Prepaid expenses	100,200	22,380
Accounts and other payables	301,651	(39,482)
Special Sunday collections payable	48,308	(23,080)
Self-insurance liability	52,488	106,232
Accrued expenses and withholdings	12,594	1,620
Deferred revenue	(143,986)	144,951
Pension and post-retirement benefits	(263,554)	99,288
Net Cash Provided (Used) by Operating Activities	(311,394)	(842,941)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(17,722)	(18,735)
Proceeds from the sale of property and equipment	435,283	-
Sale (Purchase) of investments, net	(633,301)	1,676,092
Transfer of net assets to related parties	(413,498)	(480,170)
Transfer of net assets from related parties	1,040,861	175,983
(Issuance) Repayment of notes receivable, net	3,713	21,279
Net Cash Provided (Used) by Investing Activities	415,336	1,374,449

Continued

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows from Financing Activities:		
Proceeds from notes payable	$ 9,655,874	$ 4,389,602
Payments of notes payable	(9,364,610)	(4,910,568)
Payments of capital lease obligations	(38,944)	(44,577)
Net Cash Provided (Used) by Financing Activities	252,320	(565,543)
Net Increase (Decrease) in Cash and Cash Equivalents	356,262	(34,035)
Cash and Cash Equivalents, beginning of year	1,015,166	1,049,201
Cash and Cash Equivalents, end of year	$ 1,371,428	$ 1,015,166
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 142,626	$ 174,137
Fixed assets purchased by capital lease	$ 193,127	$ 8,880

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 sixty parishes and missions, one secondary school, fifteen 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.

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.

Basis of Presentation - The Chancery reports information regarding its financial position and activities according to three classes of net assets: Unrestricted, Temporarily Restricted and Permanently Restricted.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations and net assets that have been designated by the Finance Council for specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Chancery pursuant to those stipulations or that expire by the passage of time. Temporarily restricted net assets are released to Unrestricted Net Assets upon the satisfaction of these conditions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Chancery. Generally, the donor of such asset permits the Chancery to use all or part of the income earned on the asset.

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.

Continued

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

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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of any subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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, activities of its bookstore which was sold during the fiscal year, and rental of its facilities. As of June 30, 2017, 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.

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 $700 at June 30, 2017 ($22,500 in 2016). Premiums are expensed as incurred. Net premiums expense was approximately $9,300 for the year ended June 30, 2017 ($9,400 in 2016).

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.

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, 2017, cash balances exceeded federally insured limits by approximately $1,394,000 ($980,000 in 2016). 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 for 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, 2017, associated with such receivables less recovery of accounts previously recognized as uncollectible totaled $59,134 ($93,326 for the year ended June 30, 2016).

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, 2017 and 2016.

Continued

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

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, accounts receivable, prepaid expenses, other assets, accounts payable, 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 respective parishes within the Catholic Diocese. Unconditional promises to give at June 30, 2017 and 2016, are as follows:

	2017	2016
Receivable in less than one year	$ 242,105	$ 376,631
Receivable in one to five years	65,165	135,590
Receivable thereafter	-	-
Total Unconditional Promises to Give	307,270	512,221
Less discount to net present value	(7,461)	(16,800)
Net Unconditional Promises to Give as of June 30, 2017 and 2016	$ 299,809	$ 495,421

The discount rate used on long-term promises to give was 5%. There were no uncollectible pledges recognized for the years ended June 30, 2017 and 2016.

There were no allowances and other adjustments for pledges payable recognized for the years ended June 30, 2017 or 2016.

Note E - Notes Receivable:

The Chancery advances funds to its parishes as well as related organizations and individuals for various needs. The notes bear interest from 0% - 3.75% and are generally issued for five-year terms which can be extended as needed. Interest on the loans is recognized over the term of the loan and is 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, 2017 and 2016, are as follows:

Parish/Related Organization/Individual	Maturity Date	Principal Balance June 30, 2017	Principal Balance June 30, 2016
Priests, Seminarians and Other	Various	$ 4,074	$ 7,787
Less Allowance for Doubtful Accounts		(1,500)	(1,500)
Total Notes Receivable, net		$ 2,574	$ 6,287

Anticipated principal maturities of notes receivable for the next fiscal year and thereafter are as follows:

2018	$ 2,574
Thereafter	-
	$ 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.

