

THE CATHOLIC CENTER OF LEXINGTON

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2019 AND 2018

THE CATHOLIC CENTER OF LEXINGTON
LEXINGTON, KENTUCKY

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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, 2019 and 2018, 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, 2019 and 2018, 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 7, 2019

THE CATHOLIC CENTER OF LEXINGTON
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets:						
Cash and cash equivalents	\$ 1,225,895	\$ -	\$ 1,225,895	\$ 774,404	\$ -	\$ 774,404
Receivables:						
Assessments, less allowance for doubtful assessments of \$27,770 (\$212,583 in 2018)	3,088,642	-	3,088,642	3,035,728	-	3,035,728
Current portion of unconditional promises to give less allowance for doubtful accounts	32,582	41,215	73,797	32,582	-	32,582
Other	187,957	-	187,957	913,555	-	913,555
Prepaid expenses	68,074	-	68,074	58,224	-	58,224
Total Current Assets	4,603,150	41,215	4,644,365	4,814,493	-	4,814,493
Property, Plant and Equipment:						
Land, buildings and equipment	4,453,866	-	4,453,866	4,435,340	-	4,435,340
Less accumulated depreciation	(2,486,534)	-	(2,486,534)	(2,340,487)	-	(2,340,487)
Net Property, Plant and Equipment	1,967,332	-	1,967,332	2,094,853	-	2,094,853
Other Assets:						
Unconditional promises to give, less current portion, and valuation allowance of \$3,027 in 2018	-	-	-	29,555	-	29,555
Other receivables, less allowance for uncollectible accounts of \$359,080 (\$731,731 in 2018)	226,043	-	226,043	100,000	-	100,000
Investments	10,828,015	4,238,195	15,066,210	10,716,920	3,633,100	14,350,020
Cash value of life insurance	542,906	-	542,906	554,696	-	554,696
Total Other Assets	11,596,964	4,238,195	15,835,159	11,401,171	3,633,100	15,034,271
Total Assets	\$ 18,167,446	\$ 4,279,410	\$ 22,446,856	\$ 18,310,517	\$ 3,633,100	\$ 21,943,617

Continued

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THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities:						
Line of credit payable	\$ -	\$ -	\$ -	778,373	\$ -	\$ 778,373
Current portion of long-term debt	21,850	-	21,850	3,352	-	3,352
Current portion of capital lease obligations	39,492	-	39,492	40,271	-	40,271
Accounts payable	243,901	-	243,901	125,611	-	125,611
Other payables	385	-	385	790	-	790
Special collections payable	152,345	-	152,345	142,704	-	142,704
Self-insurance liability	1,328,502	-	1,328,502	1,338,778	-	1,338,778
Accrued expenses and withholdings	200,037	-	200,037	74,244	-	74,244
Deferred revenue	95,821	-	95,821	29,124	-	29,124
Total Current Liabilities	2,082,333	-	2,082,333	2,533,247	-	2,533,247
Other Liabilities:						
Long-term debt, less current portion	1,981,122	-	1,981,122	2,452,935	-	2,452,935
Capital lease obligations, less current portion	48,982	-	48,982	90,790	-	90,790
Priest's pension obligation	68,773	-	68,773	197,178	-	197,178
Post-retirement benefits obligation	2,795,003	-	2,795,003	2,771,057	-	2,771,057
Total Other Liabilities	4,893,880	-	4,893,880	5,511,960	-	5,511,960
Total Liabilities	6,976,213	-	6,976,213	8,045,207	-	8,045,207
Net Assets:						
Without Donor Restrictions:						
Operating	8,765,069	-	8,765,069	8,633,250	-	8,633,250
Council designated	2,426,164	-	2,426,164	1,632,060	-	1,632,060
With Donor Restrictions:						
Temporary in nature	-	2,580,160	2,580,160	-	1,933,850	1,933,850
Perpetual in nature	-	1,699,250	1,699,250	-	1,699,250	1,699,250
Total Net Assets	11,191,233	4,279,410	15,470,643	10,265,310	3,633,100	13,898,410
Total Liabilities and Net Assets	\$ 18,167,446	\$ 4,279,410	\$ 22,446,856	\$ 18,310,517	\$ 3,633,100	\$ 21,943,617

