

THE CATHOLIC CENTER OF LEXINGTON

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2020 AND 2019

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, 2020 and 2019, 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, 2020 and 2019, 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 12, 2020

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Current Assets:				
Cash and cash equivalents	\$ 1,528,731	\$ -	\$ 1,528,731	\$ 1,225,895
Receivables:				
Assessments, less allowance for doubtful assessments of \$21,953 (\$27,770 in 2019)	3,013,591	-	3,013,591	3,088,642
Current portion of unconditional promises to give less allowance for doubtful accounts	-	63,306	63,306	41,215
Other	138,099	-	138,099	73,797
Prepaid pension costs	224,960	-	224,960	187,957
Prepaid expenses	72,886	-	72,886	-
Total Current Assets	4,978,267	63,306	5,041,573	4,644,365
Property, Plant and Equipment:				
Land, buildings and equipment	4,464,461	-	4,464,461	4,453,866
Less accumulated depreciation	(2,629,422)	-	(2,629,422)	(2,486,534)
Net Property, Plant and Equipment	1,835,039	-	1,835,039	1,967,332
Other Assets:				
Other receivables, less allowance for uncollectible accounts of \$268,879 (\$359,080 in 2019)	6,238,050	-	6,238,050	226,043
Investments	11,242,443	4,133,347	15,375,790	15,066,210
Cash value of life insurance	561,746	-	561,746	542,906
Total Other Assets	18,042,239	4,133,347	22,175,586	15,835,159
Total Assets	\$ 24,855,545	\$ 4,196,653	\$ 29,052,198	\$ 22,446,856

THE CATHOLIC CENTER OF LEXINGTON
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2020 AND 2019

	2020		2019		
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities:					
Current portion of long-term debt	\$ 140,998	\$ -	\$ 21,850	\$ -	\$ 21,850
Current portion of capital lease obligations	38,160	-	39,492	-	39,492
Accounts payable	851,124	-	243,901	-	243,901
Other payables	450	450	385	-	385
Special collections payable	106,775	-	152,345	-	152,345
Self-insurance liability	935,994	-	1,328,502	-	1,328,502
Accrued expenses and withholdings	226,954	-	200,037	-	200,037
Deferred revenue	123,832	-	95,821	-	95,821
Total Current Liabilities	2,424,287	-	2,082,333	-	2,082,333
Other Liabilities:					
Long-term debt, less current portion	8,516,393	-	1,981,122	-	1,981,122
Capital lease obligations, less current portion	15,127	-	48,982	-	48,982
Priest's pension obligation	96,356	-	68,773	-	68,773
Post-retirement benefits obligation	2,777,076	-	2,795,003	-	2,795,003
Total Other Liabilities	11,404,952	-	4,893,880	-	4,893,880
Total Liabilities	13,829,239	-	6,976,213	-	6,976,213
Net Assets:					
Without Donor Restrictions:					
Operating	9,846,035	-	9,820,329	-	9,820,329
Council designated	1,180,271	-	1,370,904	-	1,370,904
With Donor Restrictions:					
Temporary in nature	-	2,497,403	-	2,580,160	2,580,160
Perpetual in nature	-	1,699,250	-	1,699,250	1,699,250
Total Net Assets	11,026,306	4,196,653	11,191,233	4,279,410	15,470,643
Total Liabilities and Net Assets	\$ 24,855,545	\$ 4,196,653	\$ 18,167,446	\$ 4,279,410	\$ 22,446,856

