

FINANCIAL REPORT

CHANCERY OFFICE OF THE CATHOLIC
DIOCESE OF JACKSON

JACKSON, MISSISSIPPI

JUNE 30, 2019

Presented by: Harper, Rains, Knight & Company, P.A.
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Harper, Rains, Knight & Company

The Board of Directors
Chancery Office of the
Catholic Diocese of Jackson
Jackson, Mississippi

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Chancery Office of the Catholic Diocese of Jackson (the "Chancery"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended June 30, 2019, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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The Board of Directors
Chancery Office of the
Catholic Diocese of Jackson (continued)

Auditors' Responsibility (continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the 2018 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Harper, Raines, Knight & Company, P.A.

February 24, 2020

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018 (Restated)
Current assets		
Cash and cash equivalents	\$ 423,429	\$ 597,737
Other receivables	817,624	872,332
Short-term certificates of deposit	379,286	641,217
Prepaid expenses	44,545	30,426
Total current assets	<u>1,664,884</u>	<u>2,141,712</u>
Property and equipment, net	3,282,997	3,390,057
Bequest receivable	22,753,612	-
Investments	33,526,359	33,901,792
Loans receivables, net	<u>10,192,505</u>	<u>5,028,859</u>
Total assets	<u>\$ 71,420,357</u>	<u>\$ 44,462,420</u>
Current liabilities		
Checks written in excess of deposits	\$ 276,261	\$ 558,930
Lines of credit	1,800,826	1,774,000
Accounts payable and accrued expenses	636,337	906,820
Deferred support and revenue	123,794	120,950
Deposits payable to parishes and others	35,335,741	32,920,060
Current portion of notes payable	<u>660,058</u>	<u>270,968</u>
Total current liabilities	38,833,017	36,551,728
Long-term portion of notes payable	3,286,969	2,240,985
Unfunded pension liability	<u>2,770,616</u>	<u>2,403,326</u>
Total liabilities	<u>44,890,602</u>	<u>41,196,039</u>
Net assets		
Without donor restrictions	561,672	(53,238)
With donor restrictions	<u>25,968,083</u>	<u>3,319,619</u>
	<u>26,529,755</u>	<u>3,266,381</u>
	<u>\$ 71,420,357</u>	<u>\$ 44,462,420</u>

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

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support and reclassifications			
Parish assessments	\$ 2,301,823	\$ -	\$ 2,301,823
Donations	233,853	-	233,853
Bequest	-	25,541,107	25,541,107
Investment income, net	1,251,797	27,332	1,279,129
Unrealized and realized gain on investments	379,586	-	379,586
Grants	321,156	-	321,156
Catholic service appeal	1,016,784	-	1,016,784
Management fees	79,250	-	79,250
Registration fees and tuition	80,481	-	80,481
Newspaper and periodicals	39,564	-	39,564
Workshops and conventions	66,059	-	66,059
Insurance premiums	1,707,641	-	1,707,641
Catholic Foundation	177,334	-	177,334
Rental income	32,072	-	32,072
Gain on disposal of equipment	5,708	-	5,708
Other	959,374	-	959,374
Net assets released from restrictions	<u>2,919,975</u>	<u>(2,919,975)</u>	<u>-</u>
Total revenue, support and reclassifications	<u>11,572,457</u>	<u>22,648,464</u>	<u>34,220,921</u>
Expenses			
Salaries	1,973,803	-	1,973,803
Employee benefits	2,372,419	-	2,372,419
Insurance	1,648,681	-	1,648,681
Interest expense	1,107,381	-	1,107,381
Advertising	27,128	-	27,128
Provision for (reversal of) loan losses and other bad debt expense	(2,965,798)	-	(2,965,798)
Catholic Charities	354,275	-	354,275
Computer maintenance	146,302	-	146,302
Depreciation	237,637	-	237,637
Ecclesiastical affairs	46,990	-	46,990

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

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON
STATEMENT OF ACTIVITIES (continued)
Year Ended June 30, 2019