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, 2019 AND 2018

	2019				2018			
	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
Support, Revenue and Other Additions (Losses):								
Assessments	\$ 3,062,892	\$ -	\$ -	\$ 3,062,892	\$ 3,106,287	\$ -	\$ -	\$ 3,106,287
Recovery of bad debt	-	-	-	-	52,797	-	-	52,797
Insurance premiums	5,315,667	-	(441,364)	4,874,303	5,192,608	-	(492,678)	4,699,930
Program activities	500,118	-	(10,498)	489,620	461,207	-	(8,457)	452,750
Grants	-	249,728	-	249,728	-	462,310	-	462,310
Gifts and donations	762,532	1,799,464	-	2,561,996	689,607	787,530	-	1,477,137
Fathers and Friends	60,717	-	-	60,717	5,600	-	-	5,600
Rentals	186,395	-	-	186,395	151,660	-	-	151,660
Interest income	16,318	-	-	16,318	11,672	-	-	11,672
Miscellaneous income	956	-	-	956	49,567	-	-	49,567
Net assets released from restrictions	1,437,604	(1,437,604)	-	-	1,913,610	(1,913,610)	-	-
Total Support, Revenue and Other Additions (Losses)	11,343,199	611,588	(451,862)	11,502,925	11,634,615	(663,770)	(501,135)	10,469,710
Expenses:								
Program	9,162,367	-	(450,048)	8,712,319	8,698,971	-	(501,135)	8,197,836
General and administrative	2,067,881	-	(1,715)	2,066,166	2,553,784	-	-	2,553,784
Fundraising	128,064	-	(99)	127,965	175,189	-	-	175,189
Total Expenses	11,358,313	-	(451,862)	10,906,451	11,427,944	-	(501,135)	10,926,809
Change in Net Assets before Non-Operating Items	(15,114)	611,588	-	596,474	206,671	(663,770)	-	(457,099)
Non-Operating Items:								
Investment income, net of fees	406,948	34,722	-	441,670	167,419	30,115	-	197,534
Realized and unrealized gains (losses) on investments	336,082	-	-	336,082	836,758	110,937	-	947,695
Increase (decrease) in cash value of life insurance	(11,790)	-	-	(11,790)	27,257	-	-	27,257
Pension benefit obligation gains (losses)	104,459	-	-	104,459	263,454	-	-	263,454
Interest expense	(102,040)	-	-	(102,040)	(147,499)	-	-	(147,499)
Transfer of equity to Benedictus Bookstore, net	208,776	-	-	208,776	34,101	-	-	34,101
Transfer of equity to FBAMC	-	-	-	-	(70,378)	-	-	(70,378)
Transfer of equity to SPPS, net	(708,772)	-	-	(708,772)	(1,236,525)	-	-	(1,236,525)
Transfer of equity from CDLEX Management	707,374	-	-	707,374	56,231	-	-	56,231
Total Non-Operating Items	941,037	34,722	-	975,759	(69,182)	141,052	-	71,870
Change in Net Assets	925,923	646,310	-	1,572,233	137,489	(522,718)	-	(385,229)
Net Assets, beginning of year	10,265,310	3,633,100	-	13,898,410	10,127,821	4,155,818	-	14,283,639
Net Assets, end of year	\$ 11,191,233	\$ 4,279,410	\$ -	\$ 15,470,643	\$ 10,265,310	\$ 3,633,100	\$ -	\$ 13,898,410