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, 2020 AND 2019

	2020				2019			
	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total	Without Donor Restrictions	With Donor Restrictions	Eliminations	Total
Support, Revenue and Other Additions (Losses):								
Assessments	\$ 3,016,938	\$ -	\$ -	\$ 3,016,938	\$ 3,062,892	\$ -	\$ -	\$ 3,062,892
Insurance premiums	5,293,531	-	(482,297)	4,811,234	5,315,667	-	(441,364)	4,874,303
Program activities	586,597	-	(9,273)	577,324	500,118	-	(10,498)	489,620
Grants	-	450,300	-	450,300	-	249,728	-	249,728
Gifts and donations	64,537	1,588,986	-	1,653,523	762,532	1,799,464	-	2,561,996
Insurance proceeds	2,014	-	-	2,014	60,717	-	-	60,717
Rentals	119,010	-	-	119,010	186,395	-	-	186,395
Interest income	10,976	-	-	10,976	16,318	-	-	16,318
Miscellaneous income	237	-	-	237	956	-	-	956
Net assets released from restrictions	2,146,797	(2,146,797)	-	-	1,437,604	(1,437,604)	-	-
Total Support, Revenue and Other Additions (Losses)	11,240,637	(107,511)	(491,570)	10,641,556	11,343,199	611,588	(451,862)	11,502,925
Expenses:								
Program	9,862,730	-	(489,596)	9,373,134	9,162,367	-	(450,048)	8,712,319
General and administrative	1,823,045	-	(1,866)	1,821,179	2,067,881	-	(1,715)	2,066,166
Fundraising	377,601	-	(108)	377,493	128,064	-	(99)	127,965
Total Expenses	12,063,376	-	(491,570)	11,571,806	11,358,313	-	(451,862)	10,906,451
Change in Net Assets before Non-Operating Items	(822,739)	(107,511)	-	(930,250)	(15,114)	611,588	-	596,474
Non-Operating Items:								
Investment income, net of fees	337,627	24,754	-	362,381	406,948	34,722	-	441,670
Realized and unrealized gains (losses) on investments	1,033,472	-	-	1,033,472	336,082	-	-	336,082
Increase (decrease) in cash value of life insurance	20,887	-	-	20,887	(11,790)	-	-	(11,790)
Pension benefit obligation gains (losses)	253,223	-	-	253,223	104,459	-	-	104,459
Interest expense	(82,305)	-	-	(82,305)	(102,040)	-	-	(102,040)
Transfer of equity from Benedictus Bookstore, net	-	-	-	-	208,776	-	-	208,776
Transfer of equity to SPFS, net	(689,990)	-	-	(689,990)	(708,772)	-	-	(708,772)
Transfer of equity from CDLEX Management	-	-	-	-	707,374	-	-	707,374
Transfer of equity to CDL Reserve	(215,102)	-	-	(215,102)	-	-	-	-
Total Non-Operating Items	657,812	24,754	-	682,566	941,037	34,722	-	975,759
Change in Net Assets	(164,927)	(82,757)	-	(247,684)	925,923	646,310	-	1,572,233
Net Assets, beginning of year	11,191,233	4,279,410	-	15,470,643	10,265,310	3,633,100	-	13,898,410
Net Assets, end of year	\$ 11,026,306	\$ 4,196,653	\$ -	\$ 15,222,959	\$ 11,191,233	\$ 4,279,410	\$ -	\$ 15,470,643

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, 2020 AND 2019

	2020				2019			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Personnel Costs:								
Salaries, wages and taxes	\$ 1,998,604	\$ 169,948	\$ 148,804	\$ 2,317,356	\$ 1,744,970	\$ 318,764	\$ 30,738	\$ 2,094,472
Employee benefits	243,598	16,768	14,150	274,516	224,114	38,263	3,425	265,802
Total Personnel Costs	2,242,202	186,716	162,954	2,591,872	1,969,084	357,027	34,163	2,360,274
Lay employees' health insurance claims	3,896,006	-	-	3,896,006	3,714,593	-	-	3,714,593
Insurance	583,248	1,305,122	11,826	1,900,196	403,298	888,660	1,889	1,293,847
Assessments	66,486	-	-	66,486	80,520	-	-	80,520
Grants and subsidies	1,215,516	-	7,850	1,223,366	1,310,126	-	-	1,310,126
Program expenses	715,844	5,202	136,985	858,031	1,007,458	5,493	71,764	1,084,715
Donations	826	-	-	826	866	3,750	-	4,616
Utilities, rent and household expenses	153,358	33,720	-	187,078	20,931	177,757	-	198,688
Gifts	1,425	-	-	1,425	1,091	-	-	1,091
Repairs and maintenance	11,836	-	-	11,836	14,433	474	-	14,907
Travel and mileage	78,880	459	4,526	83,865	33,926	30,252	810	64,988
Stationery and printing	11,098	223	11,435	22,756	7,343	675	6,254	14,272
Postage	48,150	-	5,151	53,301	36,134	13,955	1,413	51,502
Telephone	42,323	378	-	42,701	11,947	24,527	-	36,474
Dues and subscriptions	19,795	1,010	228	21,033	23,694	2,113	125	25,932
Convention expenses	12,267	-	1,630	13,897	14,866	1,264	40	16,170
Advertising	23,576	-	10,623	34,199	26,019	-	-	26,019
Equipment leases	7,231	23,697	-	30,928	143	23,121	-	23,264
Hospitality	16,669	609	-	17,278	29,955	6,452	154	36,561
Professional services	301,994	258,461	19,127	579,582	121,486	502,163	1,362	625,011
Education	7,964	1,300	97	9,361	11,391	298	-	11,689
Supplies	18,223	1,904	671	20,798	999	21,735	5,660	28,394
Depreciation expense	142,888	-	-	142,888	151,130	-	-	151,130
Medical	165,480	-	-	165,480	51,914	-	-	51,914
Priest supplemental and housing, net	66,944	-	-	66,944	100,857	-	-	100,857
Uncollectible accounts and assessments	-	-	-	-	8,133	-	-	8,133
Miscellaneous expense	12,501	4,244	4,498	21,243	10,029	8,166	4,431	22,626
Total Expenses	\$ 9,862,730	\$ 1,823,045	\$ 377,601	\$ 12,063,376	\$ 9,162,367	\$ 2,067,881	\$ 128,064	\$ 11,358,313

