THE CATHOLIC CENTER OF LEXINGTON

FINANCIAL REPORT

JUNE 30, 2023

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of The Catholic Center of Lexington (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Catholic Center of Lexington and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Catholic Center of Lexington's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Catholic Center of Lexington's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Catholic Center of Lexington's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
December 1, 2023

THE CATHOLIC CENTER OF LEXINGTON

STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,233,397	$ 1,571,874
Receivables		
Assessments, net	3,250,276	3,193,220
Unconditional promises to give, net	497,568	889,702
Other	389,697	158,442
Prepaid pension costs	1,309,002	1,022,981
Prepaid expenses	40,736	30,272
Total current assets	8,720,676	6,866,491
PROPERTY AND EQUIPMENT, NET	1,911,623	2,066,891
OTHER ASSETS		
Unconditional promises to give, net	522,905	677,818
Other receivables, net	20,512	77,142
Investments	12,163,286	12,698,288
Cash value of life insurance	607,842	614,071
Total other assets	13,314,545	14,067,319
	$ 23,946,844	$ 23,000,701

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

THE CATHOLIC CENTER OF LEXINGTON

STATEMENTS OF FINANCIAL POSITION (CONTINUED)
June 30, 2023 and 2022

	2023	2022
CURRENT LIABILITIES		
Current portion of long-term debt	$ - -	$ 1,686,868
Current portion of finance lease obligations	32,830	34,320
Accounts payable	929,432	246,415
Special collections payable	156,301	158,549
Self-insurance liability	593,217	818,977
Accrued expenses and withholdings	133,182	127,167
Deferred revenue	1,150	2,919
Total current liabilities	1,846,112	3,075,215
LONG-TERM LIABILITIES		
Long-term debt, less current portion	1,000,000	- -
Finance lease obligations, less current portion	62,446	95,574
Priest's pension obligation	12,342	31,719
Post-retirement benefits obligation	1,695,445	2,746,441
Total long-term liabilities	2,770,233	2,873,734
Total liabilities	4,616,345	5,948,949
NET ASSETS		
Without donor restrictions:		
Operating	12,398,133	9,189,468
Council designated	1,450,972	1,253,835
With donor restrictions:		
Temporary in nature	3,782,144	4,909,199
Perpetual in nature	1,699,250	1,699,250
Total net assets	19,330,499	17,051,752
	$ 23,946,844	$ 23,000,701

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

THE CATHOLIC CENTER OF LEXINGTON

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2023 and 2022

	2023		
	Without Donor Restriction	With Donor Restriction	Total
Revenue and support			
Assessments	$ 3,257,517	$ - -	$ 3,257,517
Insurance premiums	4,793,387	- -	4,793,387
Program activities	727,707	- -	727,707
Grants	- -	392,256	392,256
Gifts and donations	153,650	3,219,527	3,373,177
Rentals	63,000	- -	63,000
Interest income	3,158	- -	3,158
Miscellaneous income	- -	- -	- -
Net assets released from restriction	4,738,838	(4,738,838)	- -
Total revenue and support	13,737,257	(1,127,055)	12,610,202
Expenses			
Program	6,529,971	- -	6,529,971
General and administrative	5,238,411	- -	5,238,411
Fundraising	449,633	- -	449,633
Total expenses	12,218,015	- -	12,218,015
	1,519,242	(1,127,055)	392,187
Other income (expense)			
Investment income, net of fees	449,590	- -	449,590
Realized and unrealized gains (losses) on investments	1,492,274	- -	1,492,274
Increase in cash value of life insurance	6,230	- -	6,230
Pension benefit obligation gains	1,302,676	- -	1,302,676
Interest expense	(64,434)	- -	(64,434)
Transfer of equity to SPPS, net	(1,057,956)	- -	(1,057,956)
Transfer of equity to CDL Reserve	(241,820)	- -	(241,820)
Total other income (expense)	1,886,560	- -	1,886,560
Increase (decrease) in net assets	3,405,802	(1,127,055)	2,278,747
Net assets, beginning of year	10,443,303	6,608,449	17,051,752
Net assets, end of year	$ 13,849,105	$ 5,481,394	$ 19,330,499