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Expenses (continued)			
Financial aid	\$ 120,145	\$ -	\$ 120,145
Grants and contributions	3,235,152	-	3,235,152
Maintenance	82,429	-	82,429
Missions	42,423	-	42,423
MS Catholic newspaper	195,075	-	195,075
Newspaper and periodicals	12,617	-	12,617
Office supplies	41,789	-	41,789
Pastoral	233,913	-	233,913
Professional services	679,354	-	679,354
Public relations	12,114	-	12,114
Registration fees and tuition	361,901	-	361,901
Taxes	13,013	-	13,013
Travel	96,098	-	96,098
Utilities	120,623	-	120,623
Workshops and conventions	177,933	-	177,933
Other	584,150	-	584,150
Total expenses	<u>10,957,547</u>	<u>-</u>	<u>10,957,547</u>
Change in net assets	614,910	22,648,464	23,263,374
Net assets at beginning of year	<u>(53,238)</u>	<u>3,319,619</u>	<u>3,266,381</u>
Net assets at end of year	<u>\$ 561,672</u>	<u>\$ 25,968,083</u>	<u>\$ 26,529,755</u>

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

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	2018 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support and reclassifications			
Parish assessments	\$ 2,255,636	\$ -	\$ 2,255,636
Donations	717,369	-	717,369
Bequest	17,738	75,000	92,738
Investment income	1,107,990	146,246	1,254,236
Unrealized and realized gain on investments	1,093,115	-	1,093,115
Grants	281,110	-	281,110
Catholic service appeal	988,504	-	988,504
Management fees	86,250	-	86,250
Registration fees and tuition	89,755	-	89,755
Newspaper and periodicals	46,944	-	46,944
Workshops and conventions	85,668	-	85,668
Insurance premiums	2,083,031	-	2,083,031
Catholic Foundation	134,880	5,980	140,860
Rental income	29,718	-	29,718
Gain on disposal of equipment	11,297	-	11,297
Other	481,714	-	481,714
Net assets released from restrictions	1,013,071	(1,013,071)	-
Total revenue, support and reclassifications	10,523,790	(785,845)	9,737,945
Expenses			
Salaries	1,975,864	-	1,975,864
Employee benefits	2,152,489	-	2,152,489
Insurance	1,934,844	-	1,934,844
Interest expense	1,025,254	-	1,025,254
Advertising	38,397	-	38,397
Provision for loan loss and bad debt expenses	81,383	-	81,383
Catholic Charities	420,817	-	420,817
Computer maintenance	173,244	-	173,244
Depreciation	219,836	-	219,836
Ecclesiastical affairs	54,480	-	54,480

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

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

STATEMENT OF ACTIVITIES (continued)

Year Ended June 30, 2018

	2018 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total
Expenses (continued)			
Financial aid	\$ 314,374	\$ -	\$ 314,374
Grants	515,470	-	515,470
Maintenance	136,050	-	136,050
Missions	30,120	-	30,120
MS Catholic newspaper	239,841	-	239,841
Newspaper and periodicals	11,985	-	11,985
Office supplies	64,881	-	64,881
Pastoral	146,217	-	146,217
Professional services	374,497	-	374,497
Public relations	21,074	-	21,074
Registration fees and tuition	383,156	-	383,156
Taxes	11,650	-	11,650
Travel	157,451	-	157,451
Utilities	115,385	-	115,385
Workshops and conventions	206,097	-	206,097
Other	310,828	-	310,828
Total expenses	<u>11,115,684</u>	<u>-</u>	<u>11,115,684</u>
Change in net assets	<u>(591,894)</u>	<u>(785,845)</u>	<u>(1,377,739)</u>
Net assets at beginning of year, prior to restatement	(64,844)	4,105,464	4,040,620
Restatement	<u>603,500</u>	<u>-</u>	<u>603,500</u>
Net assets at beginning of year, after restatement	<u>538,656</u>	<u>4,105,464</u>	<u>4,644,120</u>
Net assets at end of year	<u>\$ (53,238)</u>	<u>\$ 3,319,619</u>	<u>\$ 3,266,381</u>