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Change in net assets before non-operating items	\$ (930,250)	\$ 596,474
Adjustments to Reconcile Change in Net Assets Before Non-Operating Items to Net Cash Provided (Used) by Operating Activities:		
Depreciation	142,888	151,130
Provision for doubtful accounts, assessments and pledges	-	8,133
Changes in operating assets and liabilities:		
Assessments receivable	75,051	(52,914)
Unconditional promises to give, net	10,491	(11,660)
Other receivables	168,141	591,422
Prepaid expenses	(229,772)	(9,850)
Accounts and other payables	607,288	117,885
Special Sunday collections payable	(45,570)	9,641
Self-insurance liability	(392,508)	(10,276)
Accrued expenses and withholdings	289,796	125,793
Deferred revenue	28,011	66,697
Net Cash Provided (Used) by Operating Activities	<u>(276,434)</u>	<u>1,582,475</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(10,595)	(23,609)
Sale (Purchase) of investments, net	1,088,320	61,562
Transfer of net assets to related parties	(905,092)	(708,772)
Transfer of net assets from related parties	-	916,150
Net Cash Provided (Used) by Investing Activities	<u>172,633</u>	<u>245,331</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	548,836	-
Payments of notes payable and interest	(107,012)	(1,333,728)
Payments of capital lease obligations	(35,187)	(42,587)
Net Cash Provided (Used) by Financing Activities	<u>406,637</u>	<u>(1,376,315)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	302,836	451,491
Cash and Cash Equivalents, beginning of year	<u>1,225,895</u>	<u>774,404</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,528,731</u>	<u>\$ 1,225,895</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 82,305</u>	<u>\$ 102,040</u>

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

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020 AND 2019

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

Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash Surrender Value of Life Insurance - The Chancery is the beneficiary of various life insurance policies obtained for certain member priests. Annual increases in the cash surrender value of the respective policies are recognized as revenue in the accompanying Statements of Activities. The cumulative value of the policies is recorded as an asset in the Statements of Financial Position and is valued using Level 2 inputs. The increase in the cash surrender value of the policies was approximately \$18,900 at June 30, 2020 (\$11,800 decrease in 2019). Premiums are expensed as incurred. Net premiums expense was approximately \$12,300 for the year ended June 30, 2020 (\$9,300 in 2019).

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, 2020, 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 2017.

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, 2020 AND 2019

Note B - Concentrations of Credit Risk:

The Chancery maintains its cash balances with certain financial institutions located in Lexington, Kentucky. At June 30, 2020, cash balances exceeded federally insured limits by approximately \$922,000 (\$491,000 in 2019). 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. There were no uncollectible accounts or assessments recognized during the year ended June 30, 2020, associated with such receivables less recovery of accounts previously recognized as uncollectible (\$8,133 uncollectible accounts recovered for the year ended June 30, 2019).

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, 2020 and 2019.

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, 2020 AND 2019

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, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 63,306	\$ 73,797
Receivable in one to five years	-	-
Receivable thereafter	-	-
	63,306	73,797
Total Unconditional Promises to Give	63,306	73,797
Less allowance for unconditional promises to give	-	-
Less discount to net present value	-	-
	-	-
Net Unconditional Promises to Give as of June 30, 2020 and 2019	\$ 63,306	\$ 73,797

The discount rate used on long-term promises to give was 5%. There were no uncollectible pledges recognized for the years ended June 30, 2020 and 2019.