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

2022		
Without Donor Restriction	With Donor Restriction	Total
$ 3,152,924	$ - -	$ 3,152,924
4,490,288	- -	4,490,288
482,179	- -	482,179
- -	444,748	444,748
39,505	3,808,942	3,848,447
63,000	- -	63,000
1,048	- -	1,048
- -	- -	- -
2,260,664	(2,260,664)	- -
10,489,608	1,993,026	12,482,634
5,310,041	- -	5,310,041
5,076,761	- -	5,076,761
619,719	- -	619,719
11,006,521	- -	11,006,521
(516,913)	1,993,026	1,476,113
266,217	396	266,613
(4,623,198)	- -	(4,623,198)
22,451	- -	22,451
453,008	- -	453,008
(68,036)	- -	(68,036)
(724,162)	- -	(724,162)
(283,627)	- -	(283,627)
(4,957,347)	396	(4,956,951)
(5,474,260)	1,993,422	(3,480,838)
15,917,563	4,615,027	20,532,590
$ 10,443,303	$ 6,608,449	$ 17,051,752

THE CATHOLIC CENTER OF LEXINGTON

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2023

	2023			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Personnel costs:				
Salaries, wages and taxes	$ 2,043,048	$ 231,781	$ 145,759	$ 2,420,588
Employee benefits	231,676	25,939	17,769	275,384
Total personnel costs	2,274,724	257,720	163,528	2,695,972
Insurance	685	4,707,792	13,750	4,722,227
Assessments	89,467	- -	- -	89,467
Grants and subsidies	1,357,992	- -	12,501	1,370,493
Program expenses	1,569,976	55,075	124,330	1,749,381
Utilities, rent and household expenses	268,628	- -	- -	268,628
Gifts	1,733	- -	918	2,651
Repairs and maintenance	4,613	- -	- -	4,613
Travel and mileage	129,055	- -	5,660	134,715
Stationery and printing	8,236	- -	41,824	50,060
Postage	37,937	- -	14,712	52,649
Telephone	41,948	- -	421	42,369
Dues and subscriptions	19,389	952	35	20,376
Convention expenses	15,934	434	2,720	19,088
Advertising	36,005	- -	8,272	44,277
Equipment leases	20,619	- -	- -	20,619
Hospitality	24,359	276	600	25,235
Professional services	269,475	210,524	38,508	518,507
Education	4,556	1,448	1,735	7,739
Supplies	29,353	1,835	1,996	33,184
Depreciation and amortization expense	155,268	- -	- -	155,268
Medical	83,386	- -	- -	83,386
Priest supplemental and housing, net	71,709	- -	- -	71,709
Bad debt expense	- -	- -	- -	- -
Miscellaneous expense	14,924	2,355	18,123	35,402
Total expenses	$ 6,529,971	$ 5,238,411	$ 449,633	$ 12,218,015

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

THE CATHOLIC CENTER OF LEXINGTON

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	2022			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Personnel costs:				
Salaries, wages and taxes	$ 1,931,984	$ 185,958	$ 116,041	$ 2,233,983
Employee benefits	223,938	55,866	10,839	290,643
Total personnel costs	2,155,922	241,824	126,880	2,524,626
Insurance	3,163	4,613,197	11,650	4,628,010
Assessments	87,126	- -	- -	87,126
Grants and subsidies	1,289,394	- -	16,175	1,305,569
Program expenses	652,385	3,701	125,546	781,632
Utilities, rent and household expenses	179,923	- -	- -	179,923
Gifts	3,783	- -	473	4,256
Repairs and maintenance	3,925	- -	- -	3,925
Travel and mileage	113,530	- -	1,320	114,850
Stationery and printing	10,702	- -	15,722	26,424
Postage	40,350	- -	3,591	43,941
Telephone	37,240	506	49	37,795
Dues and subscriptions	21,185	609	510	22,304
Convention expenses	12,555	- -	- -	12,555
Advertising	40,933	- -	8,513	49,446
Equipment leases	16,220	- -	- -	16,220
Hospitality	17,807	- -	118	17,925
Professional services	291,427	190,378	225,357	707,162
Education	5,108	- -	- -	5,108
Supplies	21,811	- -	36	21,847
Depreciation expense	148,000	- -	- -	148,000
Medical	79,033	- -	- -	79,033
Priest supplemental and housing, net	55,631	- -	- -	55,631
Bad debt expense	- -	24,547	78,631	103,178
Miscellaneous expense	22,888	1,999	5,148	30,035
Total expenses	$ 5,310,041	$ 5,076,761	$ 619,719	$ 11,006,521