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

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 23,263,374	\$ (1,377,739)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gain on investments	(379,586)	(1,093,115)
Depreciation	237,637	219,836
Gain on disposal of assets	(5,708)	(11,297)
Loss on fire damage	287,971	-
Reversal of loan losses	(2,997,435)	-
Changes in assets and liabilities:		
Other receivables	54,708	145,261
Bequest receivable	(22,753,612)	-
Prepaid expenses	(14,119)	36,427
Checks written in excess of deposits	(282,669)	295,390
Accounts payable and accrued expenses	(270,483)	315,830
Deferred support and revenue	2,844	120,950
Deposits payable to parishes and others	2,415,681	(1,459,471)
Unfunded pension liability	367,290	(368,369)
Net cash used in operating activities	(74,107)	(3,176,297)
Cash flows from investing activities:		
Purchases of property and equipment	(420,340)	(1,334,931)
Proceeds from sale of property and equipment	7,500	11,297
Proceeds from maturity of certificates of deposit	641,217	723,535
Purchases of certificates of deposit	(379,286)	(944,239)
Purchase of marketable securities	(12,134,237)	(10,422,757)
Proceeds from sale of marketable securities	12,889,256	11,531,636
Issuance of loans	(9,430,623)	(9,430,623)
Repayment of loans	7,264,412	9,846,858
Net cash used in investing activities	(1,562,101)	(19,224)
Cash flows from financing activities:		
Proceeds on line of credit	26,008,965	1,774,000
Payments on line of credit	(25,982,139)	-
Proceeds on long term debt	2,000,000	1,006,052
Payments on long term debt	(564,926)	(219,111)
Net cash provided by financing activities	1,461,900	2,560,941
Net decrease in cash and cash equivalents	(174,308)	(634,580)
Cash and cash equivalents, beginning	597,737	1,232,317
Cash and cash equivalents, ending	\$ 423,429	\$ 597,737

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

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Canonical Ministries	Clergy and Religious Support	Newspaper/ Communication	Deposits and Loan Fund	Education and Formation	Other Program Funds	Property and Liability Insurance	Seminarians	Management and General	Total
Personnel	\$ 407,066	\$ 1,783,656	\$ 128,074	\$ -	\$ 541,507	\$ 101,155	\$ -	\$ 383,670	\$ 1,481,414	\$ 4,826,542
Insurance	-	-	-	-	-	-	1,760,420	-	-	1,760,420
Professional services	38,756	3,114	-	-	39,098	2,897	-	1,459	973,717	1,059,041
Interest	-	-	-	856,081	-	-	-	-	251,300	1,107,381
Occupancy	-	-	-	-	271	-	-	-	789,607	789,878
Charitable giving and subsidies	48,807	2,787,495	-	(2,984,144)	130,858	541,754	-	-	4,952	529,722
Other	2,204	-	121,793	-	2,642	64,993	-	-	235,037	426,669
Travel and professional development	15,178	85,945	-	-	3,578	-	-	-	178,385	283,086
Supplies	596	-	5,636	-	154,222	11,013	-	1,104	2,237	174,808
	<u>\$ 512,607</u>	<u>\$ 4,660,210</u>	<u>\$ 255,503</u>	<u>\$ (2,128,063)</u>	<u>\$ 872,176</u>	<u>\$ 721,812</u>	<u>\$ 1,760,420</u>	<u>\$ 386,233</u>	<u>\$ 3,916,649</u>	<u>\$ 10,957,547</u>

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The nature of the organization and the significant accounting policies which have been followed by the Chancery Office of the Catholic Diocese of Jackson (the "Chancery") in preparing the accompanying financial statements are set forth below.

Organization and Operations

The Catholic Diocese of Jackson (the "Diocese") consists of 65 counties in the central and northern portions of the State of Mississippi. Titles to most church properties in the Diocese are held by the Bishop as Trustee. The Bishop has jurisdiction over 91 parishes and missions.

The purpose of the Diocese is to further the tradition of the Roman Catholic Church in the Diocese of Jackson, Mississippi, by the acceptance and prudent management of gifts and bequests of monies and properties to the Diocese, by acquiring lands incidental to establishment of new parishes and missions and by rendering financial assistance, advice and support to parishes, missions and programs of the Diocese, all to the glory of God and the spread of His Kingdom.