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 CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note E - 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 net assets without donor restrictions for support of various programs within the Catholic Diocese. Over the long term, the Chancery does expect its current spending policy to allow its endowment assets to grow beyond the original endowment contribution.

Investment advisory fees amounted to approximately \$43,000 for the year ended June 30, 2020 (\$41,000 for 2019).

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, 2020 and 2019.

The Chancery's endowment was composed of perpetually restricted funds totaling \$1,699,250 for both years ended June 30, 2020 and 2019.

A reconciliation of invested funds as of June 30, 2020 and 2019, is as follows:

2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total Investments</u>
		<u>Temporary</u>	<u>Perpetual</u>	
Investments, July 1, 2019	\$ 10,828,015	\$ 2,539,049	\$ 1,699,250	\$ 15,066,314
Increase (decrease) in investments due to:				
Investment income, net of fees	337,627	24,754	-	362,381
Investment appreciation (depreciation) (realized and unrealized)	1,033,472	-	-	1,033,472
Contributions	-	1,922,090	-	1,922,090
Withdrawals	(3,008,467)	-	-	(3,008,467)
Interfund transfers, net	2,051,796	(2,051,796)	-	-
Investments, June 30, 2020	<u>\$ 11,242,443</u>	<u>\$ 2,434,097</u>	<u>\$ 1,699,250</u>	<u>\$ 15,375,790</u>

2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total Investments</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	-	2,601,201	-	2,601,201
Withdrawals	(2,662,763)	-	-	(2,662,763)
Interfund transfers, net	2,030,828	(2,030,828)	-	-
Investments, June 30, 2019	<u>\$ 10,828,015</u>	<u>\$ 2,538,945</u>	<u>\$ 1,699,250</u>	<u>\$ 15,066,210</u>

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THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note E - Investments (Continued):

Investments as of June 30, 2020 and 2019, are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	<u>2020</u>		<u>2019</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	\$ 1,925,413	\$ -	\$ 272,803	\$ -
Government Securities	5,155,303	-	3,388,124	-
Mutual Funds	701,713	-	342,863	-
Corporate Bonds	-	-	2,246,695	-
Deferred Annuity	-	114,437	-	98,078
Catholic Umbrella Pool II	-	216,633	-	228,422
Minority Partnership Interest	-	-	-	104
Corporate Stocks:				
Industrials	834,390	-	1,098,031	-
Consumer discretionary	1,081,300	-	1,079,224	-
Consumer staples	310,359	-	575,779	-
Energy	110,145	-	412,304	-
Financial	884,069	-	1,359,879	-
Materials	284,406	-	284,996	-
Information technology	2,270,101	-	1,639,089	-
Utilities	82,039	-	293,676	-
Healthcare	543,181	-	957,702	-
Real estate	208,543	-	122,968	-
Telecommunications	653,758	-	665,473	-
Total Investments	<u>\$ 15,044,720</u>	<u>\$ 331,070</u>	<u>\$ 14,739,606</u>	<u>\$ 326,604</u>

As of June 30, 2020, and 2019, no investments were valued using level 3 inputs.

Note F - Property and Equipment:

Property and equipment consisted of the following at June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Land	\$ 200,000	\$ 200,000
Buildings and improvements	3,924,886	3,914,291
Furniture and fixtures	26,293	26,293
Automobiles	55,290	55,290
Equipment	257,992	257,992
	<u>4,464,461</u>	<u>4,453,866</u>
Less accumulated depreciation	<u>(2,629,422)</u>	<u>(2,486,534)</u>
Property and Equipment, net	<u>\$ 1,835,039</u>	<u>\$ 1,967,332</u>

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020, amounted to \$65,799 (\$60,437 for the year ended 2019). 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, 2020, there were parish contributions payable to the plan of \$96,356 (\$58,437 in 2019).

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, 2020 and 2019:

	<u>2020</u>		<u>2019</u>	
	<u>Retirement Benefits</u>	<u>Other Benefits</u>	<u>Retirement Benefits</u>	<u>Other Benefits</u>
Benefit obligation	\$ 7,016,997	\$ 2,777,076	\$ 6,379,859	\$ 2,795,003
Fair value of plan assets	<u>(4,617,103)</u>	<u>-</u>	<u>(4,487,523)</u>	<u>-</u>
Funded status (over) under	2,399,894	2,777,076	1,892,336	2,795,003
Unrecognized prior service costs	(130,206)	-	(138,887)	-
Unrecognized net (loss) gain	<u>(2,494,648)</u>	<u>-</u>	<u>(1,743,113)</u>	<u>-</u>
Accrued (Prepaid) Benefit Cost	<u>\$ (224,960)</u>	<u>\$ 2,777,076</u>	<u>\$ 10,336</u>	<u>\$ 2,795,003</u>
Weighted-average assumptions:				
Discount rate	3.50%	5.00%	4.25%	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.