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

THE CATHOLIC CENTER OF LEXINGTON

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 2,278,747	$ (3,480,838)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	118,193	148,000
Amortization of finance lease ROU assets	37,075	- -
Realized and unrealized (gain) loss on investments	(1,492,274)	4,623,198
Changes in assets and liabilities, net of the effects of investing and financing activities:		
Assessments receivable, net	(57,056)	(121,424)
Unconditional promises to give, net	547,047	(1,493,902)
Other receivables	(174,625)	239,252
Prepaid expenses	(296,485)	(371,764)
Cash value life insurance	6,229	(22,451)
Accounts and other payables	683,017	(68,872)
Special Sunday collections payable	(2,248)	(40,657)
Self-insurance liability	(225,760)	(77,114)
Accrued expenses and withholdings	(1,064,358)	(105,370)
Deferred revenue	(1,769)	2,919
Net cash provided by (used in) operating activities	355,733	(769,023)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	- -	(281,085)
Proceeds from sale of investments, net	2,027,276	1,786,171
Net cash provided by investing activities	2,027,276	1,505,086
CASH FLOWS FROM FINANCING ACTIVITES		
Principal payments on long-term debt	(686,868)	(150,575)
Payments of finance lease obligations	(34,618)	(30,918)
Net cash (used in) financing activities	(721,486)	(181,493)
Net increase in cash and cash equivalents	1,661,523	554,570
Cash and cash equivalents, beginning of year	1,571,874	1,017,304
Cash and cash equivalents, end of year	$ 3,233,397	$ 1,571,874
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	$ 64,434	$ 68,036

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

THE CATHOLIC CENTER OF LEXINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of business

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

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

Use of estimates

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

Cash and cash equivalents

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

Receivables

Substantially all accounts receivable, assessments receivable and loans receivable are due from Diocesan parishes and schools. Credit is furnished to the respective parishes and schools based on an evaluation of their financial condition and, generally, collateral is not required. Credit losses are provided in the financial statements based on management's evaluation of the entity's ability to pay based on current economic conditions. There are no uncollectible accounts or assessments recognized during the years ended June 30, 2023 and 2022, associated with such receivables less recovery of accounts previously recognized as uncollectible.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Investments

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

Property and equipment and depreciation

The Chancery capitalizes purchases greater than $5,000 with an estimated useful life of more than one year. Property and equipment are stated at cost or, in the case of donated property, at the fair market value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. The cost of repairs and maintenance are expensed as incurred. Amortization of assets under capital leases was included in depreciation expense for the year ended June 30, 2022.

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Chancery adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022 (the beginning of the period of adoption) through a cumulative adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

The Chancery elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Chancery recognized on July 1, 2022 a lease liability of $129,894 and a right-of-use asset of $138,340, which represent the carrying amount of the capital lease obligations and assets on June 30, 2022.

Adoption of the standard had no material impact on the Chancery's financial position or results of activities.

Note 1. Significant Accounting Policies (Continued)

Leases (continued)

The Chancery leases office equipment and determines if an arrangement is a lease at inception.

ROU assets represent the Chancery's right to use an underlying asset for the lease term and lease liabilities represent the Chancery's obligation to make lease payments arising from the lease. When a lease does not provide an implicit rate, the Chancery uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Cash surrender value of life insurance

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

Pension and Post-Retirement Benefits

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

Net assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Net assets (continued)

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

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.

