

**Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Financial Statements
Years Ended June 30, 2017 and 2016**

**Archdiocese of Louisville
(Chancery and Certain Entities)**

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June 30, 2017 and 2016

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Independent Auditor's Report

To Archbishop Joseph E. Kurtz, D.D.
and Finance Council
Archdiocese of Louisville

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Archdiocese of Louisville (Chancery and Certain Entities) (a nonprofit organization) (the "Archdiocese"), which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Archdiocese's preparation and fair presentation of the combined 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 Archdiocese'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 combined financial statements.

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

Kentucky
Indiana
Ohio

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Louisville (Chancery and Certain Entities) 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combined schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the combined financial statements. The combining statements of financial position and the combining statements of activities on pages 28 through 35 are also presented for purposes of additional analysis and is not a required part of the combined financial statements of the Archdiocese of Louisville (Chancery and Certain Entities). 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of financial position, combining statements of activities, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017, on our consideration of the Archdiocese's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Archdiocese's internal control over financial reporting and compliance.



Jeffersonville, Indiana
October 13, 2017

Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Statements of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Assets		
Cash and cash equivalents	\$ 8,665,283	\$ 6,891,224
Investments (Notes C, D and J)	129,870,494	114,577,268
Accrued interest receivable on investments (Note D)	341,179	323,813
Accounts receivable, net (Notes E and N)	2,220,464	2,857,158
Pledges receivable	-	7,411
Grants and other receivables (Note F)	1,646,032	702,625
Prepaid expenses	189,378	165,311
Inventories	63,200	58,898
Notes receivable - parishes and other related parties, net (Notes G and N)	6,859,243	7,800,893
Accrued interest receivable on notes receivable	260,254	267,162
Beneficial interest in third-party trusts (Notes C, H and S)	1,440,760	1,380,886
Cemetery lot development costs	767,341	733,948
Mausoleums, columbaria, and lots	5,103,072	5,119,962
Property and equipment, net (Note I)	11,269,272	7,261,940
	<u> </u>	<u> </u>
Total Assets	<u>\$ 168,695,972</u>	<u>\$ 148,148,499</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,111,575	\$ 2,446,321
Collections payable	450,952	389,011
Deferred revenue	2,026,203	1,499,587
Notes payable (Note L)	4,041,856	2,556
Notes payable/advances - parishes and other related parties (Notes G and N)	54,753,372	51,496,455
	<u> </u>	<u> </u>
Total Liabilities	64,383,958	55,833,930
Net Assets		
Unrestricted net assets		
Invested in property and equipment	7,227,416	7,259,384
Expendable net assets	68,020,243	62,022,429
Board designated net assets (Note R)	14,653,560	9,596,019
Regulatory restricted - perpetual care endowment (Notes J and Q)	6,336,885	5,911,018
	<u> </u>	<u> </u>
Total Unrestricted Net Assets	96,238,104	84,788,850
Temporarily restricted (Notes J and S)	5,091,770	4,578,955
Permanently restricted (Notes J and S)	2,982,140	2,946,764
	<u> </u>	<u> </u>
Total Net Assets	104,312,014	92,314,569
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 168,695,972</u>	<u>\$ 148,148,499</u>

See accompanying notes.

Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Statements of Activities
Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support, and Gains								
Donations, bequests, and grants (Notes R and S)	\$ 15,166,673	\$ 2,190,301	\$ 6,255	\$ 17,363,229	\$ 13,993,706	\$ 1,072,632	\$ 1,252	\$ 15,067,590
Parish assessments (Notes N and O)	9,319,095	-	-	9,319,095	9,255,562	-	-	9,255,562
Special collections	386,061	-	-	386,061	432,323	-	-	432,323
Burial sales, net	2,515,163	-	-	2,515,163	2,037,064	-	-	2,037,064
Catholic Services Appeal	3,917,241	-	-	3,917,241	3,584,708	-	-	3,584,708
Fee income	2,498,785	-	-	2,498,785	2,487,679	-	-	2,487,679
Program and activity income	412,904	-	-	412,904	604,586	-	-	604,586
Rental income	152,346	-	-	152,346	208,754	-	-	208,754
Advertising income	548,331	-	-	548,331	587,085	-	-	587,085
Investment income, net	1,887,391	48,560	-	1,935,951	2,561,913	51,149	-	2,613,062
Unrealized gain (loss) in market value of investments	11,037,102	-	-	11,037,102	(4,721,178)	-	-	(4,721,178)
Realized gain (loss) on sale of investments	(801,350)	-	-	(801,350)	1,345,303	-	-	1,345,303
Other income (expense)	(463,649)	-	-	(463,649)	92,085	-	-	92,085
Increase (decrease) in value of split interest agreements (Note S)	-	30,753	29,121	59,874	-	(34,752)	(28,831)	(63,583)
Net assets released from restrictions	1,756,799	(1,756,799)	-	-	1,474,000	(1,474,000)	-	-
Total Revenues, Support, and Gains	48,332,892	512,815	35,376	48,881,083	33,943,590	(384,971)	(27,579)	33,531,040

Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Statements of Activities (Continued)
Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses								
Salary expense	9,556,917	-	-	9,556,917	9,371,504	-	-	9,371,504
Payroll added expense	2,654,868	-	-	2,654,868	2,703,150	-	-	2,703,150
Clergy retirement benefits (Note O)	1,786,001	-	-	1,786,001	1,756,919	-	-	1,756,919
Mileage and expense allowance	447,932	-	-	447,932	487,612	-	-	487,612
Education expense	836,097	-	-	836,097	777,944	-	-	777,944
Rent expense (Note M)	57,230	-	-	57,230	66,167	-	-	66,167
Office supplies and services	1,202,629	-	-	1,202,629	1,236,880	-	-	1,236,880
Plant and grounds expense	1,100,360	-	-	1,100,360	1,145,143	-	-	1,145,143
Auto expense	100,984	-	-	100,984	111,939	-	-	111,939
Public relations, donations, and grants	227,670	-	-	227,670	163,462	-	-	163,462
Advertising expense	225,527	-	-	225,527	179,056	-	-	179,056
Professional fees and services	598,560	-	-	598,560	872,526	-	-	872,526
Program and activity expense	1,797,292	-	-	1,797,292	1,546,103	-	-	1,546,103
Broadcasting/press expense	436,191	-	-	436,191	437,024	-	-	437,024
Archdiocesan support	294,573	-	-	294,573	287,592	-	-	287,592
Education grants	1,691,914	-	-	1,691,914	1,645,203	-	-	1,645,203
Cost of sales	447,098	-	-	447,098	342,986	-	-	342,986
Papal and national organizations	108,524	-	-	108,524	106,552	-	-	106,552
Other grants and direct aid (Note N)	11,988,414	-	-	11,988,414	10,912,002	-	-	10,912,002
Other restricted expense payments	115,081	-	-	115,081	190,316	-	-	190,316
Interest expense	396,266	-	-	396,266	552,065	-	-	552,065
Depreciation expense (Note I)	419,754	-	-	419,754	445,757	-	-	445,757
Bad debt expense	71,430	-	-	71,430	292,653	-	-	292,653
Miscellaneous expense	322,326	-	-	322,326	409,439	-	-	409,439
Total Expenses	<u>36,883,638</u>	<u>-</u>	<u>-</u>	<u>36,883,638</u>	<u>36,039,994</u>	<u>-</u>	<u>-</u>	<u>36,039,994</u>
Changes in Net Assets	11,449,254	512,815	35,376	11,997,445	(2,096,404)	(384,971)	(27,579)	(2,508,954)
Net Assets, Beginning of Year	<u>84,788,850</u>	<u>4,578,955</u>	<u>2,946,764</u>	<u>92,314,569</u>	<u>86,885,254</u>	<u>4,963,926</u>	<u>2,974,343</u>	<u>94,823,523</u>
Net Assets, End of Year	<u>\$ 96,238,104</u>	<u>\$ 5,091,770</u>	<u>\$ 2,982,140</u>	<u>\$ 104,312,014</u>	<u>\$ 84,788,850</u>	<u>\$ 4,578,955</u>	<u>\$ 2,946,764</u>	<u>\$ 92,314,569</u>

See accompanying notes.

Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Change in Net Assets to		
Net Cash Provided by Operating Activities		
Change in Net Assets	\$ 11,997,445	\$ (2,508,954)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	419,754	445,757
Amortization of debt issuance costs	301	-
Loss on disposal of property and equipment	398,499	9,616
Bad debt expense	71,430	292,653
Change in discount of accounts receivable	31,234	58,426
Change in discount of pledges receivable	24,055	-
Forgiveness of notes receivable	214,971	66,048
(Increase) decrease in beneficial interest in third-party trusts	(59,874)	63,583
Unrealized (gain) loss in market value of investments	(11,037,102)	4,721,178
Realized investment loss (gain)	801,350	(1,345,303)
Change in discount of notes receivable	(4,526)	679
Other Changes:		
(Increase) decrease in:		
Accrued interest receivable on investments	(17,366)	(274,727)
Accounts receivable	534,030	(977,774)
Pledges receivable	(16,644)	229,173
Grants and other receivables	(943,407)	116,752
Prepaid expenses	(24,067)	(16,748)
Inventories	(4,302)	23,032
Accrued interest receivable on notes receivable	6,908	399,299
Mausoleums, columbaria, and lots	(16,503)	(988,225)
Increase (decrease) in:		
Accounts payable and accrued expenses	40,110	332,653
Pledges payable	-	(181,387)
Collections payable	61,941	151,207
Deferred revenue	526,616	65,958
	<u>3,004,853</u>	<u>682,896</u>
Net Cash Provided by Operating Activities	<u>3,004,853</u>	<u>682,896</u>

Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Statements of Cash Flows (Continued)
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net Cash Provided by Operating Activities	\$ 3,004,853	\$ 682,896
Cash Flows from Investing Activities		
Purchases of property and equipment	(4,243,470)	(939,057)
Proceeds from sale of property and equipment	43,029	3,000
Purchases of investments	(23,846,768)	(901,500)
Proceeds from sale of investments	18,789,294	(1,386,229)
Advances to and repayments on loans to parishes and others, net	946,505	1,995,733
Net Cash Used in Investing Activities	(8,311,410)	(1,228,053)
Cash Flows from Financing Activities		
Proceeds from issuance of long term debt	4,041,555	-
Principal payments on notes payable	(2,556)	(8,334)
Deposits from parishes and others, net	3,041,617	238,541
Net Cash Provided by Financing Activities	7,080,616	230,207
Increase (Decrease) in Cash and Cash Equivalents	1,774,059	(314,950)
Cash and Cash Equivalents, Beginning of Year	6,891,224	7,206,174
Cash and Cash Equivalents, End of Year	<u>\$ 8,665,283</u>	<u>\$ 6,891,224</u>
<u>Supplemental Cash Flow Disclosure</u>		
Property and equipment included in accounts payable	<u>\$ 625,144</u>	<u>\$ -</u>
Interest paid	<u>\$ 396,266</u>	<u>\$ 552,065</u>

During the year ended June 30, 2016, the Archdiocese forgave \$2,000,000 of a note receivable with a parish in exchange for real property. The asset addition was shown as construction in progress in Note I as of June 30, 2016.

See accompanying notes.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements
June 30, 2017 and 2016**

Note A - Nature of Organization

The Archdiocese of Louisville (Chancery and Certain Entities) (the "Archdiocese") is a religious organization affiliated with the Roman Catholic Church. The Chancery provides support for the administration of pastoral, vocational, educational, and other services to the parish communities of central Kentucky. The Chancery derives its revenue mainly from donations, parish assessments, Catholic Services Appeal, and investment returns. The Chancery also provides financing and investing services to various parishes and other organizations through the Deposit and Loan Fund. Catholic Cemeteries administers four of the cemeteries in the Archdiocese of Louisville. Catholic Charities of Louisville, Inc. ("Catholic Charities") administers the migration and refugee program, among other social service activities. Catholic Foundation of Louisville, Inc. ("Catholic Foundation") administers the following initiatives: Seminarian Education, Priest Retirement, Parish Assistance, and Legacy Fund as well as recently added initiatives for Catholic Charities and Catholic Cemeteries. Catholic Foundation also maintains investments for various parishes that elect to invest through them.

Note B - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Archdiocese is presented to assist in understanding the Archdiocese's financial statements. The combined financial statements and notes are representations of the Archdiocese's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the combined financial statements. The more significant accounting policies of the Archdiocese are as follows:

1. Principles of Combination: The combined financial statements include the accounts of the Archdiocese of Louisville and Certain Entities which are under common control. Such entities are collectively referred to as the Archdiocese in the combined financial statements and related notes and include the Chancery (with its Deposit and Loan Fund), Catholic Cemeteries, Catholic Charities, and Catholic Foundation. All significant transactions among the entities included in the combined financial statements have been eliminated.

The combined financial statements do not include the parishes, elementary schools, four Archdiocesan sponsored secondary schools, and Catholic institutions owned and operated by religious communities.

2. Basis of Accounting: The combined statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Accounting Standards Codification ("ASC") as produced by the Financial Accounting Standards Board ("FASB") is the sole source of authoritative GAAP.

The Archdiocese distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions, if any. The Archdiocese classifies resources for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories is on the following page.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note B - Summary of Significant Accounting Policies (Continued)

2. Basis of Accounting (Continued):

Unrestricted Net Assets include the following:

Invested in Property and Equipment: These net assets represent cumulative resources expended for property and equipment, less accumulated depreciation recorded on the property and equipment and net of related debt.

Expendable Net Assets: These net assets represent the portion of expendable funds available for support in the operation of the Archdiocese.

Board Designated Net Assets: These net assets represent unrestricted funds designated for specific purposes by the Archbishop. Although the Archbishop could release or revise the designations in the future, to the extent not externally restricted, there is no intent to do so.

Regulatory Restricted - Perpetual Care Endowment: See Note Q.

Temporarily Restricted Net Assets include contributions for which donor imposed restrictions are to be met.

Permanently Restricted Net Assets include amounts for which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

The Archdiocese reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor time restriction ends or a donor purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the combined statements of activities. The Archdiocese treats restricted gifts whose restrictions are met in the same reporting period as unrestricted.

The Archdiocese reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations of how long those long-lived assets must be maintained, the Archdiocese reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

3. Use of Estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities, if any) 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.
4. Cash and Cash Equivalents: Cash and cash equivalents primarily include highly liquid investment securities with maturities of three months or less at the time of purchase, not designated for a specific purpose.

The Archdiocese maintains its cash balances in bank deposit accounts which, at times, may exceed the \$250,000 coverage provided by the Federal Deposit Insurance Corporation ("FDIC"). The Archdiocese has not experienced any losses in such accounts. Management believes the Archdiocese is not exposed to any significant risk on bank deposits.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note B - Summary of Significant Accounting Policies (Continued)

5. Investments: The Archdiocese invests in fixed income securities, including government and corporate bonds, and in publicly traded stocks, mutual funds, alternative strategies, and real assets.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Archdiocese.

Investments are carried at fair value, generally determined by quoted market prices. Receipt of donated investments is recorded at the quoted market value of the investment at the time of donation.

Net appreciation/depreciation on endowed fund investments, whose income is unrestricted as to use, is reported as unrestricted net assets unless such net appreciation/depreciation have been permanently restricted by the donor or by law. In cases where the donor has placed temporary restrictions on the use of the income from endowed gifts, net appreciation/depreciation are reported as part of temporarily restricted net assets until the restriction has been met.

Investment income in the combined statements of activities is net of investment expenses of approximately \$439,000 in 2017 and \$404,000 in 2016.

6. Receivables: The Archdiocese uses the allowance method for valuing receivables, which is based upon historical experience, coupled with a review of the current status of existing receivables. See notes within the combined financial statements for specific allowances determined by management.
7. Inventories: Inventories are carried at the lower of cost (first-in, first-out) or market and consist of monuments and supplies for Catholic Cemeteries as well as bus passes, gift cards, and housewares for Catholic Charities.
8. Cemetery Lot Development Costs: Lot development costs represent actual cost incurred in development of mausoleums, columbaria, and gravesites which are in the process of being completed.
9. Mausoleums, Columbaria, and Lots: Mausoleums, columbaria, and lots represent completed burial sites. As burial sites are sold, an allocated portion of the actual costs are expensed through cost of sales.
10. Property and Equipment: Donated property and equipment are recorded at their estimated fair values at the time of donation. Purchased property and equipment are recorded at acquisition cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	10 - 30 years
Buildings and improvements	20 - 40 years
Furniture and equipment	3 - 20 years

11. Collections Payable: Collections payable represent special collections conducted by parishes throughout the Archdiocese to meet particular pastoral needs. The Archdiocese remits these collections to local and national charitable organizations on behalf of the parishes.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note B - Summary of Significant Accounting Policies (Continued)

12. Deferred Revenue: Deferred revenue consists mainly of advances on grants as well as prepaid interments and lot maintenance fees. Revenues are reported in the fiscal year in which they are earned.
13. Donated Goods and Services: Donated materials and equipment are shown as gifts, valued at their estimated value at the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Archdiocese. A large number of volunteers have given significant amounts of their time for the operation of the Archdiocese throughout the years ended June 30, 2017 and 2016 that are not recognized as contributions in the combined financial statements since the recognition criteria were not met.
14. Income Taxes: The Archdiocese qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for federal or state income taxes has been recorded.

The Archdiocese evaluates recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach and has determined that no material adjustment for income tax uncertainties or unrecognized tax benefits is required.

15. Advertising: Expenses related to advertising and promotions are expensed as incurred. Advertising costs were approximately \$226,000 and \$179,000 for the years ended June 30, 2017 and 2016, respectively.
16. Subsequent Events: The Archdiocese has evaluated events occurring subsequent to year end through the date of the Independent Auditor's Report, the date the combined financial statements were available to be issued.
17. Recent Accounting Pronouncements: In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This updated guidance changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors and other users. This guidance includes qualitative and quantitative requirements in the following areas: 1) net asset classes; 2) investment return; 3) expenses; 4) liquidity and availability of resources; and 5) presentation of operating cash flows. This standard is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This updated guidance provides new requirements for leases to be recognized in the combined financial statements. In general, the guidance requires the lessee to recognize liabilities on the combined statement of financial position for the obligation to make lease payments and an asset for the right to use the underlying assets for the lease term. There is a differentiation between finance leases and operating leases for the lessee in the combined statements of activities and cash flows. Finance leases recognize interest on the lease liability separately from the right to use the asset whereas an operating lease recognizes a single lease cost allocated over the lease term on a generally straight-line basis. All cash payments are within operating activities in the combined statement of cash flows except finance leases classify repayments of the principal portion of the lease liability within financing activities. The updated guidance is to be applied using a modified retrospective approach effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note B - Summary of Significant Accounting Policies (Continued)

17. Recent Accounting Pronouncements (Continued): In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This updated guidance supersedes the revenue recognition guidance in *Topic 605, Revenue Recognition*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods and services. This standard is effective to annual reporting periods beginning after December 15, 2018.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the combined statement of activities will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the Archdiocese's year ending June 30, 2022.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 820)*. This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Consequently, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the combined statement of cash flows. This guidance is effective for annual periods beginning after December 15, 2017.