The accompanying financial statements include only the accounts maintained by and directly under the control of the Chancery, which include primarily the operations of the Diocesan staff at the Diocese Chancery Office in Jackson, Mississippi.

Transactions with the parishes and other organizations mentioned above (whose accounts are not consolidated in the accompanying financial statements) are recorded on their records on the basis determined by the parties. Such transactions for 2019 and 2018 include loans to/from parishes and schools, assessments to parishes, insurance premiums and other transactions from special funds and the deposit and loan fund.

Basis of Presentation

The Chancery's financial statements are presented in accordance with Financial Accounting Standards Board in its Not-for-Profit Entities topic of the FASB Accounting Standards Codification.

Basis of Accounting

The Chancery presents its financial statements on the accrual basis of accounting.

For 2019 and 2018, the Chancery maintained its accounting records for net assets without donor restrictions on a fund basis as follows:

Current Fund

The majority of all financial transactions of the Chancery are recorded in the Current Fund, which is the General Operating Fund. Contributions and donations are considered to be

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

available for use without donor restrictions unless specifically restricted by the donor. Assessment revenue is recognized when earned, that is, when the service is performed, or resource is provided to the parish or school.

Deposit and Loan Fund

The Deposit and Loan Fund is a cooperative investment and lending program established for the mutual benefit of the parishes and other institutions of the Diocese. The current maturities of loans receivable are not feasible to determine; therefore, all are considered long-term. Deposits payable to parishes and others are due on demand or have maturities of less than one year.

Net Assets

The Chancery reports information regarding its financial position and activities according to two classes of net assets: (1) net assets without donor restrictions and (2) net assets with donor restrictions. The Chancery records donor-restricted contributions for which the restrictions are met in the same reporting period as net assets without donor restrictions.

Net assets with donor restrictions are those which have been restricted by donors outside of the Chancery. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. Board designated net assets are certain net assets without donor restrictions designated by the Board for future use by specific programs.

Revenue Recognition

Contributions are recognized as revenue when unconditional promises to give are received. The Chancery reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit use of the donated assets.

Parish Assessments

Parish assessments are reported at estimated net realizable value. Assessments are based on the earnings of individual Parishes during the year. On a continuing basis, management analyzes delinquent receivables and once these receivables are determined to be uncollectible, they are written off through a charge against the existing allowance for doubtful accounts or directly to operating expenses.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Chancery considers all highly liquid investments with maturity when purchased of three months or less to be cash equivalents. However, cash equivalents invested in money market accounts maintained or held by the Chancery's investment brokers or custodians are considered investments. Certificates of deposit with original maturities greater than three months but less than or equal to one-year are classified as current assets. Certificates of deposit with maturities greater than one year are classified as long-term assets (investments).

Other Receivables

Other receivables consist of all amounts expected to be received within the next 12 months. As of June 30, 2019, management has determined that no allowance over other receivables is considered necessary. Should amounts become uncollectible, balances would be charged off to bad debt expense. As of June 30, 2019 and 2018, other receivables consisted of the following amounts:

	<u>2019</u>	<u>2018</u>
CDJ Health	\$ 400,000	\$ 619,304
Catholic Extention Grant	133,400	120,950
Other receivables	<u>284,224</u>	<u>132,078</u>
Balance at end of year	<u>\$ 817,624</u>	<u>\$ 872,332</u>

Bequest receivable

The Chancery received a bequest for the sole use, benefit and welfare of St. Joseph Catholic Church and Parish. The will was validated in probate court on December 2018, and accordingly, the Chancery recorded the gift at the estimated fair market value of the assets at this time. The bequest consists of a combination of cash and cash equivalents, debt and equity securities, and other financial assets. The change in fair market value of the marketable securities of the bequest as of June 30, 2019, is recognized in bequest income with donor restrictions.

Investments

The Chancery reports all investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value for assets and liabilities required to be recorded at fair value, the Chancery considers the principal or the most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of non-performance. Although the Chancery believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. See Note 2 for a discussion of fair value measurements.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Gains or losses on investments are reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted.