Functional allocation of expenses

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

Income taxes

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

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

Subsequent events

Management has evaluated subsequent events through December 1, 2023, the date the financial statements were available to be issued.

Note 2. Liquidity and Availability of Resources

As of June 30, 2023 and 2022, the Chancery had total net assets without donor restrictions of $13,849,105 and $10,443,303, respectively. Certain net assets included in this balance are long-term assets and liabilities. Also, included in this balance are certain board-designated net assets which are generally not available for operating expenditures but could be drawn upon to meet unexpected liquidity needs, if necessary. Financial assets readily available for general expenditure within one year as of June 30, 2023 and 2022 consist of the following:

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	$ 3,233,397	$ 1,571,874
Receivables		
Assessments, net	3,250,276	3,193,220
Unconditional promises to give, net	497,568	889,702
Other	389,697	158,442
	$ 7,370,938	$ 5,813,238

Note 3. Unconditional Promises to Give

Unconditional promises to give are received from parishes and members of the parishes within the Catholic Diocese. Unconditional promises to give are related to the Diocesan Annual Appeal and the Capital Campaign – Providing for Our Future at June 30, 2023 and 2022. There were no uncollectible pledges recognized for the years ended June 30, 2023 and 2022.

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 $1,353,424 and $1,223,184 for the years ended June 30, 2023 and 2022, respectively, are included in gifts and donations on the statements of activities. The related amounts of unconditional promises to give as of June 30, 2023 and 2022 were $28,296 and $77,393, respectively. An allowance for doubtful accounts in the amount of $3,869 was recorded as of June 30, 2023 and 2022, to account for amounts estimated to be uncollectible.

Capital Campaign – Providing for Our Future

During the year ended June 30, 2022, the Diocese began a capital campaign called Providing for Our Future (PFOF). The purpose of this campaign is to raise funds to pay down the debt of the Diocese and as a result, allow more resources for enhancing and improving ministries and outreach. PFOF revenues of $536,552 and $2,106,772 for the years ended June 30, 2023 and 2022, respectively, are included in gifts and donations on the statements of activities. The related amounts included in unconditional promises to give as of June 30, 2023 and 2022 were $1,174,678 and $1,572,627, respectively. An allowance for doubtful accounts in the amounts of $178,631 and $78,631 were recorded as of June 30, 2023 and 2022, respectively, to account for amounts estimated to be uncollectible.

Note 4. Fair Values of Financial Instruments

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

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

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

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

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

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

The fair value of the Chancery's investments is based on quoted market values, surrender values or cost which approximates fair value. The Chancery did not hold financial instruments for trading purposes at June 30, 2023 and 2022.

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

The carrying amounts of cash and cash equivalents, receivables, prepaid expenses, other assets, payables, accrued expenses and other liabilities as reported in the accompanying statements of financial position approximate the fair values due to their short-term maturity, to being readily converted to a known amount, other observable inputs. Also, the carrying amounts of current and long-term promises to give approximate their fair values as present value techniques have been applied and no material fluctuations in interest rates have occurred. As such, these instruments are measured Level 1 inputs. The carrying amounts of current and long-term debt and obligations under finance leases also approximate their fair values as determined by lending institutions and Management using Level 2 inputs (see Notes 7 and 9).

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments (Continued)

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

	2023			
	Without Donor	With Donor Restrictions		Total
	Restrictions	Temporary	Perpetual	Investments
Investments, July 1, 2022	$ 7,657,358	$ 3,341,680	$ 1,699,250	$ 12,698,288
Increase (decrease) in investments due to:				
Investment income, net of fees	449,590	- -	- -	449,590
Investment appreciation (realized and unrealized)	1,492,274	- -	- -	1,492,274
Contributions	- -	2,198,902	- -	2,198,902
Withdrawals	(4,675,768)	- -	- -	(4,675,768)
Interfund transfer, net	2,778,911	(2,778,911)	- -	- -
Investments, June 30, 2023	$ 7,702,365	$ 2,761,671	$ 1,699,250	$ 12,163,286