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

	<u>2020</u>		<u>2019</u>	
	<u>Retirement Benefits</u>	<u>Other Benefits</u>	<u>Retirement Benefits</u>	<u>Other Benefits</u>
Benefit cost	\$ 130,623	\$ (17,927)	\$ 127,800	\$ 23,947
Employer contribution	365,919	37,414	265,761	43,687
Benefits paid	(366,881)	37,414	(381,659)	43,687

The Chancery expects to contribute \$300,000 to its pension plan and \$0 to its other post-retirement benefits plan in fiscal year 2021.

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

<u>Year(s)</u>	<u>Retirement Benefits</u>	<u>Other Benefits</u>
2021	\$ 363,000	\$ 175,000
2022	362,000	180,000
2023	392,000	185,000
2024	396,000	191,000
2025	394,000	197,000
2026 - 2030	<u>1,839,000</u>	<u>1,076,000</u>
Total	<u>\$ 3,746,000</u>	<u>\$ 2,004,000</u>

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

	<u>Target</u>	<u>2020</u>	<u>2019</u>
Equity	65%	65%	61%
Debt	35%	35%	35%
Real Estate	0%	0%	0%
Other	0%	<u>0%</u>	<u>4%</u>
		<u>100%</u>	<u>100%</u>

The priests' retirement plan's accumulated benefit obligation as of June 30, 2020, was \$7,016,997 (\$6,379,859 as of June 30, 2019).

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 \$217,000 as of June 30, 2020 (\$228,000 as of June 30, 2019), 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, 2020 AND 2019

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 \$780,000 (\$920,000 as of June 30, 2019). There is no liability recorded by the Chancery for estimated incurred but not reported and outstanding claims at June 30, 2020 (\$275,000 as of June 30, 2019).

Note I - Notes Payable and Long-Term Debt:

Long-term debt consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Promissory note payable, secured by real property, principal and interest due in monthly payments of \$314 through February 2022, 3.75% interest rate	\$ 226	\$ 2,048
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	1,978,039	2,000,924
Loan payable from the Paycheck Protection Program, unsecured, principal and interest due in monthly payments of \$375,881 beginning November 2020, final payment due April 2022, 1.00% interest rate ⁽¹⁾	<u>6,679,126</u>	<u>-</u>
	8,657,391	2,002,972
Less current portion	<u>140,998</u>	<u>21,850</u>
	<u>\$ 8,516,393</u>	<u>\$ 1,981,122</u>

⁽¹⁾ Loan terms provide that the loan may be forgiven if the Diocese uses the loan proceeds for qualifying expenses such as payroll, rent and utilities within a specified time and submits an application for loan forgiveness with the lender. The Diocese anticipates this loan will be forgiven in 2021.

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 and was not renewed.

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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

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

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 140,998
2022	3,863,053
2023	4,653,340
Thereafter	<u>-</u>
	<u>\$ 8,657,391</u>

Note J - Restrictions and Designations on Net Assets:

Council designated net assets consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Human Resources	\$ 779,164	\$ 920,306
Catholic Education	<u>401,107</u>	<u>450,598</u>
	<u>\$ 1,180,271</u>	<u>\$ 1,370,904</u>

Donor restricted net assets consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Temporary:		
Education	\$ 68,998	\$ 74,869
General	-	46,287
Pastoral life programs	242,430	254,376
Mission programs	702,702	693,682
Minorities programs	18,000	26,000
Annual Appeal campaign	144,298	146,456
Worship	-	3,981
Educational programs	301,612	299,979
Father Beiting Appalachian Mission	34,066	19,499
Geary Fund for the Poor	467,718	465,007
Deacon Community Fund	-	6,054
Family and youth ministry	-	1,017
Seminary and Vocations	164,457	167,331
Hispanic programs	85,042	94,384
Scholarship	220,140	250,140
Priests	6,197	19,933
Parish assistance	-	11,195
Latin American Sisters Program	35,589	-
Permanent Diaconate	<u>6,154</u>	<u>-</u>
Total Temporary	<u>\$ 2,497,403</u>	<u>\$ 2,580,160</u>

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note J - Restrictions and Designations on Net Assets: (Continued)

	<u>2020</u>	<u>2019</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	<u>1,000,000</u>	<u>1,000,000</u>
Total Perpetual	<u>\$ 1,699,250</u>	<u>\$ 1,699,250</u>

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, 2020, the Chancery recognized revenue of \$54,145 related to administration fees for services rendered to the Trust during the fiscal year (\$47,936 in 2019).