Investment income is presented net of investment management fees of \$194,659 and \$194,506 for the years ending June 30, 2019 and 2018, respectively.

The Chancery invests in various investment securities that are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near-term and that such changes could materially affect the amounts reported in the statements of financial position and activities.

Property and Equipment

Property and equipment acquisitions are recorded at cost at the date of acquisition or fair value at the date of donation less accumulated depreciation. Maintenance and repairs are expensed in the period incurred; major renewals and betterments are capitalized. When items of property are sold or retired, the related costs are removed from the accounts and any gain or loss is included in income. The Chancery capitalizes all property and equipment additions valued at \$1,000 and having a useful life of more than one year. Depreciation is provided over the estimated useful lives using the straight-line method.

Property and equipment at June 30, 2019 and 2018 are as follows:

	<u>Estimated useful life</u>	<u>2019</u>	<u>2018</u>
Land	--	\$ 41,183	\$ 41,183
Buildings	30 years	4,047,181	3,979,570
Furniture and equipment	3-10 years	458,130	437,408
Automotive equipment	3 years	152,837	148,102
Works of art	--	68,256	68,256
Software	3 years	65,704	65,704
Total property and equipment		4,833,291	4,740,223
Accumulated depreciation		1,550,294	1,350,166
Net property and equipment		<u>\$ 3,282,997</u>	<u>\$ 3,390,057</u>

The Chancery periodically evaluates whether current facts or circumstances indicate that the carrying amount of its depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

the long-lived asset or the appropriate grouping of assets, is compared to the carrying value to determine whether an impairment exists. If an asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value.

Loans Receivable

Loans receivable which consist of advances to parishes and schools within the Diocese are stated at the amount of unpaid principal, less an allowance for credit losses. The allowance is based on management's estimate of the amount necessary to absorb losses on existing loans. Management's estimate is based on a review of specific loans, estimated fair value of underlying collateral and current economic conditions. An analysis of the activity in the allowance account during the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 4,612,643	\$ 4,672,386
Provision for loan losses	77,873	55
Recovery of loan losses	<u>(3,065,219)</u>	<u>(59,798)</u>
Balance at end of year	<u>\$ 1,625,297</u>	<u>\$ 4,612,643</u>

Deferred Revenue

Amounts received in advance of the period in which service is rendered are recorded as deferred revenue.

Advertising

The Chancery expenses all advertising costs related to fundraising activities and programs as incurred.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include those assumed in determining the bequest receivable, unfunded pension liability, allowance for credit losses, functional allocation of expenses, depreciation and fair value amounts at year end. It is at least reasonably possible that the significant estimates used will change within the next year.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of credit risk

The Chancery has deposits with various financial institutions that, at times, exceed federally insured limits. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2019, the Chancery had demand deposits in a local bank of \$86,851 in excess of amounts insured by the FDIC. The Chancery has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Liquidity and Availability

The Chancery has \$1,620,339 of financial assets available within one year of the balance sheet date to meet the cash needs for general expenditures. These amounts consist of cash of \$423,429, receivables of \$817,624, and short-term certificates of deposit of \$379,286. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The receivables are subject to implied time restrictions but are expected to be collected within one year. The Chancery has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$1,816,000. The Chancery has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management the Chancery invests cash in various investments, including certificates of deposit, common stocks, preferred stocks and fixed income securities. As more fully described in Note 3, the Diocese also has committed lines of credit, which it could draw upon in the event of an unanticipated liquidity need. As of June 30, 2019, the Chancery had an unused line of credit balance of \$1,880,874.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are reported on a functional and natural basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Chancery is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The Chancery has no unrecognized tax benefits identified or recorded at June 30, 2019 and 2018. The Chancery would recognize interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain reclassifications have been made to prior years amounts to conform with the current presentation.

Subsequent Events

Subsequent events were evaluated by the Chancery through February 24, 2020, which is the date the financial statements were available to be issued.