	2022			
	Without Donor	With Donor Restrictions		Total
	Restrictions	Temporary	Perpetual	Investments
Investments, July 1, 2021	$ 14,566,248	$ 2,842,159	$ 1,699,250	$ 19,107,657
Increase (decrease) in investments due to:				
Investment income, net of fees	266,217	396	- -	266,613
Investment (depreciation) (realized and unrealized)	(4,623,198)	- -	- -	(4,623,198)
Contributions	- -	2,039,467	- -	2,039,467
Withdrawals	(4,092,251)	- -	- -	(4,092,251)
Interfund transfer, net	1,540,342	(1,540,342)	- -	- -
Investments, June 30, 2022	$ 7,657,358	$ 3,341,680	$ 1,699,250	$ 12,698,288

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments (Continued)

Investments as of June 30, 2023 and 2022, are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	2023		2022	
	Level 1 Inputs	Level 2 Inputs	Level 1 Inputs	Level 2 Inputs
Cash and cash equivalents	$ 2,457,671	$ - -	$ 2,158,947	$ - -
Government securities	605,177	- -	1,110,489	- -
Mutual funds	1,444,075	- -	107,030	- -
Corporate bonds	726,142	- -	1,392,627	- -
Municipal bonds	378,812	- -	775,335	- -
Deferred annuity	- -	- -	- -	119,281
Catholic Umbrella Pool II	- -	216,468	- -	195,765
Corporate Stocks:				
Industrials	514,897	- -	589,526	- -
Consumer discretionary	601,278	- -	1,034,780	- -
Consumer staples	446,423	- -	389,354	- -
Energy	262,647	- -	178,497	- -
Financial	834,544	- -	861,215	- -
Materials	214,330	- -	381,028	- -
Information technology	1,830,083	- -	1,901,688	- -
Utilities	165,587	- -	221,635	- -
Healthcare	728,361	- -	627,602	- -
Real estate	579,801	- -	216,905	- -
Telecommunications	156,990	- -	436,584	- -
Total Investments	$ 11,946,818	$ 216,468	$ 12,383,242	$ 315,046

Investment advisory fees amounted to approximately $56,000 and $88,000 for the years ended June 30, 2023 and 2022, respectively.

The Chancery's endowment was composed of perpetually restricted funds totaling $1,699,250 as of June 30, 2023 and 2022.

Note 6. Property and Equipment

Property and equipment consists of the following at June 30:

	2023	2022
Land	$ 200,000	$ 200,000
Buildings and improvements	4,281,944	4,281,944
Furniture and fixtures	26,292	26,292
Automobiles	39,394	39,394
Equipment	161,616	161,616
	4,709,246	4,709,246
Less accumulated depreciation	(2,797,623)	(2,642,355)
	$ 1,911,623	$ 2,066,891

Note 7. Leases

The Chancery has finance leases for equipment. The leases have remaining lease terms of 1 to 4 years. As of June 30, 2023, assets recorded under finance leases were $149,255 and accumulated amortization associated with finance leases was $47,990. The ROU assets are included with property and equipment on the statement of financial position.

The components of lease expense were as follows for the year ended June 30:

	2023
Finance lease cost	
Right-of-use asset amortization	$ 37,075
Interest expense	3,298
Total lease cost, net	$ 40,373

Other information related to leases was as follows for the year ended June 30:

	2023
Supplemental cash flow information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	$ 3,298
Financing cash flows from finance leases	$ 34,618
Right-of-use assets obtained in exchange for lease obligations	
Finance leases	$ 138,340
Weighted average remaining lease term	
Finance leases	2.98 years
Weighted average discount rate	
Finance leases	2.85%

Note 7. Leases (Continued)

Future undiscounted lease payments for finance leases with initial terms of one year or more as of June 30, 2023, were as follows:

2024	$ 35,236
2025	32,307
2026	30,655
2027	1,777
	99,975
Less imputed interest	(4,699)
Net lease liabilities	$ 95,276

As of June 30, 2022, the Chancery's finance leases were accounted for as capital leases under ASC 840. The cost of equipment under capital leases was $149,255 with related accumulated depreciation of $10,915 at June 30, 2022. Equipment acquired through capital lease obligations during the year ended June 30, 2022, was $102,479. Depreciation expense on capital leases was $9,355 for the year ended June 30, 2022.

