

**THE CATHOLIC CENTER OF LEXINGTON**

**FINANCIAL REPORT**

**JUNE 30, 2024**

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*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, 2024 and 2023, 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, 2024 and 2023, 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.

## 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 P.C.*

Louisville, Kentucky  
December 5, 2024

**THE CATHOLIC CENTER OF LEXINGTON**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,367,564	\$ 3,233,397
Receivables		
Assessments, net	4,081,828	3,250,276
Unconditional promises to give, net	584,149	497,568
Other	120,822	389,697
Prepaid pension costs	1,552,056	1,309,002
Prepaid expenses	<u>81,733</u>	<u>40,736</u>
Total current assets	<u>9,788,152</u>	<u>8,720,676</u>
PROPERTY AND EQUIPMENT, NET	<u>1,749,287</u>	<u>1,911,623</u>
OTHER ASSETS		
Unconditional promises to give, net	169,599	522,905
Other receivables, net	-	20,512
Investments	16,264,375	12,163,286
Cash value of life insurance	<u>629,864</u>	<u>607,842</u>
Total other assets	17,063,838	13,314,545
	 <u><u>\$ 28,601,277</u></u>	 <u><u>\$ 23,946,844</u></u>

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

**THE CATHOLIC CENTER OF LEXINGTON**

**STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

**June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>CURRENT LIABILITIES</b>		
Current portion of finance lease obligations	\$ 30,744	\$ 32,830
Accounts payable	250,687	929,432
Special collections payable	186,494	156,301
Self-insurance liability	449,179	593,217
Accrued expenses and withholdings	150,997	133,182
Deferred revenue	--	1,150
	<u>1,068,101</u>	<u>1,846,112</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, less current portion	800,000	1,000,000
Finance lease obligations, less current portion	31,702	62,446
Priest's pension obligation	25,400	12,342
Post-retirement benefits obligation	1,568,649	1,695,445
	<u>2,425,751</u>	<u>2,770,233</u>
Total long-term liabilities	<u>2,425,751</u>	<u>2,770,233</u>
Total liabilities	<u>3,493,852</u>	<u>4,616,345</u>
<b>NET ASSETS</b>		
Without donor restrictions:		
Operating	16,950,444	12,398,133
Council designated	2,503,767	1,450,972
With donor restrictions:		
Temporary in nature	3,953,964	3,782,144
Perpetual in nature	1,699,250	1,699,250
	<u>25,107,425</u>	<u>19,330,499</u>
Total net assets	<u>25,107,425</u>	<u>19,330,499</u>
	<u>\$ 28,601,277</u>	<u>\$ 23,946,844</u>

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, 2024 and 2023**

	2024		
	Without Donor Restriction	With Donor Restriction	Total
Revenue and support			
Assessments	\$ 4,080,205	\$ --	\$ 4,080,205
Insurance premiums	5,104,252	--	5,104,252
Program activities	1,258,981	--	1,258,981
Grants	--	346,679	346,679
Gifts and donations	16,715	2,963,858	2,980,573
Rentals	62,100	--	62,100
Interest income	44,792	--	44,792
Net assets released from restriction	3,138,717	(3,138,717)	--
Total revenue and support	<u>13,705,762</u>	<u>171,820</u>	<u>13,877,582</u>
Expenses			
Program	6,110,796	--	6,110,796
General and administrative	5,455,338	--	5,455,338
Fundraising	639,089	--	639,089
Total expenses	<u>12,205,223</u>	<u>--</u>	<u>12,205,223</u>
	<u>1,500,539</u>	<u>171,820</u>	<u>1,672,359</u>
Other income (expense)			
Investment income, net of fees	590,251	--	590,251
Realized and unrealized gains on investments	2,926,950	--	2,926,950
Increase in cash value of life insurance	22,023	--	22,023
Pension benefit obligation gains	208,027	--	208,027
Interest expense	(18,597)	--	(18,597)
Transfer of equity from Cliffview	1,597,538	--	1,597,538
Transfer of equity to SPPS, net	(844,547)	--	(844,547)
Transfer of equity to CDL Reserve	(377,078)	--	(377,078)
Total other income (expense)	<u>4,104,567</u>	<u>--</u>	<u>4,104,567</u>
Increase (decrease) in net assets	5,605,106	171,820	5,776,926
Net assets, beginning of year	<u>13,849,105</u>	<u>5,481,394</u>	<u>19,330,499</u>
Net assets, end of year	<u>\$ 19,454,211</u>	<u>\$ 5,653,214</u>	<u>\$ 25,107,425</u>