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

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018				
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Personnel Costs:								
Salaries, wages and taxes	\$ 1,744,970	\$ 318,764	\$ 30,738	\$ 2,094,472	\$ 1,311,125	\$ 663,470	\$ 42,695	\$ 2,017,290
Employee benefits	224,114	38,263	3,425	265,802	130,877	64,721	7,350	202,948
Total Personnel Costs	1,969,084	357,027	34,163	2,360,274	1,442,002	728,191	50,045	2,220,238
Lay employees' health insurance claims	3,714,593	-	-	3,714,593	3,805,084	-	-	3,805,084
Insurance	403,298	888,660	1,889	1,293,847	675,336	985,062	19,283	1,679,681
Assessments	80,520	-	-	80,520	66,088	-	-	66,088
Grants and subsidies	1,310,126	-	-	1,310,126	1,052,279	-	-	1,052,279
Program expenses	1,007,458	5,493	71,764	1,084,715	1,028,649	3,064	74,087	1,105,800
Donations	866	3,750	-	4,616	69,599	3,983	-	73,582
Utilities, rent and household expenses	20,931	177,757	-	198,688	4,770	86,072	-	90,842
Gifts	1,091	-	-	1,091	700	816	-	1,516
Repairs and maintenance	14,433	474	-	14,907	7,853	68,625	-	76,478
Travel and mileage	33,926	30,252	810	64,988	53,738	15,054	18,770	87,562
Stationery and printing	7,343	675	6,254	14,272	2,275	998	3,871	7,144
Postage	36,134	13,955	1,413	51,502	44,257	11,380	1,934	57,571
Telephone	11,947	24,527	-	36,474	3,055	24,246	2,755	30,056
Dues and subscriptions	23,694	2,113	125	25,932	16,808	3,015	-	19,823
Convention expenses	14,866	1,264	40	16,170	18,594	4,194	-	22,788
Advertising	26,019	-	-	26,019	7,311	-	-	7,311
Equipment leases	143	23,121	-	23,264	-	16,125	-	16,125
Fathers and Friends	-	-	-	-	13,577	-	-	13,577
Hospitality	29,955	6,452	154	36,561	24,169	8,621	-	32,790
Professional services	121,486	502,163	1,362	625,011	117,606	424,799	1,839	544,244
Education	11,391	298	-	11,689	2,541	960	-	3,501
Supplies	999	21,735	5,660	28,394	17,303	16,470	118	33,891
Depreciation expense	151,130	-	-	151,130	-	145,421	-	145,421
Medical	51,914	-	-	51,914	44,948	-	-	44,948
Priest supplemental and housing, net	100,857	-	-	100,857	134,749	-	-	134,749
Uncollectible accounts and assessments	8,133	-	-	8,133	38,587	-	-	38,587
Miscellaneous expense	10,029	8,166	4,431	22,626	7,093	6,688	2,487	16,268
Total Expenses	<u>\$ 9,162,367</u>	<u>\$ 2,067,881</u>	<u>\$ 128,064</u>	<u>\$ 11,358,313</u>	<u>\$ 8,698,971</u>	<u>\$ 2,553,784</u>	<u>\$ 175,189</u>	<u>\$ 11,427,944</u>

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Change in net assets before non-operating items	\$ 596,474	\$ (457,099)
Adjustments to Reconcile Change in Net Assets Before Non-Operating Items to Net Cash Provided (Used) by Operating Activities:		
Depreciation	151,130	145,421
Provision for doubtful accounts, assessments and pledges	8,133	38,587
Changes in operating assets and liabilities:		
Assessments receivable	(52,914)	90,376
Unconditional promises to give, net	(11,660)	237,672
Other receivables	591,422	(732,894)
Prepaid expenses	(9,850)	16,433
Accounts and other payables	117,885	(345,638)
Special Sunday collections payable	9,641	(90,548)
Self-insurance liability	(10,276)	(163,755)
Accrued expenses and withholdings	125,793	(53,490)
Deferred revenue	66,697	24,534
Net Cash Provided (Used) by Operating Activities	<u>1,582,475</u>	<u>(1,290,401)</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(23,609)	-
Sale (Purchase) of investments, net	61,562	2,907,836
Transfer of net assets to related parties	(708,772)	(1,306,903)
Transfer of net assets from related parties	916,150	90,332
(Issuance) Repayment of notes receivable, net	-	2,574
Net Cash Provided (Used) by Investing Activities	<u>245,331</u>	<u>1,693,839</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	-	14,275,790
Payments of notes payable and interest	(1,333,728)	(15,233,214)
Payments of capital lease obligations	(42,587)	(43,038)
Net Cash Provided (Used) by Financing Activities	<u>(1,376,315)</u>	<u>(1,000,462)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	451,491	(597,024)
Cash and Cash Equivalents, beginning of year	<u>774,404</u>	<u>1,371,428</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,225,895</u>	<u>\$ 774,404</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 102,040</u>	<u>\$ 147,499</u>

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

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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.

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 decrease in the cash surrender value of the policies was approximately \$11,800 at June 30, 2019 (\$27,300 increase in 2018). Premiums are expensed as incurred. Net premiums expense was approximately \$9,300 for the year ended June 30, 2019 (\$8,000 in 2018). During the year, the Chancery received \$56,492 in death benefits from one of the policies.

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, 2019, 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 2016.

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.

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note B - Concentrations of Credit Risk:

The Chancery maintains its cash balances with certain financial institutions located in Lexington, Kentucky. At June 30, 2019, cash balances exceeded federally insured limits by approximately \$1,071,000 (\$1,144,000 in 2018). 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 or assessments recognized during the year ended June 30, 2019, associated with such receivables less recovery of accounts previously recognized as uncollectible were \$8,133 (\$14,209 uncollectible accounts recovered for the year ended June 30, 2018).