The Archdiocese is currently evaluating this guidance and its related impact on the combined financial statements of the Archdiocese.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30)*. The standard simplifies the presentation of debt issuance costs. The amendment requires debt issuance costs related to a recognized debt liability to be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In addition, amortization of these costs will now be reported as interest expense instead of amortization expense. This standard became effective for the Archdiocese for the year ended June 30, 2017.

Note C - Fair Value Measurements

The combined financial statements reflect the accounting standard related to fair value measurements, which provides a comprehensive framework for measuring fair value and expands required disclosures concerning fair value measurements. Specifically, the standard sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

The standard defines levels with the hierarchy of inputs as follows:

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly.
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note C - Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for the assets and liabilities measured at fair value. There have been no changes in the methodologies used to determine fair value at June 30, 2017 and 2016.

Cash and cash equivalents: Valued at the net asset value.

Common stocks: Valued at the quoted market price of the shares.

Government backed securities: Valued using a yield curve matrix derived from quoted prices for similar assets in active markets.

Corporate bonds and other: Valued at quoted market prices in exchange and active markets.

Mutual funds and Exchange traded funds: Valued at quoted market prices in exchange and active markets.

Hedge funds: Valued based on net asset value of units held, which is determined by the investment manager based upon the value of the underlying assets.

Beneficial interest in third party trusts: Valued at the fair value of the underlying investments held in third-party trusts, which is estimated to approximate the present value of future cash flows.

Fair values of financial assets measured on a recurring basis at June 30, 2017, are as follows:

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,134,827	\$ 2,134,827	\$ -	\$ -
Common stocks	75,387,461	75,387,461	-	-
Government backed securities	69,494	-	69,494	-
Corporate bonds and other	36,418,522	36,418,522	-	-
Mutual funds				
Real assets	7,566,426	7,566,426	-	-
Alternative strategies	211,565	211,565	-	-
Total mutual funds	7,777,991	7,777,991	-	-
Hedge fund				
Alternative strategies	8,082,199	-	8,082,199	-
Beneficial interest in third-party trusts (Note H)	1,440,760	-	1,440,760	-
	<u>\$ 131,311,254</u>	<u>\$ 121,718,801</u>	<u>\$ 9,592,453</u>	<u>\$ -</u>

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note C - Fair Value Measurements (Continued)

Fair values of financial assets measured on a recurring basis at June 30, 2016, are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 2,579,928	\$ 2,579,928	\$ -	\$ -
Common stocks	60,518,262	60,518,262	-	-
Government backed securities	77,634	-	77,634	-
Corporate bonds and other	33,860,543	33,860,543	-	-
Mutual funds				
Real assets	4,116,548	4,116,548	-	-
Alternative strategies	1,096,335	1,096,335	-	-
Total mutual funds	<u>5,212,883</u>	<u>5,212,883</u>	<u>-</u>	<u>-</u>
Exchange traded funds				
Real assets	4,296,972	4,296,972	-	-
Hedge fund				
Alternative strategies	8,031,046	-	8,031,046	-
Beneficial interest in third-party trusts (Note H)	<u>1,380,886</u>	<u>-</u>	<u>1,380,886</u>	<u>-</u>
	<u>\$ 115,958,154</u>	<u>\$ 106,468,588</u>	<u>\$ 9,489,566</u>	<u>\$ -</u>

Note D - Investments

Investments at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 2,134,827	\$ 2,134,827	2,579,928	\$ 2,579,928
Common stocks	60,314,177	75,387,461	54,950,844	60,518,262
Government backed securities	68,799	69,494	77,180	77,634
Corporate bonds and other	31,708,416	36,418,522	33,355,083	33,860,543
Mutual funds				
Real assets	7,501,002	7,566,426	3,714,347	4,116,548
Alternative strategies	213,392	211,565	1,158,471	1,096,335
Total mutual funds	<u>7,714,394</u>	<u>7,777,991</u>	<u>4,872,818</u>	<u>5,212,883</u>
Exchange traded funds				
Real assets	-	-	6,839,772	4,296,972
Hedge fund				
Alternative strategies	<u>7,600,000</u>	<u>8,082,199</u>	<u>7,600,000</u>	<u>8,031,046</u>
Total	<u>\$ 109,540,613</u>	<u>\$ 129,870,494</u>	<u>\$ 110,275,625</u>	<u>\$ 114,577,268</u>

Accrued interest earned from the above investments is \$341,179 and \$323,813 as of June 30, 2017 and 2016, respectively.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note E - Accounts Receivable

The Archdiocese provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account. In evaluating the collectability of the accounts receivable, the Archdiocese considers a number of factors, including the age of accounts, changes in collection patterns, and economic conditions. Actual collections of accounts receivable in subsequent periods may require changes in the estimated provision. Changes in the estimate are charged or credited to the results of the operations in the period of change. The Archdiocese does not charge interest on past due accounts.

A summary of the accounts receivable at June 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 4,948,879	\$ 5,530,284
Less allowance for doubtful accounts	<u>(2,728,415)</u>	<u>(2,673,126)</u>
Balance at End of Year	<u>\$ 2,220,464</u>	<u>\$ 2,857,158</u>

Note F - Grants and Other Receivables

Grants and other receivables at June 30, 2017 and 2016, totaling \$1,646,032 and \$702,625, respectively, consist primarily of billings for reimbursements of allowable expenditures in the operations of various federal grant programs operated by Catholic Charities. No allowance for uncollectible grants and other receivables has been recorded as management expects all reimbursements to be paid in full.

Note G - Deposit and Loan Fund

The Archdiocese maintains a centralized financing program through its Deposit and Loan Fund. The Deposit and Loan Fund consists of loans made by the Archdiocese to parishes and other organizations within the Archdiocese. Amounts due from parishes and other organizations at June 30, 2017 and 2016, were \$5,784,907 and \$6,637,937, respectively. These amounts are included in notes receivable - parishes and other related parties on the combined statements of financial position.

Interest rates on these loans range between 2.7% and 3.0% per annum for fiscal years 2017 and 2016. The maturity dates vary from on demand to seven years. The loans are collateralized by property of the parishes and other organizations.

Various parishes and other organizations within the Archdiocese remit funds to the Deposit and Loan Fund. Amounts due to parishes and other organizations at June 30, 2017 and 2016, were \$47,115,311 and \$44,371,806, respectively. These amounts are included in notes payable/advances - parishes and other related parties on the combined statements of financial position and are due on demand. Interest accrued at .50% per annum was paid on funds on deposit for fiscal years 2017 and 2016. The deposit rate is equal to the six month U.S. Treasury bill rate, and is adjusted every six months. However, the Archdiocese has established a minimum rate which is to be paid to the various parishes and other organizations of .50%. Subsequent to year end and effective July 1, 2017, the Archdiocese increased the rate to .75%.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note H - Beneficial Interest in Third-Party Trusts

The Archdiocese is the beneficiary of certain funds held in three trusts and administered by third-party trustees.

The Archdiocese is an income beneficiary of two irrevocable charitable trusts administered by third-party trustees. Income/distributions received from these trusts for the years ended June 30, 2017 and 2016, was \$49,445 and \$23,460, respectively. The income received from the trusts are restricted for elderly service programs. The net change in value of the trusts for the years ended June 30, 2017 and 2016, was an increase of \$49,842 and a decrease of \$46,225, respectively, and is included as a component of the change in temporarily and permanently restricted net assets on the combined statements of activities.

The Archdiocese is also a beneficiary of one charitable remainder uni-trust. The total estimated net present value of future cash flows from these trusts as of June 30, 2017 and 2016, assuming a 3.5% rate of return, was \$397,099 and \$387,067, respectively. Distributions received from these trusts for the years ended June 30, 2017 and 2016, were \$24,375 and \$25,060, respectively, and are restricted for seminarian education. The net change in value of the trusts was an increase of \$10,032 and decrease of \$17,358 for the years ended June 30, 2017 and 2016, respectively, and is included as a component in the change in temporarily restricted net assets on the combined statement of activities.

The beneficial interest of the underlying investments held in the third-party trusts and the net present value of future cash flows from the uni-trusts at June 30, 2017 and 2016 was as follows:

	2017		2016	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 13,492	\$ 13,492	\$ 4,609	\$ 4,609
Mutual funds - corporate bonds	268,048	270,787	281,101	286,242
Mutual funds - common stock	505,829	759,382	503,048	702,968
Subtotal	<u>\$ 787,369</u>	<u>\$ 1,043,661</u>	<u>\$ 788,758</u>	<u>\$ 993,819</u>
Estimated value of beneficial interest in charitable remainder uni-trusts		<u>397,099</u>		<u>387,067</u>
Total		<u>\$ 1,440,760</u>		<u>\$ 1,380,886</u>

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note I - Property and Equipment

Property and equipment consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 1,667,830	\$ 1,332,633
Construction in progress	5,882,265	2,309,270
Buildings and improvements	10,823,893	10,667,344
Furniture and equipment	<u>5,060,747</u>	<u>4,734,848</u>
Subtotal	23,434,735	19,044,095
Less accumulated depreciation	<u>(12,165,463)</u>	<u>(11,782,155)</u>
Total	<u><u>\$ 11,269,272</u></u>	<u><u>\$ 7,261,940</u></u>

Total depreciation expense was \$419,754 and \$445,757 for the years ended June 30, 2017 and 2016, respectively.