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

2023		
Without Donor Restriction	With Donor Restriction	Total
\$ 3,257,517	\$ --	\$ 3,257,517
4,793,387	--	4,793,387
727,707	--	727,707
--	392,256	392,256
153,650	3,219,527	3,373,177
63,000	--	63,000
3,158	--	3,158
4,738,838	(4,738,838)	--
<u>13,737,257</u>	<u>(1,127,055)</u>	<u>12,610,202</u>
6,529,971	--	6,529,971
5,238,411	--	5,238,411
449,633	--	449,633
<u>12,218,015</u>	<u>--</u>	<u>12,218,015</u>
<u>1,519,242</u>	<u>(1,127,055)</u>	<u>392,187</u>
449,590	--	449,590
1,492,274	--	1,492,274
6,230	--	6,230
1,302,676	--	1,302,676
(64,434)	--	(64,434)
--	--	--
(1,057,956)	--	(1,057,956)
(241,820)	--	(241,820)
<u>1,886,560</u>	<u>--</u>	<u>1,886,560</u>
3,405,802	(1,127,055)	2,278,747
<u>10,443,303</u>	<u>6,608,449</u>	<u>17,051,752</u>
<u>\$ 13,849,105</u>	<u>\$ 5,481,394</u>	<u>\$ 19,330,499</u>

**THE CATHOLIC CENTER OF LEXINGTON**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended June 30, 2024**

EXPENSES	2024			
	Program Services	Management and General	Fundraising	Total
Personnel costs:				
Salaries, wages and taxes	\$ 2,223,234	\$ 275,835	\$ 163,464	\$ 2,662,533
Employee benefits	245,454	33,141	20,154	298,749
Total personnel costs	2,468,688	308,976	183,618	2,961,282
Insurance	28,523	4,900,293	16,964	4,945,780
Assessments	77,265	--	--	77,265
Grants and subsidies	1,540,738	--	43,555	1,584,293
Program expenses	728,196	28,117	173,494	929,807
Utilities, rent and household expenses	246,766	--	--	246,766
Gifts	1,080	--	877	1,957
Repairs and maintenance	14,372	--	--	14,372
Travel and mileage	147,669	355	5,107	153,131
Stationery and printing	14,791	--	90,503	105,294
Postage	53,018	--	27,260	80,278
Telephone	33,751	--	--	33,751
Dues and subscriptions	26,219	1,596	175	27,990
Convention expenses	67,252	1,648	2,071	70,971
Advertising	30,215	--	11,203	41,418
Equipment leases	29,867	--	--	29,867
Hospitality	35,845	69	4,660	40,574
Professional services	234,189	210,048	55,358	499,595
Education	10,745	1,448	3,592	15,785
Supplies	18,184	186	328	18,698
Depreciation and amortization expense	162,336	--	--	162,336
Medical	87,305	--	--	87,305
Priest supplemental and housing, net	34,431	--	--	34,431
Miscellaneous expense	19,351	2,602	20,324	42,277
Total expenses	\$ 6,110,796	\$ 5,455,338	\$ 639,089	\$ 12,205,223

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, 2023**

EXPENSES	2023			
	Program Services	Management and General	Fundraising	Total
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
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**

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2024 and 2023**

	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 5,776,926	\$ 2,278,747
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	129,506	118,193
Amortization of finance lease ROU assets	32,830	37,075
Realized and unrealized (gain) on investments	(2,926,950)	(1,492,274)
Changes in assets and liabilities, net of the effects of investing and financing activities:		
Assessments receivable, net	(831,552)	(57,056)
Unconditional promises to give, net	266,725	547,047
Other receivables	289,387	(174,625)
Prepaid expenses	(284,051)	(296,485)
Cash value life insurance	(22,022)	6,229
Accounts and other payables	(678,745)	683,017
Special Sunday collections payable	30,193	(2,248)
Self-insurance liability	(144,038)	(225,760)
Accrued expenses and withholdings	(95,923)	(1,064,358)
Deferred revenue	(1,150)	(1,769)
Net cash provided by operating activities	1,541,136	355,733
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(2,181,934)	(505,818)
Proceeds from sale of investments, net	1,007,795	2,533,094
Net cash provided by (used in) investing activities	(1,174,139)	2,027,276
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(200,000)	(686,868)
Payments of finance lease obligations	(32,830)	(34,618)
Net cash (used in) financing activities	(232,830)	(721,486)
Net increase in cash and cash equivalents	134,167	1,661,523
Cash and cash equivalents, beginning of year	3,233,397	1,571,874
Cash and cash equivalents, end of year	\$ 3,367,564	\$ 3,233,397
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash payments for interest	\$ 18,597	\$ 64,434

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, 2024 and 2023, 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.