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, 2019 and 2018.

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 CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 I and L.

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, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 73,797	\$ 32,582
Receivable in one to five years	-	32,582
Receivable thereafter	<u>-</u>	<u>-</u>
Total Unconditional Promises to Give	73,797	65,164
Less discount to net present value	<u>-</u>	<u>(3,027)</u>
Net Unconditional Promises to Give as of June 30, 2019 and 2018	<u>\$ 73,797</u>	<u>\$ 62,137</u>

The discount rate used on long-term promises to give was 5%. There were no uncollectible pledges recognized for the years ended June 30, 2019 and 2018.

Note E - 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

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note E -- Investments (Continued):

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 \$41,000 for the year ended June 30, 2019 (\$48,000 for 2018).

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, 2019 and 2018.

The Chancery's endowment was composed of perpetually restricted funds totaling \$1,699,250 for both years June 30, 2019 and 2018.

A reconciliation of invested funds as of June 30, 2019 and 2018, is as follows:

	<u>2019</u>			<u>Total Investments</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Temporary</u>	<u>Perpetual</u>	
Investments, July 1, 2018	\$ 10,716,920	\$ 1,933,850	\$ 1,699,250	\$ 14,350,020
Increase (decrease) in investments due to:				
Investment income, net of fees	406,948	34,722	-	441,670
Investment appreciation (depreciation) (realized and unrealized)	336,082	-	-	336,082
Contributions	-	2,601,305	-	2,601,305
Withdrawals	(2,662,763)	-	-	(2,662,763)
Interfund transfers, net	<u>2,030,828</u>	<u>(2,030,828)</u>	-	-
Investments, June 30, 2019	<u>\$ 10,828,015</u>	<u>\$ 2,539,049</u>	<u>\$ 1,699,250</u>	<u>\$ 15,066,314</u>

	<u>2018</u>			<u>Total Investments</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Temporary</u>	<u>Perpetual</u>	
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	-	1,025,750	-	1,025,750
Withdrawals	(3,933,586)	-	-	(3,933,586)
Interfund transfers, net	<u>1,479,997</u>	<u>(1,479,997)</u>	-	-
Investments, June 30, 2018	<u>\$ 10,716,920</u>	<u>\$ 1,933,850</u>	<u>\$ 1,699,250</u>	<u>\$ 14,350,020</u>

Continued

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note E – Investments (Continued):

Investments as of June 30, 2019 and 2018, are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>
Cash and Cash Equivalents	\$ 272,803	\$ -	\$ 308,658	\$ -
Government Securities	3,388,124	-	5,060,598	-
Mutual Funds	342,863	-	650,564	-
Corporate Bonds	2,246,695	-	28,093	-
Deferred Annuity	-	98,078	-	99,876
Catholic Umbrella Pool II	-	228,422	-	236,048
Meyaard Tolman & Venlet P.	104	-	-	-
Related Party Notes	-	-	-	329,107
Corporate Stocks:				
Industrials	1,098,031	-	847,356	-
Consumer discretionary	1,079,224	-	1,159,139	-
Consumer staples	575,779	-	579,255	-
Energy	412,304	-	514,102	-
Financial	1,359,879	-	1,263,686	-
Materials	284,996	-	287,872	-
Information technology	1,639,089	-	1,756,300	-
Utilities	293,676	-	163,901	-
Healthcare	957,702	-	898,991	-
Real estate	122,968	-	105,408	-
Telecommunications	665,473	-	61,066	-
Total Investments	<u>\$ 14,739,710</u>	<u>\$ 326,500</u>	<u>\$ 13,684,989</u>	<u>\$ 665,031</u>

As of June 30, 2019 and 2018, no investments were valued using level 3 inputs.

Note F - Property and Equipment:

Property and equipment consisted of the following at June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Land	\$ 200,000	\$ 200,000
Buildings and improvements	3,914,291	3,895,765
Furniture and fixtures	26,293	26,293
Automobiles	55,290	55,290
Equipment	257,992	257,992
	<u>4,453,866</u>	<u>4,435,340</u>
Less accumulated depreciation	<u>(2,486,534)</u>	<u>(2,340,487)</u>
Property and Equipment, net	<u>\$ 1,967,332</u>	<u>\$ 2,094,853</u>

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note G - 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, 2019, amounted to \$60,437 (\$67,238 for the year ended 2018). 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. As of June 30, 2019, there were parish contributions payable to the plan of \$58,437 (\$48,881 in 2018).