Continued

Note F - Investments (Continued):

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.

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, 2017 and 2016.

The Chancery's endowment was composed of permanently restricted funds totaling $1,699,250 at June 30, 2017 ($1,699,250 in 2016).

A reconciliation of invested funds as of June 30, 2017 and 2016, is as follows:

2017

	Unrestricted	Temporarily Restricted	Endowment Permanently Restricted	Total 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	174,595	31,894	-	206,489
Investment appreciation (depreciation) (realized and unrealized)	999,024	153,769	-	1,152,793
Contributions	932,812	-	-	932,812
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

2016

	Unrestricted	Temporarily Restricted	Endowment Permanently Restricted	Total Investments
Investments, July 1, 2015	$ 12,139,031	$ 2,347,606	$ 1,699,250	$ 16,185,887
Increase (decrease) in investments due to:				
Investment income, net of fees	202,460	27,448	-	229,908
Investment appreciation (depreciation) (realized and unrealized)	(161,940)	(21,322)	-	(183,262)
Contributions	-	-	-	-
Withdrawals	(1,906,000)	-	-	(1,906,000)
Interfund transfers, net	21,967	(21,967)	-	-
Investments, June 30, 2016	$ 10,295,518	$ 2,331,765	$ 1,699,250	$ 14,326,533

Continued

Note F - Investments (Continued):

Investments as of June 30, 2017 and 2016, are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	2017		
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and Cash Equivalents	$ 505,160	$ -	$ -
U.S. Government Securities and Mutual Funds	4,194,167	-	-
Mutual Funds (Non - U.S. Government)	1,406,702	-	-
Corporate Bonds	39,880	-	-
Deferred Annuity	-	88,105	-
Catholic Umbrella Pool II	-	257,432	-
Related Party Notes	-	317,483	-
Corporate Stocks:			
Industrials	1,108,005	-	-
Consumer discretionary	1,268,927	-	-
Consumer staples	847,299	-	-
Energy	491,165	-	-
Financial	1,588,907	-	-
Materials	391,268	-	-
Information technology	1,830,512	-	-
Utilities	243,549	-	-
Healthcare	1,261,801	-	-
Real estate	165,355	-	-
Telecommunications services	106,910	-	-
Total Investments	$ 15,449,607	$ 663,020	$ -

	2016		
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash and Cash Equivalents	$ 442,608	$ -	$ -
U.S. Government Securities and Mutual Funds	4,730,217	-	-
Mutual Funds (Non - U.S. Government)	569,490	-	-
Corporate Bonds	9,583	-	-
Deferred Annuity	-	77,048	-
Catholic Umbrella Pool II	-	232,932	-
Related Party Notes	-	71,195	-
Corporate Stocks:			
Industrials	1,194,492	-	-
Consumer discretionary	1,269,720	-	-
Consumer staples	812,793	-	-
Energy	483,160	-	-
Financial	1,128,520	-	-
Materials	344,853	-	-
Information technology	1,334,146	-	-
Utilities	367,797	-	-
Healthcare	1,080,602	-	-
Telecommunications services	177,377	-	-
Total Investments	$ 13,945,358	$ 381,175	$ -

Continued

Note F - Investments (Continued):

Investment advisory fees amounted to approximately $42,000 for the year ended June 30, 2017 ($47,000 for 2016).