#### Leases

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.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Significant Accounting Policies (Continued)

#### 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.

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.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Significant Accounting Policies (Continued)

#### Adoption of accounting pronouncement

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities measure credit losses for most financial assets and certain other financial instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model.

Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing the Chancery's exposure to credit risk and the measurement of credit losses. The Chancery's financial assets subject to the guidance include accounts receivable. The Chancery adopted the standard effective July 1, 2023. The impact of the adoption was not material to the financial statements and primarily resulted in new and enhanced disclosures only.

#### 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.

#### Reclassifications

Certain reclassifications have been made to the June 30, 2023 financial statement presentation to correspond to the current year's format. Total net assets and the increase in net assets are unchanged due to these reclassifications.

#### Subsequent events

Management has evaluated subsequent events through December 5, 2024, the date the financial statements were available to be issued.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Liquidity and Availability of Resources

As of June 30, 2024 and 2023, the Chancery had total net assets without donor restrictions of \$19,454,211 and \$13,849,105, 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, 2024 and 2023 consist of the following:

	2024	2023
Financial assets at year end:		
Cash and cash equivalents	\$ 3,367,564	\$ 3,233,397
Receivables		
Assessments, net	4,081,828	3,250,276
Unconditional promises to give, net	584,149	497,568
Other	120,822	389,697
	\$ 8,154,363	\$ 7,370,938

### 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, 2024 and 2023. There were no uncollectible pledges recognized for the years ended June 30, 2024 and 2023.

#### 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 \$1,589,484 and \$1,353,424 for the years ended June 30, 2024 and 2023, respectively, are included in gifts and donations on the statements of activities. The related amounts of unconditional promises to give as of June 30, 2024 and 2023 were \$31,905 and \$28,296, respectively. No allowance for doubtful accounts was recorded as of June 30, 2024. An allowance for doubtful accounts in the amount of \$3,869 was recorded as of June 30, 2023 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 \$650,821 and \$536,552 for the years ended June 30, 2024 and 2023, 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, 2024 and 2023 were \$802,043 and \$1,174,678, respectively. An allowance for doubtful accounts in the amounts of \$80,200 and \$178,631 were recorded as of June 30, 2024 and 2023, respectively, to account for amounts estimated to be uncollectible.

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Unconditional Promises to Give (continued)

Discounts to net present value for pledges due after one year have not been recorded as of June 30, 2024 and 2023 as the amount was not material to the financial statements.

Unconditional promises to give as of June 30, 2024 and 2023 are as follows:

	2024	2023
Amounts due in:		
Less than one year	\$ 664,349	\$ 680,068
One to five years	169,599	522,905
Total gross unconditional promises to give	\$ 833,948	\$ 1,202,973
Less: allowance for doubtful accounts	(80,200)	(182,500)
Net unconditional promises to give	753,748	1,020,473
Less: current portion	(584,149)	(497,568)
Long-term unconditional promises to give	\$ 169,599	\$ 522,905

### 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 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 as of June 30, 2024 and 2023.

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Fair Values of Financial Instruments (continued)

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

The carrying amounts of cash and cash equivalents, 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, and 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).

### 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Investments (Continued)

The Chancery has interpreted this law as requiring the preservation of the fair value of corpus of a donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chancery classifies as 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.