Note 8. 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 $216,000 and $196,000 as of June 30, 2023 and 2022, respectively, is held by the insurance carrier and is included in investments in the statements of financial position.

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-term Debt

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

	2023	2022
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, 3.99% interest rate, final payment was due April 2023, note matured and was refinanced, see below.	$ - -	$ 1,686,868
Promissory note payable, secured by deposit with lender, interest only payments through April 2026, final payment due May 2026, 2.10% interest rate.	1,000,000	- -
	1,000,000	1,686,868
Less current portion	- -	1,686,868
	$ 1,000,000	$ - -

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

2024	$ - -
2025	- -
2026	1,000,000
	$ 1,000,000

Note 10. Related Party Transactions

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

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

NOTES TO FINANCIAL STATEMENTS

Note 10. Related Party Transactions (Continued)

The Chancery receives an annual administrative fee for managing and investing excess funds of Diocesan parishes and schools. The funds are invested in a master trust account and the fee to the Chancery is equal to 0.45% of assets held in the trust. For the years ended June 30, 2023 and 2022, the Chancery recognized revenue of $56,544 and $54,565, respectively, related to administration fees for services rendered to the trust during the fiscal year.

The Catholic Diocese has guaranteed certain debts for schools and parishes within its boundaries. The management of the Catholic Diocese guarantees the notes based on their judgment that the respective school or parish will be able to meet its proposed obligation. At June 30, 2023 and 2022, the Catholic Diocese has guaranteed debts of $25,493,824 and $26,676,254, respectively, as follows as of June 30:

Parish/School	2023	2022
Good Shepherd	$ 1,827,331	$ 2,086,924
Mary Queen	3,830,989	4,039,428
Pax Christi	66,155	161,802
St. Andrew	71,129	147,804
St. Leo	4,669,357	4,915,450
St. Mark	874,453	786,609
Lexington Catholic High School	3,539,103	3,594,229
Lexington Catholic High School	553,788	148,726
St. Elizabeth Ann Seton	1,508,374	1,619,224
St. Peter and Paul School	7,983,559	8,884,927
St. Paul	69,586	107,193
St. Peter Claver	500,000	- -
St. Francis and John	- -	183,938
Total	$ 25,493,824	$ 26,676,254

In addition, the Chancery routinely transfers funds to satisfy payment obligations and operating expenses for certain schools and parishes holding guaranteed debt. The Chancery transferred net equity of $1,299,776 and $1,007,789 for the years ended June 30, 2023 and 2022, respectively, related to these payments. Should the schools and parishes have sufficient funds in the future, the amounts repaid to the Chancery would be recognized as an increase in net assets without donor restrictions. During the years ended June 30, 2023 and 2022, the Chancery received zero to reimburse funds previously transferred.

At June 30, 2023 and 2022, the total value of the real property of the Catholic Diocese and its related organizations is estimated to be $454,647,000 and $408,178,000, respectively, based on insurance estimates. Liabilities owed by all Diocesan organizations (without elimination of inter-company transactions) are estimated at $53,632,082 and $59,641,746 as of June 30, 2023 and 2022, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 11. Net Assets with Donor Restrictions

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

	2023	2022
Human Resources	$ 1,354,972	$ 1,103,835
Catholic Education	96,000	150,000
	$ 1,450,972	$ 1,253,835