Note J - Endowments

The Archdiocese's endowments include donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Effective March 25, 2010, the Archbishop and Finance Committee of the Archdiocese interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of 2006 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Archdiocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Archdiocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Archdiocese and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Archdiocese
- 7) The investment policies of the Archdiocese

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note J - Endowments (Continued)

Return Objectives and Risk Parameters

The Archdiocese has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to a program supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Archdiocese must hold in perpetuity. Under this policy, as approved by the Archbishop and Finance Committee, the endowment assets are invested in a manner that is consistent with the Archdiocese's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Archdiocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Archdiocese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Archdiocese has a policy of appropriating for distribution each year based upon the 6 month T-bill rate with a floor of 50 basis points. In establishing this policy, the Archdiocese considered the long-term expected return on its endowment. Accordingly, over the long term, the Archdiocese expects the current spending policy will allow its endowment to be preserved on an inflation-adjusted basis. This is consistent with the Archdiocese's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. Actual returns in any given year may vary from this amount.

Composition by Type of Fund

<u>June 30, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 830,502	\$ 2,497,600	\$ 3,328,102
Regulatory-restricted endowment funds	6,336,885	-	-	6,336,885
Total Funds	<u>\$ 6,336,885</u>	<u>\$ 830,502</u>	<u>\$ 2,497,600</u>	<u>\$ 9,664,987</u>
<u>June 30, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 832,232	\$ 2,489,211	\$ 3,321,443
Regulatory-restricted endowment funds	5,911,018	-	-	5,911,018
Total Funds	<u>\$ 5,911,018</u>	<u>\$ 832,232</u>	<u>\$ 2,489,211</u>	<u>\$ 9,232,461</u>

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note J - Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,911,018	\$ 832,232	\$ 2,489,211	\$ 9,232,461
Net investment income	121,843	27,877	9,652	159,372
Contributions	304,024	-	6,255	310,279
Appropriation of endowment assets for expenditure	-	(39,259)	2,134	(37,125)
Transfer to temporarily restricted	-	9,652	(9,652)	-
Endowment Net Assets, End of Year	<u>\$ 6,336,885</u>	<u>\$ 830,502</u>	<u>\$ 2,497,600</u>	<u>\$ 9,664,987</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,542,857	\$ 831,000	\$ 2,487,959	\$ 8,861,816
Net investment income	114,346	27,426	9,796	151,568
Contributions	253,815	-	3,386	257,201
Appropriation of endowment assets for expenditure	-	(35,990)	(2,134)	(38,124)
Transfer to temporarily restricted	-	9,796	(9,796)	-
Endowment Net Assets, End of Year	<u>\$ 5,911,018</u>	<u>\$ 832,232</u>	<u>\$ 2,489,211</u>	<u>\$ 9,232,461</u>

Note K - Line of Credit

The Chancery has a \$1,000,000 secured line of credit that expires May 1, 2018. The line of credit bears interest at LIBOR plus 1.25% at the Archdiocese's option. The daily LIBOR rate at June 30, 2017 was 1.22%. The interest rate at June 30, 2017, was 2.47%. The note is secured by investments. There were no amounts outstanding on the line at June 30, 2017 and 2016.

Catholic Charities has a \$250,000 line of credit agreement that expires January 31, 2018. The line of credit bears interest at LIBOR plus 1.50% (2.72% at June 30, 2017). The note is secured by The Archdiocese of Louisville's guarantee. There were no amounts outstanding at June 30, 2017 and 2016.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note L - Notes Payable

Long-term debt is summarized as follows:

	<u>2017</u>	<u>2016</u>
City of Audubon Park, Kentucky Revenue Note Series 2016:		
Note payable in monthly installments of \$20,833 beginning August 1, 2017, plus interest at the rate of 70% of the Daily One-Month LIBOR Rate, plus .94 (1.79% at June 30, 2017). Matures July 1, 2037 and subject to mandatory prepayment in whole on July 25, 2023.	\$ 4,078,002	\$ -
Tiger Leasing:		
Note payable in monthly installments of \$383, including interest at 14.44%, maturing in January 2017. Secured by equipment.	-	2,556
Principal balance due	4,078,002	2,556
Less unamortized debt issuance costs	<u>(36,146)</u>	<u>-</u>
Notes payable	<u>\$ 4,041,856</u>	<u>\$ 2,556</u>

Estimated future maturities of notes payable as of June 30, 2017 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 229,167
2019	250,000
2020	250,000
2021	250,000
2022	250,000
Thereafter	<u>2,848,835</u>
Total	<u>\$ 4,078,002</u>

Note M - Lease Obligations

Catholic Charities is a party to a month-to-month building lease and storage lease which requires monthly payments of approximately \$800 and \$121, respectively.

During June 2015, Catholic Charities entered into a month-to-month lease agreement with Catholic Charities, Diocese of Covington for the use of office space. The lease requires payments of \$1,200 per month to be made on a biannual basis.

During November 2014, Catholic Charities entered into a month-to-month lease agreement with Catholic Charities, Diocese of Lexington for the use of office space. The lease requires payments of \$1,000 per month to be made on a biannual basis.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note M - Lease Obligations (Continued)

During the year ended June 30, 2010, Catholic Charities entered into a lease agreement with the Archdiocese of Louisville/Roman Catholic Bishop of Louisville, Inc. ("RCBL"), a Corporation Sole. The terms of the agreement allow Catholic Charities to lease from RCBL the entire campus of a parish church. The term of the lease is 25 years at an annual payment of \$1.

The Archdiocese will periodically lease/rent other items on an as needed basis. Total rent expense for the years ended June 30, 2017 and 2016 was \$57,230 and \$66,167, respectively.

Note N - Related Party Transactions and Guarantees

An assessment is levied on parishes and certain other Archdiocesan entities to provide support for the activities of the Archdiocese. Total assessments for the years ended June 30, 2017 and 2016, were \$9,319,095 and \$9,255,562, respectively. Assessments receivable, net of allowance for doubtful accounts and discounts, at June 30, 2017 and 2016, were \$351,528 and \$457,120, respectively, and are included in accounts receivable in the combined statements of financial position. See Note E for additional information.

The Chancery provides support to various schools and missions located within the Archdiocese. The total support provided for the years ended June 30, 2017 and 2016, was \$2,438,005 and \$2,716,940 respectively.

Related party notes receivable consist of amounts due from clergy, parishes, and Catholic schools. At June 30, 2017 and 2016, such receivables totaled \$6,859,243 and \$7,800,893, respectively. Related party notes receivable at June 30, 2017 and 2016, are net of a discount to estimated present value of future payments of \$50,030 and \$54,556, respectively. No allowance for uncollectible notes receivable was determined necessary, however, a discount rate of 3.5% was used for each of the years ended June 30, 2017 and 2016. The original maturity dates vary from on demand to seven years. See Note G for additional information.

Related party notes payable/advances consist of amounts due to parishes, Catholic schools and other organizations. At June 30, 2017 and 2016, such payables totaled \$54,753,372 and \$51,496,455, respectively. See Note G for additional information.

The Chancery is a guarantor on \$300,000 in lines of credit to two Catholic high schools. There were \$100,000 in borrowings against these lines of credit at June 30, 2017.

The Chancery is a guarantor for approximately \$22,950,000 in bank loans to parishes of the Archdiocese of Louisville at June 30, 2017. The parishes used the funds as a source of financing for capital projects. Terms of the loans and lines of credit range from one to seven years. If any parish should default, the Chancery may liquidate the parish assets to satisfy any outstanding obligation.

The Chancery is a guarantor of a \$3,000,000 bank loan obtained by a Catholic foundation. These funds were then loaned by the foundation to one of the Catholic elementary schools in the Archdiocese of Louisville for funding of a capital project and to fund additional capital expenditures. The balance of the loan at June 30, 2017, was approximately \$528,000.

The Chancery received no consideration for any of the guarantees. Management evaluates the loss exposure at the statement of financial position date, and no accruals for loss exposure were deemed necessary.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note N - Related Party Transactions and Guarantees (Continued)

In December 2009, an unsecured bank qualified bond in the amount of \$10,100,000 was issued for the benefit of St. Bernadette Parish/St. Mary Academy School to replace the 2008 Series Bond. The original 2008 Series Bond was used for the land purchase and construction of St. Mary Academy School. The balance of the bond was \$10,100,000 at June 30, 2012. In March 2013, an unsecured bank qualified bond in the amount of \$10,000,000 was issued as a replacement. The 2013 bond document contained certain covenants for which compliance is required by St. Bernadette Parish and St. Mary Academy. The balance of the bond was \$7,437,129 and \$9,987,129 at June 30, 2017 and 2016, respectively. St. Bernadette Parish and St. Mary Academy made a voluntary principal payment during the 2017 fiscal year of \$2,550,000.

During the year ended June 30, 2015, St. Francis Desales High School, through the city of Shively, was the recipient of a \$5 million Revenue Bond, Series 2015. Total borrowings were \$4,838,207 and \$3,128,729 as of June 30, 2017 and 2016, respectively. The Archdiocese is the guarantor on this bond.