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.

Details of the priests' retirement and post-retirement benefit obligations are as follows at June 30, 2019 and 2018:

	<u>2019</u>		<u>2018</u>	
	<u>Retirement</u>	<u>Other</u>	<u>Retirement</u>	<u>Other</u>
	<u>Benefits</u>	<u>Benefits</u>	<u>Benefits</u>	<u>Benefits</u>
Benefit obligation	\$ 6,379,859	\$ 2,795,003	\$ 5,863,091	\$ 2,771,057
Fair value of plan assets	<u>(4,487,523)</u>	<u>-</u>	<u>(4,187,089)</u>	<u>-</u>
Funded status (over) under	1,892,336	2,795,003	1,676,002	2,771,057
Unrecognized prior service costs	(138,887)	-	(147,568)	-
Unrecognized net (loss) gain	<u>(1,743,113)</u>	<u>-</u>	<u>(1,380,137)</u>	<u>-</u>
Accrued Benefit Cost	<u>\$ 10,336</u>	<u>\$ 2,795,003</u>	<u>\$ 148,297</u>	<u>\$ 2,771,057</u>
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.

Continued

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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

	<u>2019</u>		<u>2018</u>	
	<u>Retirement</u> <u>Benefits</u>	<u>Other</u> <u>Benefits</u>	<u>Retirement</u> <u>Benefits</u>	<u>Other</u> <u>Benefits</u>
Benefit cost	\$ 127,800	\$ 23,947	\$ 221,885	\$ (119,809)
Employer contribution	265,761	43,687	335,103	159,478
Benefits paid	(381,659)	43,687	(327,909)	159,478

The Chancery expects to contribute \$278,600 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:

<u>Year(s)</u>	<u>Retirement</u> <u>Benefits</u>	<u>Other</u> <u>Benefits</u>
2020	\$ 366,000	\$ 170,000
2021	364,000	175,000
2022	374,000	180,000
2023	405,000	185,000
2024	409,000	191,000
2025 - 2029	<u>1,947,000</u>	<u>1,045,000</u>
Total	<u>\$ 3,865,000</u>	<u>\$ 1,946,000</u>

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

	<u>Target</u>	<u>2019</u>	<u>2018</u>
Equity	65%	61%	60%
Debt	35%	35%	35%
Real Estate	0%	0%	0%
Other	0%	<u>4%</u>	<u>5%</u>
		<u>100%</u>	<u>100%</u>

The priests' retirement plan's accumulated benefit obligation as of June 30, 2019, was \$6,379,859 (\$5,863,091 as of June 30, 2018).

Note H - 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 \$228,000 as of June 30, 2019 (\$236,000 as of June 30, 2018), is held by the insurance carrier and is included in investments in the Statements of Financial Position.

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THE CATHOLIC CENTER OF LEXINGTON
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019 AND 2018

Note H - Self-Insurance Liability (Continued):

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 \$920,000 (\$643,000 as of June 30, 2018). The liability recorded by the Chancery for estimated incurred but not reported and outstanding claims is approximately \$275,000 at June 30, 2019 (\$275,000 as of June 30, 2018).

Note I - Notes Payable and Long-Term Debt:

Long-term debt consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Promissory note payable, secured by real property, principal and interest due in monthly payments of \$314 through February 2022, 3.75% interest rate	\$ 2,048	\$ 6,287
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	<u>2,000,924</u>	<u>2,450,000</u>
	2,002,972	2,456,287
Less current portion	<u>21,850</u>	<u>3,352</u>
	<u>\$ 1,981,122</u>	<u>\$ 2,452,935</u>

The Chancery had an unsecured line of credit with maximum borrowings up to \$1,300,000 to fund operating activities. Interest accrued at the bank's designated index rate, not to fall below 3.5%, and was payable monthly. The line of credit expired April 2019 and was not renewed.