Note G - Property and Equipment:

Property and equipment consisted of the following at June 30, 2017 and 2016:

	2017	2016
Land	$ 200,000	$ 200,000
Buildings and improvements	3,895,765	4,453,069
Furniture and fixtures	26,293	26,293
Automobiles	55,290	107,818
Equipment	257,992	273,305
	4,435,340	5,060,485
Less accumulated depreciation	(2,195,066)	(2,405,367)
Property and Equipment, net	$ 2,240,274	$ 2,655,118

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, 2017, amounted to $60,660 ($65,816 for the year ended 2016). 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, 2017 and 2016:

	2017		2016	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Benefit obligation	$ 5,782,258	$ 2,880,123	$ 5,624,983	$ 2,944,840
Fair value of plan assets	(3,949,166)	-	(3,349,192)	-
Funded status (over) under	1,833,092	2,880,123	2,275,791	2,944,840
Unrecognized prior service costs	(243,636)	-	(241,438)	-
Unrecognized net (loss) gain	(1,327,941)	-	(1,522,044)	-
Accrued Benefit Cost	$ 261,515	$ 2,880,123	$ 512,309	$ 2,944,840
Weighted-average assumptions:				
Discount rate	4.00%	5.00%	4.85%	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.

	2017		2016	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Benefit cost	$ 368,475	$ (53,975)	$ 357,308	$ 48,456
Employer contribution	596,711	142,144	297,611	136,698
Benefits paid	(325,346)	142,144	(313,995)	136,698

The Chancery expects to contribute $307,250 to its pension plan and $0 to its other post-retirement benefits plan in fiscal year 2018.

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

Year	Retirement Benefits	Other Benefits
2018	$ 342,000	$ 145,000
2019	357,000	149,000
2020	357,000	153,000
2021	354,000	158,000
2022	376,000	163,000
Years 2023 - 2027	1,995,000	890,000
Total	$ 3,781,000	$ 1,658,000

Continued

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

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

	Target	2017	2016
Equity	65%	54%	56%
Debt	35%	38%	39%
Real Estate	0%	0%	0%
Other	0%	8%	5%
		100%	100%

The priests' retirement plan's accumulated benefit obligation as of June 30, 2017, was $5,782,258 ($5,624,983 as of June 30, 2016).

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 $257,000 as of June 30, 2017 ($233,000 as of June 30, 2016), 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 amounting to approximately $610,000 ($781,000 as of June 30, 2016). The liability recorded by the Chancery for estimated incurred but not reported and outstanding claims is approximately $550,000 at June 30, 2017 ($550,000 as of June 30, 2016).

Note J - Notes Payable and Long-Term Debt:

Long-term debt consisted of the following at June 30, 2017 and 2016:

	2017	2016
Commercial note payable, secured by real property and other business assets, principal and interest due in monthly payments of $18,370, final payment of $2,833,560 due July 2018, 4.75% interest rate	$ -	$ 2,993,363
Promissory note payable, secured by real property, principal and interest due in monthly payments of $314 through February 2022, 3.75% interest rate	10,893	14,190
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	-
	3,461,727	3,007,553
Less Current Portion	31,197	81,087
Note Payable – Long Term Portion	$ 3,430,530	$ 2,926,466

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 2018 and had an outstanding balance of $582,859 as of June 30, 2017 ($245,768 as of June 30, 2016).

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 2018. There was no outstanding balance on this line of credit at June 30, 2017 or 2016.

In addition, the Chancery was obligated on a line of credit with maximum borrowings up to $500,000 to fund operating activities. This line of credit was refinanced into a commercial note in January 2017. Interest accrued at 4.75% and was payable monthly. The line of credit was secured by real property and other business assets. There was no outstanding balance on this line of credit as of June 30, 2017. The balance outstanding on this line of credit was $500,000 at June 30, 2016.

Continued

Note J - Notes Payable and Long-Term Debt (Continued):

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

Year ending June 30,	Amount
2018	$ 31,197
2019	119,270
2020	123,824
2021	126,513
2022	130,873
Thereafter	2,930,050
	$ 3,461,727

Note K - Restrictions on Net Assets:

Council designated net assets consisted of the following at June 30, 2017 and 2016:

	2017	2016
Central Pay	$ (492,158)	$ (301,994)
Health and Life Insurance	610,458	781,424
Pension	39,689	33,957
Seminary	806,899	801,167
Catholic Education	735,719	729,986
Father Beiting Appalachian Mission Center	33,069	31,158
	$ 1,733,676	$ 2,075,698

Continued

Note K - Restrictions on Net Assets (Continued):

Temporarily restricted net assets consisted of the following at June 30, 2017 and 2016:

	2017	2016
Bishop	$ -	$ 43,000
Education	45,251	52,086
General	56,244	11,202
Pastoral life programs	285,246	258,098
Mission programs	37,517	112,140
Minorities programs	26,000	25,000
Annual Appeal campaign	689,641	865,853
Worship	1,790	1,790
Educational programs	279,385	254,481
Father Beiting Appalachian Mission Center	47,798	47,360
Geary Fund for the Poor	410,293	355,355
Deacon Community Fund	4,750	4,750
Deacon formation	-	777
Family and youth ministry	6,428	7,900
Vicar General - Hero Book	500	500
Seminary and Vocations	168,294	167,772
Hispanic programs	78,092	80,332
Crossroads	-	236
Scholarship	310,155	340,170
Priests	5,000	5,178
Religious education	-	900
Permanent Diaconate	4,184	4,184
Total Temporarily Restricted Net Assets	$ 2,456,568	$ 2,639,064

Permanently restricted net assets consisted of the following at June 30, 2017 and 2016:

	2017	2016
Priest programs	$ 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
	$ 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, 2017, the Chancery recognized revenue of $58,733 related to administration fees for services rendered to the Trust during the fiscal year ($61,639 in 2016).

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, 2017, the Catholic Diocese has guaranteed debts of $37,853,021 ($37,684,977 in 2016), as follows:

Parish/School	2017	2016
Father Beiting Applachian Mission Center	$ 688,284	$ 788,798
Good Sheperd	3,458,791	3,898,850
Mary Queen	4,960,789	5,130,473
Mary Queen	-	188,437
Pax Christi	440,374	241,651
St. Andrew	115,234	241,815
St. Leo	5,852,377	6,070,088
St. Mark	-	162,690
St. Mark	1,209,811	1,270,406
Lexington Catholic High School	4,314,256	4,457,789
Lexington Catholic High School	358,147	397,851
St. Elizabeth Ann Seton	1,898,014	1,954,395
Cathedral of Christ the King	928,185	1,131,734
Sts. Peter and Paul School	175,000	175,000
Sts. Peter and Paul School	550,000	550,000
Sts. Peter and Paul School	500,000	500,000
Sts. Peter and Paul School	10,000,000	10,525,000
St. Peter Claver Church	2,242,154	-
St. Francis of Assisi Church	161,605	-
Total	$ 37,853,021	$ 37,684,977

Continued

Note L - Related Party Transactions (Continued):

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 $305,449 in 2017 ($304,187 in 2016) 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 unrestricted net assets.

In addition, 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 Diocese Deposit and Loan account.

At June 30, 2017, the total value of the real property of the Catholic Diocese and its related organizations is estimated to be $354,128,000 ($349,306,000 as of June 30, 2016), based on insurance estimates. Liabilities owed by all Diocesan organizations (without elimination of inter-company transactions) are estimated at $67,500,000 as of June 30, 2017 ($71,500,000 in 2016).

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 $33,853. 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
2018	$ 41,049
2019	40,271
2020	39,492
2021	38,160
2022	15,127
Thereafter	-
	$ 174,099

Note N - Functional Expenses:

Expenses are allocated to certain program services, general functions or fundraising activities based on direct identification. For the year ended June 30, 2017, total expenses consisted of program service expenses of $10,319,307 ($10,795,689 in 2016), general administrative expenses of $1,266,055 ($1,253,149 in 2016), and fundraising expenses of $98,866 ($85,707 in 2016).

Note O - 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, 2017, as a result of the litigation.

Note P - Bequest:

The Catholic Diocese was named as a beneficiary of an estate during the year ended June 30, 2017. Amounts from this bequest were recognized when the funds or property were received. During 2017, the Catholic Diocese received distributions of $354,623 to support the priests' retirement fund.

Note Q - New Accounting Pronouncements:

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.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that will change how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes regarding its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirement on release of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. This ASU will be effective for the Chancery for the fiscal year ending June 30, 2019, with early adoption being permitted. The Chancery is currently evaluating the effects adoption of this guidance will have on its financial statements.

Note R - Date of Management's Review:

Subsequent events have been evaluated through November 9, 2017, which is the date the financial statements were available to be issued.