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

	2024			Total Investments
	Without Donor Restrictions	With Donor Restrictions		
		Temporary	Perpetual	
Investments, July 1, 2023	\$ 7,702,365	\$ 2,761,671	\$ 1,699,250	\$ 12,163,286
Increase (decrease) in investments due to:				
Investment income, net of fees	590,250	--	--	590,250
Investment appreciation (realized and unrealized)	2,926,950	--	--	2,926,950
Contributions	--	2,391,063	--	2,391,063
Withdrawals	(1,807,174)	--	--	(1,807,174)
Interfund transfer, net	1,952,518	(1,952,518)	--	--
Investments, June 30, 2024	<u>\$ 11,364,909</u>	<u>\$ 3,200,216</u>	<u>\$ 1,699,250</u>	<u>\$ 16,264,375</u>
	2023			Total Investments
	Without Donor Restrictions	With Donor Restrictions		
		Temporary	Perpetual	
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 (depreciation) (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	<u>\$ 7,702,365</u>	<u>\$ 2,761,671</u>	<u>\$ 1,699,250</u>	<u>\$ 12,163,286</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Investments (Continued)

Investments as of June 30, 2024 and 2023, are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	2024		2023	
	Level 1 Inputs	Level 2 Inputs	Level 1 Inputs	Level 2 Inputs
Cash and cash equivalents	\$ 4,363,358	\$ --	\$ 2,457,671	\$ --
Government securities	783,013	--	605,177	--
Mutual funds	2,538,998	--	1,444,075	--
Corporate bonds	690,778	--	726,142	--
Municipal bonds	314,412	--	378,812	--
Deferred annuity	--	--	--	--
Catholic Umbrella Pool II	--	230,475	--	216,468
Corporate Stocks:				
Industrials	589,035	--	514,897	--
Consumer discretionary	692,052	--	601,278	--
Consumer staples	429,300	--	446,423	--
Energy	266,755	--	262,647	--
Financial	996,976	--	834,544	--
Materials	200,740	--	214,330	--
Information technology	2,385,870	--	1,830,083	--
Utilities	172,197	--	165,587	--
Healthcare	703,287	--	728,361	--
Real estate	163,307	--	579,801	--
Telecommunications	743,822	--	156,990	--
<b>Total Investments</b>	<b>\$ 16,033,900</b>	<b>\$ 230,475</b>	<b>\$ 11,946,818</b>	<b>\$ 216,468</b>

Investment advisory fees amounted to approximately \$40,000 and \$56,000 for the years ended June 30, 2024 and 2023, respectively.

The Chancery's endowment was composed of perpetually restricted funds totaling \$1,699,250 as of June 30, 2024 and 2023.

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Property and Equipment

Property and equipment consists of the following as of June 30:

	2024	2023
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	(2,959,959)	(2,797,623)
	\$ 1,749,287	\$ 1,911,623

### Note 7. Leases

The Chancery has finance leases for equipment. The leases have remaining lease terms of 2 to 3 years. As of June 30, 2024 and 2023, assets recorded under finance leases were \$143,295 and \$149,255, respectively. Accumulated amortization associated with finance leases as of June 30, 2024 and 2023 were \$77,885 and \$47,990, respectively. 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 years ended June 30:

	2024	2023
Finance lease cost		
Right-of-use asset amortization	\$ 32,830	\$ 37,075
Interest expense	2,406	3,298
Total lease cost, net	\$ 35,236	\$ 40,373

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Leases (Continued)

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

	2024	2023
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 2,406	\$ 3,298
Financing cash flows from finance leases	\$ 32,830	\$ 34,618
Right-of-use assets obtained in exchange for lease obligations		
Finance leases	\$ --	\$ 138,340
Weighted average remaining lease term		
Finance leases	2.03 years	2.98 years
Weighted average discount rate		
Finance leases	2.85%	2.85%

Future undiscounted lease payments for finance leases with initial terms of one year or more as of June 30, 2024, were as follows:

2025	\$ 32,307
2026	30,655
2027	1,777
	64,739
Less imputed interest	(2,293)
Net lease liabilities	\$ 62,446

### 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 \$230,000 and \$216,000 as of June 30, 2024 and 2023, 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 as of June 30:

	2024	2023
Promissory note payable, secured by deposit with lender, interest only payments through April 2026, final payment due May 2026, 2.10% interest rate.	\$ 800,000	\$ 1,000,000
	800,000	1,000,000
Less current portion	--	--
	\$ 800,000	\$ 1,000,000

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

2025	\$ --
2026	800,000
	\$ 800,000

### 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.

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, 2024 and 2023, the Chancery recognized revenue of \$63,773 and \$56,544, respectively, related to administration fees for services rendered to the trust during the fiscal year.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Related Party Transactions (Continued)