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, 2020, the Catholic Diocese has guaranteed debts of \$29,763,002 (\$31,705,432 in 2019), as follows:

<u>Parish/School</u>	<u>2020</u>	<u>2019</u>
Good Shepherd	\$ 2,702,904	\$ 2,901,219
Mary Queen	4,422,189	4,535,975
Pax Christi	-	368,311
St. Andrew	287,056	5,926
St. Leo	5,304,798	5,491,000
St. Mark	1,017,724	1,118,480
Lexington Catholic High School	3,894,443	4,038,012
Lexington Catholic High School	237,825	279,593
St. Elizabeth Ann Seton	1,734,199	1,775,047
Cathedral of Christ the King	368,827	527,580
Sts. Peter and Paul School	9,515,582	9,841,545
St. Peter Claver Church	-	702,594
St. Francis of Assisi Church	96,979	120,150
St. Paul	<u>180,476</u>	<u>210,696</u>
Total	<u>\$ 29,763,002</u>	<u>\$ 31,916,128</u>

Continued

THE CATHOLIC CENTER OF LEXINGTON
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020 AND 2019

Note K - 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 \$905,092 in 2020 (\$708,772 in 2019) 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.

At June 30, 2020, the total value of the real property of the Catholic Diocese and its related organizations is estimated to be \$370,642,400 (\$369,899,000 as of June 30, 2019), based on insurance estimates. Liabilities owed by all Diocesan organizations (without elimination of inter-company transactions) are estimated at \$64,371,000 as of June 30, 2020 (\$59,883,000 in 2019).

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 \$201,372, and accumulated depreciation of \$148,447. 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>
2021	\$ 38,160
2022	15,127
Thereafter	-
	<u>\$ 53,287</u>

Note M - Litigation:

The Catholic Diocese of Lexington and other related parties are named in four ongoing litigations. Any liabilities incurred as a result of the litigations are expected to be fully covered by an insurance policy maintained by the Diocese once the deductible of \$25,000 has been met. Legal fees related to the litigations will be the obligation of the related parties. Consequently, no liability has been accrued on the Chancery's financial statements as of June 30, 2020 and 2019, as a result of the litigations.

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. All funds were expended during the year ended June 30, 2020.

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note O - Annual Appeal:

Each year, the Diocese conducts an Annual Appeal to help support parishes, schools, and other ministries that apply for funding through the Mission and Ministry program. The Annual Appeal also provides supplemental funding for multiple programs including priest retirement and seminarian education. Annual Appeal gross revenues of \$1,054,123 for the year ended June 30, 2020, (\$1,127,746 for the year ended 2019), are included in gifts and donations on the Statements of Activities.

Note P - 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, 2022, with early adoption permitted. The Chancery is currently evaluating the effect that the new standard will have on its financial statements.

Note Q - Available Resources and Liquidity:

As of June 30, 2020, the Chancery had total net assets without donor restrictions of \$11,026,306. 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, 2020, consists of the following:

Cash and cash equivalents	\$1,528,731
Less liabilities due within one year	<u>2,424,287</u>
Net cash available for use	(895,556)
Accounts and pledges receivable, net	<u>3,151,690</u>
Net assets available for general expenditure within	<u><u>\$2,256,134</u></u>

THE CATHOLIC CENTER OF LEXINGTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note R - Subsequent Events and Date of Management's Review:

Management is currently evaluating the effects of the recent COVID-19 outbreak which has severely impacted the economy as well as the Chancery's operations. Forced closures, limited fundraising activities, reduction in on-site personnel, technological changes, and costly measures to prevent the spread of the virus when normal operations resume have all reduced the Chancery's available resources. While it is reasonably possible that the virus could have a negative effect on the fair value of the Chancery's investments and results of operations, the specific monetary impact is not readily determinable as of the date of these financial statements. Consequently, the accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Subsequent events have been evaluated through November 12, 2020, which is the date the financial statements were available to be issued.