

CATHOLIC CHARITIES
OF THE DIOCESE OF LEXINGTON, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2017 AND 2016

CATHOLIC CHARITIES
OF THE DIOCESE OF LEXINGTON, INC.
LEXINGTON, KENTUCKY

CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses - 2017	5
Statement of Functional Expenses - 2016	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 16
Supplemental Information (Unaudited):	
Schedule of Functional Expenses by Activity - 2017	17
Schedule of Functional Expenses by Activity - 2016	18

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Catholic Charities of the Diocese of Lexington, Inc.
Lexington, Kentucky

We have audited the accompanying financial statements of Catholic Charities of the Diocese of Lexington, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Charities of the Diocese of Lexington, Inc., as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses by Activity on pages 17 and 18 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Kring, Ray, Farley & Riddle, PSC

Lexington, Kentucky
November 16, 2017

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets:		
Cash:		
Operating	\$ 77,553	\$ 82,930
Restricted	125,717	90,350
Receivables:		
Accounts	17,499	15,922
Grants	14,003	3,750
Total Current Assets	<u>234,772</u>	<u>192,952</u>
Property and Equipment:		
Leasehold improvements	7,290	7,290
Furniture and equipment	18,519	18,519
Total Property and Equipment	25,809	25,809
Less accumulated depreciation	<u>25,809</u>	<u>25,654</u>
Net Property and Equipment	<u>-</u>	<u>155</u>
Investments and Other Assets:		
Investments - program and endowment	<u>369,275</u>	<u>365,053</u>
Total Investments and Other Assets	<u>369,275</u>	<u>365,053</u>
Total Assets	<u>\$ 604,047</u>	<u>\$ 558,160</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 4,352	\$ 3,003
Payroll withholdings payable	313	283
Accrued expenses	10,162	12,422
Total Current Liabilities	14,827	15,708
Adoption Escrow	<u>84,900</u>	<u>41,665</u>
Total Liabilities	<u>99,727</u>	<u>57,373</u>
Net Assets:		
Unrestricted:		
Operating	202,858	185,460
Board designated	175,775	195,775
Temporarily restricted	68,791	62,656
Permanently restricted	56,896	56,896
Total Net Assets	<u>504,320</u>	<u>500,787</u>
Total Liabilities and Net Assets	<u>\$ 604,047</u>	<u>\$ 558,160</u>

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets:		
Revenue:		
Contributions and grants	\$ 386,104	\$ 415,097
Special events	77,157	81,017
Fees for services	96,814	93,744
Rent received	12,000	12,000
Realized and unrealized investment gains (losses)	(6,959)	2,238
Interest income	6,457	7,227
Miscellaneous	<u>-</u>	<u>867</u>
Total Revenue	571,573	612,190
Net Assets Released from Restrictions	<u>98,785</u>	<u>103,709</u>
Total Revenue and Reclassifications	<u>670,358</u>	<u>715,899</u>
Expenses:		
Program services	<u>504,136</u>	<u>474,674</u>
Support Services:		
General and administrative	128,127	158,377
Fundraising	<u>40,697</u>	<u>44,720</u>
Total Support Services	<u>168,824</u>	<u>203,097</u>
Total Expenses	<u>672,960</u>	<u>677,771</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(2,602)</u>	<u>38,128</u>
Temporarily Restricted Net Assets:		
Revenue and Reclassification:		
Contributions and grants	105,995	92,501
Net assets released from restrictions	<u>(98,785)</u>	<u>(103,709)</u>
Total Revenue and Reclassification	7,210	(11,208)
Other Changes in Temporarily Restricted Net Assets:		
Transfer of Equity to Rachel's Vineyard	<u>(1,075)</u>	<u>-</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>6,135</u>	<u>(11,208)</u>
Change in Net Assets	3,533	26,920
Net Assets, beginning of year	<u>500,787</u>	<u>473,867</u>
Net Assets, end of year	<u>\$ 504,320</u>	<u>\$ 500,787</u>