Note O - Retirement Benefits

Employees and Active Clergy:

The Archdiocese has a 401(k) plan that covers Archdiocesan and other agencies' eligible employees, as well as active diocesan priests. The Plan allows employees' contributions, up to the statutory limit and personal management of the employees' retirement accounts. The Archdiocese or agency contributes 6% of eligible employees' gross pay each pay period and \$200 per month for active Diocesan clergy to the Plan. The Archdiocese made contributions of approximately \$495,000 and \$491,000 to the Plan for the years ended June 30, 2017 and 2016, respectively.

Retired Clergy:

Retirement benefits and supplemental medical coverage benefits for retired diocesan clergy are determined by the Archbishop. The Archdiocese makes payments to these retired Diocesan clergy in accordance with instructions from the Archbishop and expenses such payments as they are made.

The parishes pay to the Archdiocese an assessment for retirement benefits for retired clergy based on total parish income at the rate of 1.34% for the year ended June 30, 2017 and .84% for the year ended and 2016. The assessment income for retirement benefits from the parishes was approximately \$1,693,000 and \$1,051,000 for the years ended June 30, 2017 and 2016, respectively, and is included in the total of parish assessments in the combined statements of activities. Remaining board designated net assets for retirement benefits at June 30, 2017 and 2016, were \$3,979,088 and \$2,298,914, respectively. In the fiscal year ended June 30, 2017, the Board designated an additional \$2 million for retirement benefits for retired clergy.

Benefits paid to retired clergy for the years ended June 30, 2017 and 2016 follow:

	<u>2017</u>	<u>2016</u>
Clergy retirement benefits	\$ 1,786,001	\$ 1,756,919
Supplemental medical coverage	<u>214,166</u>	<u>206,543</u>
Total	<u>\$ 2,000,167</u>	<u>\$ 1,963,462</u>

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note P - Contingencies

Legal Contingencies

The Archdiocese is involved in various legal actions and regulatory issues from time to time arising in the ordinary course of its activities. It is the opinion of management and legal counsel that the ultimate liability, if any, with respect to these matters will not materially affect the financial position of the Archdiocese.

Affordable Housing Project Contingencies

Catholic Charities has executed various Regulatory Agreements with the U.S. Department of Housing and Urban Development ("HUD") as a sponsor under the Section 202 - Supportive Housing for the Elderly program. The Organization is the sponsor for various affordable housing projects receiving forgivable capital grants funded under the Section 202 program. In the role of sponsor, Catholic Charities signs with the project owner as co-borrower on the forgivable grants. These Regulatory Agreements stipulate that in order for the grants to be forgiven, the underlying properties must maintain compliance with HUD throughout the term of the grant, which is typically 40 years. As of June 30, 2017, Catholic Charities has executed four Section 202 Regulatory Agreements with projects borrowing a total of approximately \$15,200,000. There is no expectation of repayment due to HUD's ultimate recourse being the property and improvements utilized to fulfill the objectives of the Section 202 Program. In the event of default with respect to the Regulatory Agreements, Catholic Charities would relieve any obligation owed to HUD by transferring all title and interest in the projects back to HUD.

The operations of the projects sponsored by Catholic Charities are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Major Funding Source

Catholic Charities is substantially funded by grants awarded directly and indirectly by the federal government. The funding is subject to federal government appropriations and potential funding reductions. Recent Presidential Executive Orders have significantly curtailed Catholic Charities' refugee resettlement work. Catholic Charities is making changes to adjust to a lower level of funding.

Note Q - Regulatory Restricted

Perpetual Care Endowment:

Kentucky state cemetery and funeral laws mandate that cemeteries designate a certain percentage of burial site sales to a perpetual care and maintenance trust fund. In accordance with this law, Catholic Cemeteries has established an endowed fund into which is set aside the following percentage of gross sales:

Grave space	20%
Crypts	5%
Niches	10%

The balance in this endowed fund at June 30, 2017 and 2016, is \$6,336,885 and \$5,911,018 respectively.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note R - Board Designated Net Assets

Board designated net assets are designated for the following purposes:

	2017	2016
Catholic Foundation of Louisville, Inc.	\$ 6,846,307	\$ 6,369,997
Priest Retirement Fund	3,979,088	2,298,914
Catholic Charities of Louisville	1,000,000	-
Southern KY missions	1,000,000	-
Closed parishes	674,261	791,467
Capital Reserves	500,000	-
High School Tuition Assistance	500,000	-
Other	153,904	135,641
Total	\$ 14,653,560	\$ 9,596,019

Note S - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30, 2016	Contributions	Investment Income	Change in Beneficial Interest	Released from Restrictions / Other Changes	June 30, 2017
Poverty assistance	\$ 497,122	\$ 240,183	\$ 1,664	\$ -	\$ (314,007)	\$ 424,962
Seminarian and priest education	1,079,063	1,527,914	8,049	10,031	(589,072)	2,035,985
Specific operations	183,373	-	638	-	(183,973)	38
School scholarships	373,291	13,879	3,976	-	(135,672)	255,474
Maintenance and care of gravesites	686,253	-	27,877	-	(2,763)	711,367
Mission promotions	268,555	174,367	1,266	-	(148,366)	295,822
Hersche Trust	538,400	-	-	20,722	-	559,122
Food service program	300,556	151,134	1,787	-	(222,917)	230,560
Multicultural ministry	474,783	-	2,135	-	(71,765)	405,153
Other	177,559	82,824	1,168	-	(88,264)	173,287
Total	\$ 4,578,955	\$ 2,190,301	\$ 48,560	\$ 30,753	\$(1,756,799)	\$ 5,091,770

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note S -Restricted Net Assets (Continued)

	June 30, 2015	Contributions	Investment Income	Change in Beneficial Interest	Released from Restrictions / Other Changes	June 30, 2016
Poverty assistance	\$ 604,094	\$ 282,584	\$ 1,569	\$ -	\$ (391,125)	\$ 497,122
Seminarian and priest education	903,610	576,065	8,491	-	(409,103)	1,079,063
Specific operations	194,422	-	951	-	(12,000)	183,373
School scholarships	373,291	-	-	-	-	373,291
Maintenance and care of gravesites	664,377	-	27,426	-	(5,550)	686,253
Mission promotions	418,448	2,513	1,817	-	(154,223)	268,555
Hersche Trust	555,794	-	-	-	(17,394)	538,400
Food service program	272,132	174,825	1,768	-	(148,169)	300,556
Multicultural ministry	560,475	547	2,502	-	(88,741)	474,783
Other	417,283	36,098	6,625	(34,752)	(247,695)	177,559
Total	\$ 4,963,926	\$ 1,072,632	\$ 51,149	\$ (34,752)	\$(1,474,000)	\$ 4,578,955

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is temporarily restricted for the endowment purpose:

	June 30, 2015	Contributions	Change in Beneficial Interest	June 30, 2016	Contributions	Change in Beneficial Interest	June 30, 2017
Seminarian and priest education	\$ 1,181,902	\$ -	\$ -	\$ 1,181,902	\$ -	\$ -	\$ 1,181,902
Maintenance and care of gravesites	693,575	1,252	-	694,827	6,255	-	701,082
School scholarships	512,900	-	-	512,900	-	-	512,900
Poverty assistance	509,251	-	(28,831)	480,420	-	29,121	509,541
Other	76,715	-	-	76,715	-	-	76,715
Total	\$ 2,974,343	\$ 1,252	\$ (28,831)	\$ 2,946,764	\$ 6,255	\$ 29,121	\$ 2,982,140

Permanently restricted net assets are not available to fund the unrestricted operations of the Archdiocese and are included in the combined statements of financial position in the following asset accounts:

	2017	2016
Investment in marketable securities	\$ 2,585,041	\$ 2,559,697
Beneficial interest in third-party trusts	397,099	387,067
	\$ 2,982,140	\$ 2,946,764

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note T - Functional Expenses

A summary of expenses by functional classification, net of eliminations, for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
	<u> </u>	<u> </u>
Chancery (post eliminations)		
Program		
Retired Priest, Other Clergy and Seminarians	\$ 2,933,021	\$ 2,996,273
Archdiocesan Communications Center	1,836,650	1,866,152
Office of Catholic Schools	665,774	639,714
Office of Formation	353,802	406,351
Office of Youth/Young Adult Ministry	238,217	387,244
Campus Ministries	104,957	137,122
Education Grants	1,691,912	2,215,428
Office of Multicultural Ministries	615,837	593,620
Other Grants	954,554	822,945
Family Ministries	417,319	409,736
Tribunal Office	344,040	336,039
Grants to Other Catholic Organizations	294,573	287,592
Worship Office	248,203	237,872
Other Archdiocesan support	515,803	301,036
Vocation Office	160,451	202,237
Diaconate Office	228,497	260,519
Priest Personnel	138,513	153,022
Evangelization	101,919	108,158
	<u>11,844,042</u>	<u>12,361,060</u>
Supporting Activities		
Administrative Support	3,135,836	3,132,373
Other Interest Expense	161,645	167,016
	<u>3,297,481</u>	<u>3,299,389</u>
Fundraising Expense		
Office of Mission Advancement	697,122	629,695
	<u>697,122</u>	<u>629,695</u>
Total Expenses Chancery	15,838,644	16,290,144
Deposit and Loan Fund Interest (post eliminations)	234,319	408,017

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Financial Statements (Continued)
June 30, 2017 and 2016**

Note T - Functional Expenses (Continued)

	<u>2017</u>	<u>2016</u>
Catholic Charities (post eliminations)		
Program		
Refugee programs	\$ 14,047,603	\$ 12,732,407
Social enterprises	1,573,708	1,209,780
Case management services	1,521,723	1,617,001
Catholic identity and external relations	<u>246,349</u>	<u>280,898</u>
	17,389,383	15,840,086
Supporting Activities		
Administrative services	440,394	808,997
Fundraising Expense	<u>134,947</u>	<u>110,480</u>
Total Expenses Catholic Charities	17,964,724	16,759,563
Catholic Cemeteries (post eliminations)		
Program		
Cemetery Operations	1,739,426	1,721,782
Cost of Sales	<u>447,098</u>	<u>342,987</u>
	2,186,524	2,064,769
Supporting activities		
Administrative services	<u>542,234</u>	<u>463,827</u>
Total Expenses Catholic Cemeteries	2,728,758	2,528,596
Catholic Foundation of Louisville, Inc. (post eliminations)	<u>117,193</u>	<u>53,674</u>
Total Expenses Combined	<u>\$ 36,883,638</u>	<u>\$ 36,039,994</u>

Note U - Subsequent Events

Effective July 1, 2017, the Archdiocese entered into an interest rate swap agreement. The notional amount of the swap was \$2,500,000 (half of the total revenue bond principal). The intent of the Archdiocese was to secure a fixed rate of interest on half of the revenue bond. The Archdiocese will pay interest at 2.973%.