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

	2023	2022
Temporary:		
Education	$ - -	$ 181
Development	1,176,238	1,927,480
Pastoral life programs	274,038	256,552
Mission programs	789,322	983,123
Minorities programs	18,000	18,000
Annual appeal campaign	428,912	527,087
Educational programs	258,651	257,443
Father Beiting Appalachian Mission	- -	34,066
Geary Fund for the Poor	466,742	466,742
Peace and Justice	- -	42,614
Marriage and family ministry	- -	445
Catholic Center	37,331	2,939
Seminary and vocations	100,091	100,221
Hispanic programs	88,056	85,481
Scholarships	130,140	160,140
Father Sichko's Ministry	- -	32,062
Permanent Diaconate	14,623	14,623
Total temporary	$ 3,782,144	$ 4,909,199
Perpetual:		
Priest and seminarians	$ 401,107	$ 401,107
Educational programs	112,070	112,070
Feeding and clothing of the poor	186,073	186,073
Mission programs	1,000,000	1,000,000
Total perpetual	$ 1,699,250	$ 1,699,250

NOTES TO FINANCIAL STATEMENTS

Note 12. Litigation

The Catholic Diocese of Lexington and other related parties are named in two 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 $10,000 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, 2023 and 2022, as a result of the litigations.

Note 13. Retirement and Post-Retirement Benefits

Lay Employee's Pension Plan – The Chancery participates in a multi-employer pension plan with the Catholic Diocese of Covington and other unrelated employers. The plan covers all eligible lay employees who elect to participate. Benefits are based on participants' years of service and annual compensation as defined in the plan. Eligibility requirements allow all employees who have reached age 21 and work 20 or more hours per week and 5 or more months per year to participate in the plan. Participant contributions are required. Pension costs for lay employees for the years ended June 30, 2023 and 2022, amounted to $82,022 and $63,670, respectively. The employees of the Chancery represent only a small portion of the total participants in the plan, and, as a result, disclosures pertaining to the obligations and funded status of the entire plan would not be meaningful, and accordingly, are not included.

Priest Retirement Plan – The Chancery administers a retirement plan (the Plan) for all Diocesan priests. Priests do not make contributions to the Plan. Contributions are made to the Plan by the respective parishes, through assessments, and by the Chancery. Though the Chancery has the responsibility for the Plan, the majority of funding for the Plan is expected to come from outside sources.

Post-Retirement Benefits for Priests – The Chancery provides post-retirement benefits to priests of the Catholic Diocese. Benefits include various supplemental medical insurance benefits and reasonable living expenses not covered by other retirement income. The costs of post-retirement benefit other than pensions must be recognized on an accrual basis as the priests perform services to earn benefits. During the year ended June 30, 2023, there was a change in accounting estimate related to the life expectancy of the priests involved in the calculation of the post-retirement benefits obligation. The change in accounting estimate resulted in an adjustment of $1,050,996 to the obligation and is included in the pension benefit obligation gains on the statement of activities.

Note 13. Retirement and Post-Retirement Benefits (Continued)

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

	2023		2022	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Benefit obligation	$ 6,636,440	$ 1,695,445	$ 5,954,021	$ 2,746,441
Fair value of plan assets	(6,196,435)	- -	(5,609,967)	- -
Funded status (over) under	440,005	1,695,445	344,054	2,746,441
Unrecognized prior service costs	(1,046,004)	- -	(334,157)	- -
Unrecognized net (loss) gain	(703,003)	- -	(1,032,878)	- -
Accrued (prepaid) benefit cost	$ (1,309,002)	$ 1,695,445	$ (1,022,981)	$ 2,746,441
Weighted-average assumptions:				
Discount rate	5.00%	5.00%	4.50%	5.00%
Expected return on plan assets	7.00%		7.00%	

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

	2023		2022	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Return on plan assets	$ 644,405	$ (1,050,996)	$ (507,776)	$ (80,163)
Employer contribution	361,975	34,341	429,217	37,976
Benefits paid	(419,912)	(34,341)	(403,415)	(37,976)

The Chancery expects to contribute $298,000 to its pension plan and zero to its other post-retirement benefits plan in fiscal year 2023-2024.

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

Year(s)	Retirement Benefits	Other Benefits
2024	$ 512,136	$ 164,700
2025	509,270	165,900
2026	506,184	167,100
2027	477,041	168,300
2028	474,492	169,600
2029-2033	2,362,515	238,200
Total	$ 4,841,638	$ 1,073,800