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Support Services				
	Program Services	General and Administrative	Fundraising	Total Support Services	Total
Salaries	\$ 238,515	\$ 79,992	\$ -	\$79,992	\$ 318,507
Employee benefits	47,250	8,397	-	8,397	55,647
Payroll taxes	17,257	6,774	-	6,774	24,031
Legal, accounting and other professional services	29,427	4,740	2,470	7,210	36,637
Program expenses	66,569	-	-	-	66,569
Insurance	3,312	178	76	254	3,566
Professional development	654	250	-	250	904
Event expenses	303	116	35,702	35,818	36,121
Office expenses and telephone	6,091	970	1,313	2,283	8,374
Occupancy expense	65,094	21,000	-	21,000	86,094
Equipment expenses	2,747	690	-	690	3,437
Printing and publications	2,272	285	791	1,076	3,348
Advertising	12,651	930	-	930	13,581
Travel and meetings	10,661	3,148	-	3,148	13,809
Organization dues	1,135	295	340	635	1,770
Depreciation and amortization	155	-	-	-	155
Miscellaneous	43	362	5	367	410
Total Expenses	<u>\$ 504,136</u>	<u>\$ 128,127</u>	<u>\$ 40,697</u>	<u>\$ 168,824</u>	<u>\$ 672,960</u>

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Support Services</u>				
	Program Services	General and Administrative	Fundraising	Total Support Services	Total
Salaries	\$ 202,513	\$ 103,234	\$ -	\$ 103,234	\$ 305,747
Employee benefits	48,703	12,209	-	12,209	60,912
Payroll taxes	14,334	7,784	-	7,784	22,118
Legal, accounting and other professional services	31,384	3,399	2,871	6,270	37,654
Program expenses	69,683	-	-	-	69,683
Insurance	5,316	1,143	-	1,143	6,459
Professional development	320	1,220	-	1,220	1,540
Event expenses	140	28	36,288	36,316	36,456
Office expenses and telephone	5,357	703	1,960	2,663	8,020
Occupancy expense	64,200	21,000	-	21,000	85,200
Equipment expenses	1,268	1,303	-	1,303	2,571
Printing and publications	3,356	507	2,773	3,280	6,636
Advertising	13,402	105	312	417	13,819
Travel and meetings	13,565	3,981	38	4,019	17,584
Organization dues	1,133	297	-	297	1,430
Depreciation and amortization	-	988	-	988	988
Miscellaneous	-	476	478	954	954
Total Expenses	<u>\$ 474,674</u>	<u>\$ 158,377</u>	<u>\$ 44,720</u>	<u>\$ 203,097</u>	<u>\$ 677,771</u>

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 3,533	\$ 26,920
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation and amortization	155	988
Transfer of net assets to related parties	1,075	-
Realized and unrealized investment (gains) losses	6,959	(2,238)
Change in operating assets and liabilities:		
Accounts receivable	(1,577)	(11,722)
Grants receivable	(10,253)	10,443
Accounts payable	1,349	(2,458)
Accrued expenses and withholdings	(2,230)	839
Adoption escrow	<u>43,235</u>	<u>9,610</u>
Net Cash Provided (Used) by Operating Activities	<u>42,246</u>	<u>32,382</u>
Cash Flows from Investing Activities:		
Distributions from (purchase of) investments, net	(11,181)	(49,680)
Transfer of net assets to related parties	<u>(1,075)</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>(12,256)</u>	<u>(49,680)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	29,990	(17,298)
Cash and Cash Equivalents, beginning of year	<u>173,280</u>	<u>190,578</u>
Cash and Cash Equivalents, end of year	<u>\$ 203,270</u>	<u>\$ 173,280</u>

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

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note A - Summary of Significant Accounting Policies:

General Description - Catholic Charities of the Diocese of Lexington, Inc. (Catholic Charities), is a Kentucky non-profit organization established to serve people of all backgrounds in the fifty counties of the Catholic Diocese of Lexington, Kentucky. The agency offers assistance in the following areas: counseling, emergency assistance, pregnancy counseling and adoption assistance. Catholic Charities is funded by the Catholic Diocese of Lexington, two United Way organizations (Bluegrass and Eastern Kentucky), contributions and fees for services which are based upon the client's ability to pay. Catholic Charities operates under the direction of a corporate member, the Bishop of the Catholic Diocese of Lexington, and a fourteen member community board.

Basis of Accounting - The financial statements of Catholic Charities have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

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

Financial Statement Presentation - Catholic Charities reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations or funds which have been designated for a specific purpose by the Board of Directors.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of Catholic Charities pursuant to those stipulations or that expire by the passage of time.

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

Statements of Cash Flows - For purposes of the Statements of Cash Flows, Catholic Charities 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.

Accounts Receivable - Accounts receivable is reported net of any estimated losses due to uncollectible accounts. Catholic Charities considers a receivable to be past due or delinquent when an account has been outstanding for more than 90 days. The allowance for doubtful accounts is maintained at a level which, in Management's judgment, is adequate to absorb potential losses from uncollectible receivables. As of June 30, 2017, and 2016, management deemed receivables to be fully collectible. Consequently, no allowance for doubtful accounts has been recognized.