The Chancery also had another unsecured line of credit with maximum borrowings up to \$600,000 to fund operating activities. Interest accrued at the bank's designated index rate, not to fall below 3.5%, and was payable monthly. The line of credit expired April 2019.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 21,850
2021	121,917
2022	126,953
2023	1,732,252
Thereafter	<u>-</u>
	<u>\$ 1,981,122</u>

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note J - Restrictions and Designations on Net Assets:

Council designated net assets consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Human Resources	\$ 920,306	\$ 32,984
Self-Insurance Pool	1,055,160	1,063,778
Catholic Education	450,598	504,598
Father Beiting Appalachian Mission Center	-	30,700
	<u>\$ 2,426,164</u>	<u>\$1,632,060</u>

Donor restricted net assets consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Temporary:		
Education	\$ 74,869	\$ 50,769
General	46,287	64,576
Pastoral life programs	254,376	304,376
Mission programs	693,682	44,754
Minorities programs	26,000	25,500
Annual Appeal campaign	146,456	-
Worship	3,981	4,084
Educational programs	299,979	294,635
Father Beiting Appalachian Mission	19,499	101,843
Geary Fund for the Poor	465,007	454,061
Deacon Community Fund	6,054	4,324
Family and youth ministry	1,017	3,009
Seminary and Vocations	167,331	172,511
Hispanic programs	94,384	85,416
Scholarship	250,140	280,140
Priests	19,933	32,657
Parish assistance	11,195	11,195
	<u>\$ 2,580,160</u>	<u>\$ 1,933,850</u>

	<u>2019</u>	<u>2018</u>
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
	<u>\$ 1,699,250</u>	<u>\$ 1,699,250</u>

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note K - 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, 2019, the Chancery recognized revenue of \$47,936 related to administration fees for services rendered to the Trust during the fiscal year (\$48,924 in 2018).

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, 2019, the Catholic Diocese has guaranteed debts of \$31,705,432 (\$33,534,564 in 2018), as follows:

<u>Parish/School</u>	<u>2019</u>	<u>2018</u>
Father Beiting Applachian Mission Center	\$ -	\$ 685,059
Good Shepherd	2,901,219	3,033,645
Mary Queen	4,535,975	4,661,577
Pax Christi	368,311	406,202
St. Andrew	5,926	59,652
St. Leo	5,491,000	5,584,010
St. Mark	1,118,480	1,160,983
Lexington Catholic High School	4,038,012	4,189,656
Lexington Catholic High School	279,593	319,651
St. Elizabeth Ann Seton	1,775,047	1,820,269
Cathedral of Christ the King	527,580	681,457
Sts. Peter and Paul School	9,841,545	10,000,000
St. Peter Claver Church	702,594	797,551
St. Francis of Assisi Church	120,150	134,852
Total	<u>\$ 31,705,432</u>	<u>\$ 33,534,564</u>

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 \$708,772 in 2019 (\$1,306,903 in 2018) related to these payments. Should the schools and parishes have sufficient funds in the future, the amounts repaid to the Chancery would be recognized as an increase in net assets without donor restrictions. During the year ended June 30, 2019, the Chancery received \$916,150 to reimburse funds previously transferred (\$90,332 received in 2018).

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THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note K - Related Party Transactions (Continued):

At June 30, 2019, the total value of the real property of the Catholic Diocese and its related organizations is estimated to be \$369,899,000 (\$365,095,000 as of June 30, 2018), based on insurance estimates. Liabilities owed by all Diocesan organizations (without elimination of inter-company transactions) are estimated at \$59,883,000 as of June 30, 2019 (\$63,400,000 in 2018).

Note L - 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 \$117,126. 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:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 39,492
2021	38,160
2022	10,822
Thereafter	-
	<hr style="border-top: 1px solid black;"/>
	\$ 88,474

Note M - 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, 2019 and 2018, as a result of the litigation.

Note N - Bequests:

During 2019, the Catholic Diocese was awarded a bequest of \$732,251 to support Appalachian ministries. As of June 30, 2019, the balance of funds to be expended was \$682,251.

During 2018, the Catholic Diocese received 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 was subsequently paid in full during July 2018.

Note O - 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

THE CATHOLIC CENTER OF LEXINGTON
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019 AND 2018

Note O - New Accounting Pronouncements (Continued):

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 P - Available Resources and Liquidity:

As of June 30, 2019, the Chancery had total net assets without donor restrictions of \$11,213,553. 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, 2019, consists of the following:

Cash and cash equivalents	\$ 1,225,895
Less liabilities due within one year	<u>1,964,088</u>
Net cash available for use	(738,193)
Accounts and pledges receivable, net	<u>3,309,181</u>
Net assets available for general expenditure within one year	<u>\$ 2,570,988</u>

Note Q - Date of Management's Review:

Subsequent events have been evaluated through November 7, 2019, which is the date the financial statements were available to be issued.