Effective July 1, 2017, the Archdiocese of Louisville is no longer participating in the Child Nutrition Cluster programs, which includes the National School Lunch Program (CFDA# 10.555) as well as the School Breakfast Program (CFDA# 10.553) and Special Milk Program (CFDA# 10.556).

Supplementary Information

Archdiocese of Louisville
(Chancery and Certain Entities)
Combining Statements of Financial Position
June 30, 2017

	Chancery	Deposit and Loan Fund	Catholic Cemeteries	Catholic Charities	Catholic Foundation	Eliminations	Combined
Assets							
Assets							
Cash and cash equivalents	\$ 7,390,389	\$ -	\$ 1,012,838	\$ 260,974	\$ 1,082	\$ -	\$ 8,665,283
Investments	118,904,782	-	2,771,338	-	9,926,216	(1,731,842)	129,870,494
Accrued interest receivable on investments	341,179	-	-	-	-	-	341,179
Accounts receivable, net	1,537,635	-	370,468	312,361	-	-	2,220,464
Grants and other receivables	-	-	-	1,646,032	-	-	1,646,032
Prepaid expenses	97,345	-	38,220	53,813	-	-	189,378
Inventories	-	-	43,462	19,738	-	-	63,200
Notes receivable - parishes and other related parties, net	1,074,336	5,784,907	-	-	-	-	6,859,243
Accrued interest receivable on notes receivable	16,042	244,212	-	-	-	-	260,254
Beneficial interest in third-party trusts	397,099	-	-	1,043,661	-	-	1,440,760
Cemetery lot development costs	-	-	767,341	-	-	-	767,341
Mausoleums, columbariums, and lots	-	-	5,103,072	-	-	-	5,103,072
Property and equipment, net	9,125,900	-	1,493,131	650,241	-	-	11,269,272
Interfund receivables	-	51,669,584	7,752,976	-	-	(59,422,560)	-
Total Assets	\$ 138,884,707	\$ 57,698,703	\$ 19,352,846	\$ 3,986,820	\$ 9,927,298	\$ (61,154,402)	\$ 168,695,972

Archdiocese of Louisville
(Chancery and Certain Entities)
Combining Statements of Financial Position (Continued)
June 30, 2017

	Chancery	Deposit and Loan Fund	Catholic Cemeteries	Catholic Charities	Catholic Foundation	Eliminations	Combined
Liabilities and Net Assets							
Liabilities							
Accounts payable and accrued expenses	\$ 1,630,678	\$ -	\$ 129,735	\$ 1,351,162	\$ -	\$ -	\$ 3,111,575
Collections payable	450,952	-	-	-	-	-	450,952
Deferred revenue	186,520	-	1,163,613	676,070	-	-	2,026,203
Interfund payables	51,669,584	7,752,976	-	-	1,731,842	(61,154,402)	-
Notes payable	4,041,856	-	-	-	-	-	4,041,856
Notes payable/advances - parishes and other related parties	6,288,912	47,115,311	-	-	1,349,149	-	54,753,372
Total Liabilities	64,268,502	54,868,287	1,293,348	2,027,232	3,080,991	(61,154,402)	64,383,958
Net Assets							
Unrestricted net assets							
Invested in property and equipment	5,084,044	-	1,493,131	650,241	-	-	7,227,416
Expendable net assets	56,304,182	2,830,416	8,817,033	68,612	-	-	68,020,243
Board designated net assets	7,807,253	-	-	-	6,846,307	-	14,653,560
Regulatory restricted - perpetual care endowment	-	-	6,336,885	-	-	-	6,336,885
Total Unrestricted Net Assets	69,195,479	2,830,416	16,647,049	718,853	6,846,307	-	96,238,104
Temporarily restricted	3,624,207	-	711,367	756,196	-	-	5,091,770
Permanently restricted	1,796,519	-	701,082	484,539	-	-	2,982,140
Total Net Assets	74,616,205	2,830,416	18,059,498	1,959,588	6,846,307	-	104,312,014
Total Liabilities and Net Assets	\$ 138,884,707	\$ 57,698,703	\$ 19,352,846	\$ 3,986,820	\$ 9,927,298	\$ (61,154,402)	\$ 168,695,972

See Independent Auditor's Report.

Archdiocese of Louisville
(Chancery and Certain Entities)
Combining Statements of Financial Position
June 30, 2016

	Chancery	Deposit and Loan Fund	Catholic Cemeteries	Catholic Charities	Catholic Foundation	Eliminations	Combined
Assets							
Assets							
Cash and cash equivalents	\$ 6,074,827	\$ -	\$ 581,378	\$ 234,627	\$ 392	\$ -	\$ 6,891,224
Investments	107,282,264	-	925,398	-	6,369,606	-	114,577,268
Accrued interest receivable on investments	323,813	-	-	-	-	-	323,813
Accounts receivable, net	1,855,224	-	281,363	721,075	-	(504)	2,857,158
Pledges receivable	7,411	-	-	-	-	-	7,411
Grants and other receivables	-	-	-	702,625	-	-	702,625
Prepaid expenses	98,875	-	24,007	42,429	-	-	165,311
Inventories	-	-	26,540	32,358	-	-	58,898
Notes receivable - parishes and other related parties, net	1,162,956	6,637,937	-	-	-	-	7,800,893
Accrued interest receivable on notes receivable	16,076	251,086	-	-	-	-	267,162
Beneficial interest in third-party trusts	387,067	-	-	993,819	-	-	1,380,886
Cemetery lot development costs	-	-	733,948	-	-	-	733,948
Mausoleums, columbariums, and lots	-	-	5,119,962	-	-	-	5,119,962
Property and equipment, net	5,053,570	-	1,502,226	706,144	-	-	7,261,940
Interfund receivables	-	49,547,444	9,217,595	-	-	(58,765,039)	-
Total Assets	\$ 122,262,083	\$ 56,436,467	\$ 18,412,417	\$ 3,433,077	\$ 6,369,998	\$ (58,765,543)	\$ 148,148,499

Archdiocese of Louisville
(Chancery and Certain Entities)
Combining Statements of Financial Position (Continued)
June 30, 2016

	Chancery	Deposit and Loan Fund	Catholic Cemeteries	Catholic Charities	Catholic Foundation	Eliminations	Combined
Liabilities and Net Assets							
Liabilities							
Accounts payable and accrued expenses	\$ 1,107,782	\$ -	\$ 120,015	\$ 1,219,028	\$ -	\$ (504)	\$ 2,446,321
Collections payable	389,011	-	-	-	-	-	389,011
Deferred revenue	62,150	-	1,043,237	394,200	-	-	1,499,587
Interfund payables	49,547,444	9,217,595	-	-	-	(58,765,039)	-
Notes payable	-	-	-	2,556	-	-	2,556
Notes payable/advances - parishes and other related parties	7,124,649	44,371,806	-	-	-	-	51,496,455
Total Liabilities	58,231,036	53,589,401	1,163,252	1,615,784	-	(58,765,543)	55,833,930
Net Assets							
Unrestricted net assets							
Invested in property and equipment	5,053,570	-	1,502,226	703,588	-	-	7,259,384
Expendable net assets	50,724,725	2,847,066	8,454,841	(4,203)	-	-	62,022,429
Board designated net assets	3,226,021	-	-	-	6,369,998	-	9,596,019
Regulatory restricted - perpetual care endowment	-	-	5,911,018	-	-	-	5,911,018
Total Unrestricted Net Assets	59,004,316	2,847,066	15,868,085	699,385	6,369,998	-	84,788,850
Temporarily restricted	3,230,212	-	686,253	662,490	-	-	4,578,955
Permanently restricted	1,796,519	-	694,827	455,418	-	-	2,946,764
Total Net Assets	64,031,047	2,847,066	17,249,165	1,817,293	6,369,998	-	92,314,569
Total Liabilities and Net Assets	\$ 122,262,083	\$ 56,436,467	\$ 18,412,417	\$ 3,433,077	\$ 6,369,998	\$ (58,765,543)	\$ 148,148,499

See Independent Auditor's Report.