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Adoption Revenue - The agency recognizes adoption revenue at termination of parental rights, which occurs at least three months before finalization. Funds received are recorded as an escrow liability until the termination of parental rights occurs.

Compensated Absences - Catholic Charities has a vacation and sick pay policy for full-time employees. A liability of \$10,162 has been recognized as of June 30, 2017 (\$12,422 as of June 30, 2016), to estimate the Organization's obligation under this policy.

Restricted Cash - As part of its mission, Catholic Charities assists individuals in need of emergency services (payment of rent, utilities, toiletries, etc.). Funds for these services as well as contributions restricted by donors for a specific purpose and funds received for adoptions which are not yet complete are maintained in separate bank accounts.

Donated Goods and Services - Volunteers have donated significant amounts of time for the Catholic Charities' fundraising activities. No amount has been included in the accompanying financial statements for these services as the value could not be determined. In addition, Catholic Charities received donated goods and services for fundraising events in the amount of \$3,250 for the year ended June 30, 2017 (\$3,850 for the year ended June 30, 2016).

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

Income Taxes - Catholic Charities of the Diocese of Lexington, Inc., is a division of the Catholic Diocese of Lexington which is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code.

As of June 30, 2017, there are no uncertain tax positions and Catholic Charities is not aware of any activities that would jeopardize its tax exempt status and is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes.

Property and Equipment - Catholic Charities capitalizes purchases greater than \$2,500 with an estimated useful life greater 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.

Grant Revenue - Catholic Charities receives grants to provide assistance as well as emergency services such as temporary housing, utilities and repairs for qualified individuals. Income from grants is recorded in the period to which the grants apply. Any unexpended grant funds remaining at fiscal year-end are considered temporarily restricted.

Functional Expenses - The costs of providing various programs and activities have been allocated among the programs and supporting services benefited.

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Concentration of Credit Risk - Catholic Charities provides credit, in the normal course of business, to its clients and granting agencies. Generally, no collateral or other security is required to support these receivables. Although, Catholic Charities is directly affected by economic conditions in the geographic area, management does not believe significant credit risk exists as of June 30, 2017 and 2016.

Reclassifications - Certain amounts presented for the prior year have been reclassified to conform with the presentation used in the current year.

Note B - Fair Value of Financial Instruments:

For financial statement reporting purposes, fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in Catholic Charities' principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

A fair value hierarchy has been established for financial reporting purposes which requires the Organization 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 Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

The fair values of Catholic Charities' investments are based on quoted market values or cost which approximates fair market value. Catholic Charities did not hold financial instruments for trading purposes at June 30, 2017 and 2016.

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

The carrying amounts of cash and cash equivalents, accounts receivable, grants receivable, accounts payable, accrued expenses and adoption escrow liability as reported in the accompanying Statements of Financial Position approximate their fair values due to their short-term maturity, to being readily converted to a known amount, or other observable inputs. As such, these instruments are measured using Level 1 inputs.

Note C - Advertising:

Catholic Charities uses advertising to promote its counseling and adoption services. The costs for advertising are expensed as incurred. Advertising costs were \$13,581 and \$13,819 for the years ended June 30, 2017 and 2016, respectively.

Note D - Investments:

Catholic Charities invests board designated, restricted, and excess operating funds in a master investment trust managed by the Catholic Diocese of Lexington. The master trust is comprised of investments in money market funds, U.S. government securities, corporate stocks and bonds, mutual funds and related party debt securities and is maintained in accordance with the investment policy stipulated by the Finance Council of the Diocese. Investments are segregated within the master trust account of the Catholic Diocese of Lexington and earnings on investments are subject to market fluctuations in the underlying investments.

The current spending policy for endowment investments is to allow designated and restricted funds to grow at the rate of return generated by the master trust until accumulated earnings are designated by the Board of Directors for a particular purpose.

Generally Accepted Accounting Principles provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds, was enacted by Kentucky in March 2010.

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note D - Investments (Continued):

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

Endowment funds consisted of permanently restricted investments of \$56,896 as of June 30, 2017 and 2016.