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, 2024 and 2023, the Catholic Diocese has guaranteed debts of \$23,302,206 and \$25,493,824, respectively, as follows as of June 30:

Parish/School	2024	2023
Good Shepherd	\$ 1,552,449	\$ 1,827,331
Mary Queen	3,593,856	3,830,989
Pax Christi	--	66,155
St. Andrew	--	71,129
St. Leo	4,414,917	4,669,357
St. Mark	701,315	874,453
Lexington Catholic High School	3,277,357	3,539,103
Lexington Catholic High School	528,788	553,788
St. Elizabeth Ann Seton	1,414,905	1,508,374
St. Peter and Paul School	7,259,260	7,983,559
St. Paul	30,594	69,586
St. Peter Claver	528,765	500,000
Total	\$ 23,302,206	\$ 25,493,824

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 \$1,221,625 and \$1,299,776 for the years ended June 30, 2024 and 2023, 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 year ended June 30, 2024, the Chancery received \$1,597,538 to reimburse for the sale of the Cliffview property. During the year ended June 30, 2023, the Chancery did not receive reimbursement of any funds previously transferred.

As of June 30, 2024 and 2023, the total value of the real property of the Catholic Diocese and its related organizations is estimated to be \$484,134,000 and \$454,647,000, respectively, based on insurance estimates. Liabilities owed by all Diocesan organizations (without elimination of inter-company transactions) are estimated at \$51,835,856 and \$53,632,082 as of June 30, 2024 and 2023, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Net Assets with Donor Restrictions and Council Designated Net Assets

Council designated net assets without donor restrictions consisted of the following as of June 30:

	2024	2023
Human Resources	\$ 2,503,767	\$ 1,354,972
Catholic Education	--	96,000
	\$ 2,503,767	\$ 1,450,972

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

	2024	2023
<b>Temporary:</b>		
Education	\$ 17,488	\$ --
Development	1,282,902	1,176,238
Pastoral life programs	295,857	274,038
Mission programs	836,937	789,322
Minorities programs	--	18,000
Annual appeal campaign	514,240	428,912
Educational programs	260,246	258,651
Geary Fund for the Poor	465,742	466,742
Catholic Center	53,098	37,331
Seminary and vocations	102,527	100,091
Hispanic programs	--	88,056
Scholarships	100,140	130,140
Father Sichko's Ministry	10,164	--
Permanent Diaconate	14,623	14,623
Total temporary	\$ 3,953,964	\$ 3,782,144
<b>Perpetual:</b>		
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 three 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, 2024 and 2023, 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, 2024 and 2023, amounted to \$86,674 and \$82,022, 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 for the year ended June 30, 2023.

## NOTES TO FINANCIAL STATEMENTS

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

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

	2024		2023	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Benefit obligation	\$ 6,437,903	\$ 1,568,649	\$ 6,636,440	\$ 1,695,445
Fair value of plan assets	(6,931,990)	--	(6,196,435)	--
Funded status (over) under	(494,087)	1,568,649	440,005	1,695,445
Unrecognized prior service costs	(1,073,651)	--	(1,046,004)	--
Unrecognized net (loss) gain	15,682	--	(703,003)	--
Accrued (prepaid) benefit cost	<u>\$ (1,552,056)</u>	<u>\$ 1,568,649</u>	<u>\$ (1,309,002)</u>	<u>\$ 1,695,445</u>
Weighted-average assumptions:				
Discount rate	5.50%	5.00%	5.00%	5.00%
Expected return on plan assets	7.00%		7.00%	

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

	2024		2023	
	Retirement Benefits	Other Benefits	Retirement Benefits	Other Benefits
Return on plan assets	\$ 841,521	\$ (1,568,649)	\$ 644,405	\$ (1,050,996)
Employer contribution	360,071	39,861	361,975	34,341
Benefits paid	(466,037)	(39,861)	(419,912)	(34,341)

The Chancery expects to contribute \$317,000 to its pension plan and zero to its other post-retirement benefits plan in fiscal year 2024-2025.

## NOTES TO FINANCIAL STATEMENTS

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

The following benefits 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>
2025	\$ 544,295	\$ 165,900
2026	527,362	167,100
2027	494,952	168,300
2028	489,994	169,600
2029	478,307	170,900
2030-2034	<u>2,445,267</u>	<u>245,300</u>
Total	<u>\$ 4,980,177</u>	<u>\$ 1,087,100</u>