Archdiocese of Louisville
(Chancery and Certain Entities)
Combining Statements of Activities
For the Year Ended June 30, 2017

	Chancery	Deposit and Loan Fund	Catholic Cemeteries	Catholic Charities	Catholic Foundation	Eliminations	Combined
Revenue, Support, and Gains							
Donations, bequests, and grants	\$ 1,964,164	\$ -	\$ 6,355	\$ 16,429,699	\$ 2,011	\$ (1,039,000)	\$ 17,363,229
Parish assessments	9,438,939	-	-	-	-	(119,844)	9,319,095
Special collections	386,061	-	-	-	-	-	386,061
Burial sales, net	-	-	2,515,163	-	-	-	2,515,163
Catholic Services Appeal	3,917,241	-	-	-	-	-	3,917,241
Fee income	106,058	-	926,915	1,465,812	-	-	2,498,785
Program and activity income	332,986	-	-	79,918	-	-	412,904
Rental income	172,185	-	26,375	-	-	(46,214)	152,346
Advertising income	548,331	-	-	-	-	-	548,331
Investment income, net	1,314,415	400,813	194,525	56,167	153,175	(183,144)	1,935,951
Unrealized gain in market value of investments	10,583,305	-	-	-	453,797	-	11,037,102
Realized gain (loss) on sale of investments	(935,869)	-	-	-	134,519	-	(801,350)
Other income (expense)	103,420	-	(10,378)	25,580	-	(582,271)	(463,649)
Increase in value of split interest agreements	10,031	-	-	49,843	-	-	59,874
	<u>\$ 27,941,267</u>	<u>\$ 400,813</u>	<u>\$ 3,658,955</u>	<u>\$ 18,107,019</u>	<u>\$ 743,502</u>	<u>\$ (1,970,473)</u>	<u>\$ 48,881,083</u>
Total Revenues, Support, and Gains							

Archdiocese of Louisville
(Chancery and Certain Entities)
Combining Statements of Activities (Continued)
For the Year Ended June 30, 2017

	Chancery	Deposit and Loan Fund	Catholic Cemeteries	Catholic Charities	Catholic Foundation	Eliminations	Combined
Expenses and Losses							
Salary expense	\$ 4,727,041	\$ -	\$ 1,244,097	\$ 3,585,779	\$ -	\$ -	\$ 9,556,917
Payroll added expense	1,399,660	-	359,051	896,157	-	-	2,654,868
Clergy retirement benefits	1,786,001	-	-	-	-	-	1,786,001
Mileage and expense allowance	214,231	-	8,761	224,940	-	-	447,932
Education expense	835,841	-	256	-	-	-	836,097
Rent expense	87,544	-	1,498	14,402	-	(46,214)	57,230
Office supplies and services	877,857	-	103,927	220,845	-	-	1,202,629
Plant and grounds expense	509,005	-	321,507	269,848	-	-	1,100,360
Auto expense	3,383	-	51,062	46,539	-	-	100,984
Public relations, donations, and grants	107,681	-	122,833	-	267,000	(269,844)	227,670
Advertising expense	215,580	-	9,947	-	-	-	225,527
Professional fees and services	317,418	-	21,927	259,215	-	-	598,560
Program and activity expense	590,126	-	-	1,207,166	-	-	1,797,292
Broadcasting/press expense	436,191	-	-	-	-	-	436,191
Archdiocesan support	1,183,573	-	-	-	-	(889,000)	294,573
Education grants	1,691,914	-	-	-	-	-	1,691,914
Cost of sales	-	-	447,098	-	-	-	447,098
Papal and national organizations	108,524	-	-	-	-	-	108,524
Other grants and direct aid	893,994	-	-	11,094,420	-	-	11,988,414
Other restricted expense payments	697,352	-	-	-	-	(582,271)	115,081
Interest expense	161,947	417,463	-	-	-	(183,144)	396,266
Depreciation expense	215,408	-	108,226	96,120	-	-	419,754
Bad debt expense	47,375	-	3,555	20,500	-	-	71,430
Miscellaneous expense	248,463	-	44,877	28,793	193	-	322,326
Total Expenses and Losses	17,356,109	417,463	2,848,622	17,964,724	267,193	(1,970,473)	36,883,638
Change in Net Assets	10,585,158	(16,650)	810,333	142,295	476,309	-	11,997,445
Net Assets, Beginning of Year	64,031,047	2,847,066	17,249,165	1,817,293	6,369,998	-	92,314,569
Net Assets, End of Year	\$ 74,616,205	\$ 2,830,416	\$ 18,059,498	\$ 1,959,588	\$ 6,846,307	\$ -	\$ 104,312,014

See Independent Auditor's Report.

Archdiocese of Louisville
(Chancery and Certain Entities)
Combining Statements of Activities
For the Year Ended June 30, 2016

	Chancery	Deposit and Loan Fund	Catholic Cemeteries	Catholic Charities	Catholic Foundation	Eliminations	Combined
Revenue, Support, and Gains							
Donations, bequests, and grants	\$ 1,084,384	\$ -	\$ 1,893	\$ 15,116,716	\$ 61,230	\$ (1,196,633)	\$ 15,067,590
Parish assessments	9,383,590	-	-	-	-	(128,028)	9,255,562
Special collections	432,323	-	-	-	-	-	432,323
Burial sales, net	-	-	2,037,064	-	-	-	2,037,064
Catholic Services Appeal	3,584,708	-	-	-	-	-	3,584,708
Fee income	122,772	-	1,113,489	1,251,418	-	-	2,487,679
Program and activity income	557,752	-	-	46,834	-	-	604,586
Rental income	229,077	-	26,175	-	-	(46,498)	208,754
Advertising income	587,085	-	-	-	-	-	587,085
Investment income, net	2,109,504	388,158	6,245	(4,557)	113,712	-	2,613,062
Unrealized loss in market value of investments	(4,493,959)	-	-	-	(227,219)	-	(4,721,178)
Realized gain (loss) on sale of investments	1,681,523	-	-	-	(336,220)	-	1,345,303
Other income	839,106	-	7,897	26,924	-	(781,842)	92,085
Decrease in value of split interest agreements	(17,358)	-	-	(46,225)	-	-	(63,583)
Total Revenues, Support, and Gains	\$ 16,100,507	\$ 388,158	\$ 3,192,763	\$ 16,391,110	\$ (388,497)	\$ (2,153,001)	\$ 33,531,040

Archdiocese of Louisville
(Chancery and Certain Entities)
Combining Statements of Activities (Continued)
For the Year Ended June 30, 2016

	Chancery	Deposit and Loan Fund	Catholic Cemeteries	Catholic Charities	Catholic Foundation	Eliminations	Combined
Expenses and Losses							
Salary expense	\$ 4,696,881	\$ -	\$ 1,246,073	\$ 3,428,550	\$ -	\$ -	\$ 9,371,504
Payroll added expense	1,449,434	-	361,267	892,449	-	-	2,703,150
Clergy retirement benefits	1,756,919	-	-	-	-	-	1,756,919
Mileage and expense allowance	240,597	-	2,470	244,545	-	-	487,612
Education expense	777,335	-	609	-	-	-	777,944
Rent expense	87,498	-	1,621	23,546	-	(46,498)	66,167
Office supplies and services	914,390	-	91,736	230,754	-	-	1,236,880
Plant and grounds expense	511,027	-	242,842	391,274	-	-	1,145,143
Auto expense	3,278	-	52,434	56,227	-	-	111,939
Public relations, donations, and grants	109,388	-	128,428	-	353,674	(428,028)	163,462
Advertising expense	168,187	-	10,869	-	-	-	179,056
Professional fees and services	449,215	-	27,351	395,960	-	-	872,526
Program and activity expense	722,173	-	-	823,930	-	-	1,546,103
Broadcasting/press expense	437,024	-	-	-	-	-	437,024
Archdiocesan support	1,184,225	-	-	-	-	(896,633)	287,592
Education grants	1,645,203	-	-	-	-	-	1,645,203
Cost of sales	-	-	342,986	-	-	-	342,986
Papal and national organizations	106,552	-	-	-	-	-	106,552
Other grants and direct aid	1,051,955	-	-	9,860,047	-	-	10,912,002
Other restricted expense payments	972,158	-	-	-	-	(781,842)	190,316
Interest expense	143,297	408,017	-	751	-	-	552,065
Depreciation expense	235,223	-	110,793	99,741	-	-	445,757
Bad debt expense	67,967	-	-	224,686	-	-	292,653
Miscellaneous expense	285,191	-	37,145	87,103	-	-	409,439
Total Expenses and Losses	18,015,117	408,017	2,656,624	16,759,563	353,674	(2,153,001)	36,039,994
Changes in Net Assets	(1,914,610)	(19,859)	536,139	(368,453)	(742,171)	-	(2,508,954)
Net Assets, Beginning of Year	65,945,657	2,866,925	16,713,026	2,185,746	7,112,169	-	94,823,523
Net Assets, End of Year	\$ 64,031,047	\$ 2,847,066	\$ 17,249,165	\$ 1,817,293	\$ 6,369,998	\$ -	\$ 92,314,569

See Independent Auditor's Report.

Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-through Number	Pass-through to Sub- Recipients	Total Federal Expenditures
Archdiocese of Louisville:				
Department of Agriculture				
Pass-through-Commonwealth of Kentucky				
Department of Education:				
Child Nutrition Cluster				
National School Lunch Program	10.555	10186	\$ 760,361	\$ 760,361
School Breakfast Program	10.553		21,084	21,084
Special Milk Program	10.556		13,269	13,269
Total from Department of Education			<u>794,714</u>	<u>794,714</u>
Pass-through-Commonwealth of Kentucky				
Department of Agriculture:				
National School Lunch Program - Commodities Distribution Program	10.555	4002630	275,131	275,131
Total Expenditures of Federal Awards-Archdiocese of Louisville			<u>1,069,845</u>	<u>1,069,845</u>
Catholic Charities of Louisville, Inc.:				
Department of Health and Human Services:				
Refugee and Entrant Assistance - State Administered (Refugee Social Services)	93.566	REFSS16 REFSS17	259,682 877,831	416,775 1,376,180
			<u>1,137,513</u>	<u>1,792,955</u>
Refugee and Entrant Assistance - Cuban/Haitian Refugees Set Aside	93.566	REFSS16 REFSS17	78,052 144,747	120,853 261,223
			<u>222,799</u>	<u>382,076</u>
Refugee and Entrant Assistance - Refugee Cash and Medical Assistance Program	93.566	REFMED&CASH16 REFMED&CASH17	- -	645,454 1,519,628
			<u>-</u>	<u>2,165,082</u>
Subtotal	93.566		<u>1,360,312</u>	<u>4,340,113</u>
Refugee and Entrant Assistance - Wilson/Fish Program	93.583	90RW004501 90RW004502	261,628 728,291	1,338,146 3,882,728
			<u>989,919</u>	<u>5,220,874</u>
Refugee and Entrant Assistance - Refugee Targeted Assistance	93.584	REFTA15 REFTA16	347,414 288,544	511,119 455,393
			<u>635,958</u>	<u>966,512</u>
Refugee and Entrant Assistance - Discretionary Grants				
Centers for Disease Control and Prevention - Investigation and Technical Assistance	93.283	CK121205STRURIMRE14	15,867	25,818
Surveillance for Diseases Among Immigrants and Refugees Financed in Part by Prevention and Public Health Funds	93.755	CDC-RFA-CK12-1205	13,833	32,699
Services for Elderly Refugees	93.576	REFSS16 REFSS17	18,875 61,497	23,611 75,669
			<u>80,372</u>	<u>99,280</u>

Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-through Number	Pass-through to Sub- Recipients	Federal Expenditures
Department of Health and Human Services (Continued):				
Refugee School Impact Grant	93.576	90ZE0215/02 REFSS17	226,928 196,489 <u>423,417</u>	231,948 225,077 <u>457,025</u>
Preventive Health	93.576	90RX0259/02 90RX0259/03	17,224 68,378 <u>85,602</u>	33,164 125,113 <u>158,277</u>
Targeted Assistance	93.576	90RT016403 90RT021201	46,532 78,083 <u>124,615</u>	52,793 109,870 <u>162,663</u>
Subtotal	93.576		714,006	877,245
KY Tri-City Rescue and Restore Project	93.598	90ZV0103/02 90ZV0103/03	- - <u>-</u>	9,198 152,017 <u>161,215</u>
Total Refugee and Entrant Assistance - Discretionary Grants			<u>743,706</u>	<u>1,096,977</u>
Total received directly from the Department of Health and Human Services			<u>3,729,895</u>	<u>11,624,476</u>
Passed through the United States Catholic Conference of Bishops				
Bishops Migration and Refugee Services:				
Voluntary Agency Matching Grant Program	93.567	90RV00305	-	<u>487,625</u>
Total passed through from the United States Catholic Conference of Bishops			-	<u>487,625</u>
Passed through the Kentuckiana Regional Planning and Development Agency				
Elder Abuse, Title VII	93.041	M05186930(KATH)	-	5,960
Long-Term Care Ombudsman Title VII	93.042	M05186930(KATH)	-	100,542
Grants for Supportive Services Title III-B	93.044	M05186930(KATH)	-	<u>54,504</u>
Total passed through from the Kentuckiana Regional Planning and Development Agency			-	<u>161,006</u>
Total from Department of Health and Human Services			<u>3,729,895</u>	<u>12,273,107</u>
Department of State				
Passed through the United States Catholic Conference of Bishops				
Migration and Refugee Services:				
Refugee Admissions Program	19.510		-	<u>1,421,796</u>
Total from Department of State			-	<u>1,421,796</u>
Department of Homeland Security				
Passed through the United States Catholic Conference of Bishops				
Migration and Refugee Services:				
Cuban/Haitian Entrant Program	97.009		-	<u>465,260</u>
Total from Department of Homeland Security			-	<u>465,260</u>

Archdiocese of Louisville
(Chancery and Certain Entities)
Combined Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-through Number	Pass-through to Sub- Recipients	Federal Expenditures
Department of Justice				
Passed through the Commonwealth of Kentucky Justice and Public Safety Cabinet Collaborative Legal Services for Immigrant Victims of Domestic Abuse	16.588	6784-VA3-1/07	-	76,459
Passed through the Commonwealth of Kentucky Justice and Public Safety Cabinet OVC Service of Victims of Human Trafficking	16.320	2013-VT-BX-K021	-	257,141
Passed through the Commonwealth of Kentucky Justice and Public Safety Cabinet Case Management and Victims of Human Trafficking	16.320	2016-VT-BX-K018	-	45,315
Subtotal	16.320		-	302,456
Passed through Catholic Charities USA Juvenile Mentoring Program	16.726	2015-JU-FX-0013	-	45,669
Total from Department of Justice			-	424,584
Department of Agriculture				
Passed through the University of Kentucky Research Foundation KYFarm Start II: A Whole Farm Mgmt. Education Program for Beginning Farmers	10.311	90ZR004101	-	55,099
Total from Department of Agriculture			-	55,099
Total Expenditures of Federal Awards - Catholic Charities of Louisville, Inc.			3,729,895	14,639,846
Total Schedule of Expenditures of Federal Awards			\$ 4,799,740	\$ 15,709,691

See Independent Auditor's Report and accompanying notes.

**Archdiocese of Louisville
(Chancery and Certain Entities)
Notes to Combined Schedule of Expenditures of Federal Awards
June 30, 2017**

Note A - Basis of Presentation

Reporting entities:

The accompanying combined schedule of expenditures of federal awards includes the federal grant activity of Archdiocese of Louisville (Chancery and Certain Entities) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. When the Archdiocese acts as a pass-through agent, the award monies are reflected on the combined statements of financial position as awards to be received from the federal agencies to be passed to the subrecipients.

Separate entity reporting:

Catholic Charities of Louisville, Inc.'s expenditures of federal awards totaling \$14,639,846 have been audited and reported separately to the Office of Management and Budget and are included in the schedule as required under combination rules.

Note B - Nonmonetary Assistance

Nonmonetary assistance value of \$275,131 in the form of U.S. Department of Agriculture food commodities is reported in the combined schedule of expenditures of federal awards based on the commodity prices established by the U.S. Department of Agriculture.

Note C - Indirect Cost Rate

The amount expended includes certain costs claimed as an indirect cost recovery using Archdiocese of Louisville's cost allocation plan. The Archdiocese of Louisville (Chancery and Certain Entities) has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note D - Procurement Policy

The Archdiocese of Louisville (Chancery and Certain Entities) has elected to delay adopting the procurement requirements specified in the Uniform Guidance.

Note E - Subsequent Event

Effective July 1, 2017, the Archdiocese of Louisville is no longer participating in the Child Nutrition Cluster, which includes the National School Lunch Program (CFDA# 10.555) as well as the School Breakfast Program (CFDA# 10.553) and Special Milk Program (CFDA# 10.556).



**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Archbishop Joseph E. Kurtz, D.D.
and Finance Council
Archdiocese of Louisville

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Archdiocese of Louisville (Chancery and Certain Entities) (the "Archdiocese"), which comprise the combined statement of financial position as of June 30, 2017, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the combined financial statements, which comprise the Archdiocese's basic combined financial statements and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Archdiocese's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Archdiocese's internal control. Accordingly, we do not express an opinion on the effectiveness of the Archdiocese's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Archdiocese's combined financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards* (Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Archdiocese's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Archdiocese's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Archdiocese's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Jeffersonville, Indiana
October 13, 2017



Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance

Archbishop Joseph E. Kurtz, D.D.
and Finance Council
Archdiocese of Louisville

Report on Compliance for Each Major Federal Program

We have audited the Archdiocese of Louisville (Chancery and Certain Entities)'s (the "Archdiocese") compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Archdiocese's major federal programs for the year ended June 30, 2017. The Archdiocese's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Archdiocese's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Archdiocese's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Archdiocese's compliance.

Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance (Continued)

Opinion on Each Major Federal Program

In our opinion, the Archdiocese complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Archdiocese is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Archdiocese's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Archdiocese's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Jeffersonville, Indiana
October 13, 2017

**Archdiocese of Louisville
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2017**

Section I - Summary of Auditor's Results

Combined Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? _____ yes X no
 Significant deficiency(ies) identified not considered to be
 material weaknesses? _____ yes X none reported
 Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ yes X no
 Significant deficiency(ies) identified not considered to be
 material weaknesses? _____ yes X no

Type of auditors' report issued on compliance for major
 programs: Unmodified

Any audit findings disclosed that are required to be reported
 in accordance with the Uniform Guidance? _____ yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch Program
10.555	National School Lunch Program - Commodities Distribution Program
10.553	School Breakfast Program
10.556	Special Milk Program

Dollar threshold used to distinguish between Type A and
 Type B programs: \$ 750,000

Auditee qualified as a low risk auditee? X yes _____ no

Section II - Financial Statement Findings

None

Section III - Major Federal Award Programs Audit Findings

None

**Archdiocese of Louisville
(Chancery and Certain Entities)
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2017**

None.