A reconciliation of program and endowment investments as of June 30, 2017 and 2016, is as follows:

	<u>2017</u>				
	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Endowment</u>	<u>Total Investments</u>
	<u>Operating</u>	<u>Board Designated</u>		<u>Permanently Restricted</u>	
Investments, beginning of year	\$ 98,411	\$ 195,775	\$ 13,971	\$ 56,896	\$ 365,053
Increase (decrease) in investments due to:					
Investment income received, net of fees	6,395	-	-	-	6,395
Investment appreciation (depreciation) (realized and unrealized)	(6,959)	-	-	-	(6,959)
Contributions	24,786	-	-	-	24,786
Withdrawals		(20,000)	-	-	(20,000)
Investments, end of year	<u>\$ 122,633</u>	<u>\$ 175,775</u>	<u>\$ 13,971</u>	<u>\$ 56,896</u>	<u>\$ 369,275</u>
	<u>2016</u>				
	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Endowment</u>	<u>Total Investments</u>
	<u>Operating</u>	<u>Board Designated</u>		<u>Permanently Restricted</u>	
Investments, beginning of year	\$ 46,493	\$ 195,775	\$ 13,971	\$ 56,896	\$ 313,135
Increase (decrease) in investments due to:					
Investment income received, net of fees	7,122	-	-	-	7,122
Investment appreciation (depreciation) (realized and unrealized)	2,237	-	-	-	2,237
Contributions	42,559	-	-	-	42,559
Withdrawals	-	-	-	-	-
Investments, end of year	<u>\$ 98,411</u>	<u>\$ 195,775</u>	<u>\$ 13,971</u>	<u>\$ 56,896</u>	<u>\$ 365,053</u>

Continued

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note D - Investments (Continued):

Total investments are presented in the financial statements in the aggregate at fair market value and are comprised of the following:

	<u>2017</u>		
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Master Investment Trust:			
Cash and equivalents	\$ 77,959	\$ -	\$ -
Fixed Income Securities:			
US Treasury	10,120	-	-
Mutual funds	170,083	-	-
Corporate	11,458	-	-
Agency	8,439	-	-
Related party notes	-	91,216	-
Total Investments	<u>\$ 278,059</u>	<u>\$ 91,216</u>	<u>\$ -</u>
	<u>2016</u>		
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Master Investment Trust:			
Cash and equivalents	\$ 56,766	\$ -	\$ -
Fixed Income Securities:			
US Treasury	9,856	-	-
Mutual funds	165,734	-	-
Corporate	13,251	-	-
Agency	20,991	-	-
Related party notes	-	98,455	-
Total Investments	<u>\$ 266,598</u>	<u>\$ 98,455</u>	<u>\$ -</u>

Note E - Board Designated Net Assets:

As of June 30, 2017, the Board of Directors has designated \$175,775 of its operating funds as a reserve to be invested in an interest bearing account (\$195,775 as of June 30, 2016).

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note F - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Funds restricted for Emergency Services - VIC	\$ 3,952	\$ 6,845
Funds restricted by Pax Christi Church	150	250
Funds restricted by St. Peter Claver Church	373	735
Funds restricted by St. Paul's Church	444	444
Funds restricted by St. Peter's Church	250	-
Funds restricted for St. Vincent de Paul - CTK Chapter	341	341
Funds restricted by Mary Queen of the Holy Rosary Church	11,134	8,556
Funds restricted for the Sanctuary Fund	5,936	5,519
Funds restricted by St. Vincent de Paul - SEAS	569	569
Funds restricted for Disaster Relief	550	1,429
Lyans Trust Fund Investment	13,971	13,971
Funds restricted for Prison Ministry	832	832
Funds restricted for Giving Tree	450	450
Funds restricted for rent and utilities - United Way	591	984
Funds restricted for rent and utilities - Toyota	1,358	1,488
Funds restricted for Rachel's Vineyard	-	4,899
Funds restricted for Summer Feeding	10,000	15,000
Funds restricted for Refugee Resettlement	17,890	-
Funds restricted for SEAS Parish	-	344
	<u>\$ 68,791</u>	<u>\$ 62,656</u>

Note G - Permanently Restricted Net Assets:

Permanently restricted net assets include the following:

	<u>2017</u>	<u>2016</u>
Memorial Trust Fund Investment	<u>\$ 56,896</u>	<u>\$ 56,896</u>

Note H - Operating Leases:

Catholic Charities leases office and storage space at multiple locations under month-to-month arrangements. The leases call for monthly rental payments of approximately \$7,100. Total rent expense for June 30, 2017 and 2016, was \$86,094, and \$85,200, respectively.

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note I - Related Party Transactions:

For the year ended June 30, 2017, Catholic Charities received approximately 49% of its annual revenue and other support from the Catholic Diocese of Lexington and other related Catholic organizations. Catholic Charities received funds from the Catholic Diocese of Lexington for rent related to its operations (\$84,000) and an unrestricted contribution for general operating support (\$231,000) (\$84,000 and \$231,000, respectively, in 2016). In addition, for the year ended June 30, 2017, Catholic Charities received grants and contributions totaling \$36,985 from Catholic Charities USA, the Catholic Diocese of Lexington and various parishes of the Catholic Diocese of Lexington to support its Bridging the Gap, Emergency Services and Rachel's Vineyard programs (\$48,582 in 2016).

As an integrated auxiliary service of the Roman Catholic Diocese of Lexington, Catholic Charities is required to place its investments in a master trust account administered by the Diocese. A portion of the account is invested in notes receivable from related parties (see Note D) through the Diocesan Deposit and Loan Fund.

Note J - Retirement Plan:

Catholic Charities 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 15 or more hours per week and 5 or more months per year to participate in the plan. Participant contributions are required. The employees of Catholic Charities represent only a small portion of the total participants in the plan. As a result, disclosures pertaining to the obligations and funded status of the entire plan would not be meaningful, and accordingly, are not included.

Catholic Charities also maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers employees of Catholic Charities with three years of service. The plan is no longer accepting new participants; however, employees previously participating in the plan are permitted to continue to make contributions to the plan. Catholic Charities contributes 3.25% of gross salaries for qualified employees who contribute at least 3% of gross salaries to the plan. Employees can make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code.

Employer contributions and pension costs related to these plans for the years ended June 30, 2017 and 2016, respectively, totaled \$11,552 and \$11,907.

Note K - Concentrations of Credit Risk Arising From Cash Deposits in Excess of Insured Limits:

Catholic Charities maintains cash balances at three financial institutions located in Central and Eastern Kentucky. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2017 and 2016, Catholic Charities had no uninsured cash balances.

CATHOLIC CHARITIES OF THE DIOCESE OF LEXINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note L - New Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which will require all leases to be recognized on Catholic Charities' Statement of Financial Position as a right-of-use asset and a lease liability, unless the lease is a short-term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, Catholic Charities would have to recognize: 1) a lease liability for Catholic Charities' obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents Catholic Charities' right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, Catholic Charities will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for Catholic Charities for the fiscal year ending June 30, 2021, with early adoption permitted. Catholic Charities is currently evaluating the effect that the new standard will have on its financial statements.

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

Note M - Date of Management's Review:

Subsequent events have been evaluated through November 16, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

	Program Services				Support Services					
	Prestonsburg Office	Adoption Services	Pregnancy Counseling	Emergency Services	Counseling	Total Program Services	General and Administrative	Fundraising	Total Support Services	Total
Salaries	\$ 36,397	\$ 48,259	\$ 47,872	\$ 38,641	\$ 31,344	\$ 202,513	\$ 103,234	\$ -	\$ 103,234	\$ 305,747
Employee benefits	9,445	9,412	9,412	10,912	9,522	48,703	12,209	-	12,209	60,912
Payroll taxes	2,256	3,438	3,597	2,329	2,714	14,334	7,784	-	7,784	22,118
Legal, accounting and other professional services	1,291	9,865	2,120	9,723	8,385	31,384	3,399	2,871	6,270	37,654
Program expenses	78	246	-	68,612	747	69,683	-	-	-	69,683
Insurance	1,143	1,143	1,143	744	1,143	5,316	1,143	-	1,143	6,459
Professional development	-	-	-	145	175	320	1,220	-	1,220	1,540
Event expenses	28	28	28	28	28	140	28	-	28	1,220
Office expenses and telephone	2,004	513	689	1,778	373	5,357	703	-	703	36,316
Occupancy expense	1,200	10,080	10,080	15,120	27,720	64,200	21,000	36,288	1,960	2,663
Equipment expenses	11	530	-	727	-	1,268	1,303	-	1,303	8,020
Printing and publications	507	507	507	1,178	657	3,356	507	2,773	3,280	85,200
Advertising	35	8,835	3,753	660	119	13,402	105	3.2	417	2,571
Travel and meetings	1,582	1,309	1,216	9,328	130	13,565	3,981	38	4,019	6,636
Organization dues	166	166	166	468	167	1,133	297	-	297	13,819
Depreciation and amortization	-	-	-	-	-	-	-	-	-	17,584
Miscellaneous	-	-	-	-	-	-	476	-	988	1,430
Total Expenses	\$ 56,143	\$ 94,331	\$ 80,583	\$ 160,393	\$ 83,224	\$ 474,674	\$ 158,377	\$ 44,720	\$ 203,097	\$ 677,771
Percentage of Total Expenses	8.28%	13.92%	11.89%	23.66%	12.28%	70.03%	23.37%	6.6%	29.97%	100.00%

- 18 -