New Accounting Pronouncements

The Chancery has applied the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*, which was effective for years beginning after December 15, 2017, on a retrospective basis. The implementation included: (1) reporting two classes of net assets (with donor restrictions and without donor restrictions), (2) no longer presenting the indirect method of reconciling the change in net assets to cash flows from operating activities if the direct method is presented, (3) reporting expenses by both their natural classification and their functional classification on a separate statement of functional expenses and (4) disclosing certain qualitative and quantitative information concerning the liquidity and availability of the entity's resources in meeting cash needs for general expenditures within one year of the statement of financial position date. However, as allowed by ASU No. 2016-14 transition guidance, the Chancery has elected not to retroactively provide disclosures about liquidity and availability of resources in meeting cash needs for general expenditures and information on functional expenses for the prior year.

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. In order to comply with ASC Topic 606, entities should apply the following five - step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. The ASU is effective for years beginning after December 15, 2018. Management has evaluated the requirements of ASC Topic 606 and has determined that their current revenue recognition process is consistent with this five-step approach and anticipates no material effect to the financial statements.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 2 • FAIR VALUE MEASUREMENTS

Accounting standards set a framework for measuring fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or the liabilities.

Level 3: Inputs that are not observable on the market and reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Listed below are the recorded amount of assets measured at fair value on a recurring basis in the statement of financial position as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 1,015,814	\$ -	\$ -	\$ 1,015,814
Certificates of deposit		2,149,524		2,149,524
Common stock	10,695,524	-	-	10,695,524
Mutual funds	8,778,337	-	-	8,778,337
Governmental securities	-	1,782,913	-	1,782,913
Corporate bonds	-	5,874,631	-	5,874,631
Preferred stock	-	20,600	-	20,600
Pooled investment fund	-	2,896,123	-	2,896,123
Other	-	312,893	-	312,893
	<u>\$ 20,489,675</u>	<u>\$ 13,036,684</u>	<u>\$ -</u>	<u>\$ 33,526,359</u>

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 2 • FAIR VALUE MEASUREMENTS (continued)

Listed below are the recorded amount of assets measured at fair value on a recurring basis in the statement of financial position as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Money market	\$ 1,796,066	\$ -	\$ -	\$ 1,796,066
Certificates of deposit		1,982,635		1,982,635
Common stock	11,024,838	-	-	11,024,838
Mutual funds	7,613,656	-	-	7,613,656
Governmental securities	-	1,027,877	-	1,027,877
Corporate bonds	-	7,210,128	-	7,210,128
Preferred stock	-	20,000	-	20,000
Pooled investment fund	-	2,894,281	-	2,894,281
Other	-	332,311	-	332,311
	<u>\$ 20,434,560</u>	<u>\$ 13,467,232</u>	<u>\$ -</u>	<u>\$ 33,901,792</u>

NOTE 3 • LINES OF CREDIT

The Chancery had a \$1,500,000 line of credit at June 30, 2019 and 2018, respectively, with Regions Bank to meet short-term financing needs. The line of credit is unsecured and interest is payable monthly at the financial institution's floating prime rate of 5 percent as of June 30, 2019 and 2018. As of June 30, 2019 and 2018, the Diocese maintained a balance on this line of credit of \$874,000 and \$879,000, respectively. As of June 30, 2019 and 2018, the unused portion of the balance of this line of credit was \$626,000 and \$621,000, respectively.

The Chancery had a \$1,000,000 line of credit at June 30, 2018 with a Bancorp South to meet short-term financing needs. As of June 30, 2018, the balance was \$895,000. In October 2018, the line of credit with BancorpSouth was closed.

The Chancery has a \$2,000,000 line of credit with a Raymond James to meet short-term financing needs. The line of credit is secured by the brokerage account (totaling \$12,419,925 and \$13,169,576 at June 30, 2019 and 2018, respectively) and interest is payable monthly at the financial institution's floating prime rate of 4.810 percent as of June 30, 2019 and 4.59 percent as of June 30, 2018. As of June 30, 2019 and 2018, the Chancery maintained a balance on this line of credit of \$926,826 and \$-0-, respectively. As of June 30, 2019 and 2018, the unused portion of the balance of this line of credit was \$1,073,174 and \$2,000,000, respectively.

The Chancery has a \$181,700 standby letter of credit with Regions Bank for the benefit of Mississippi Development Authority. This variable rate non-disclosable letter of credit was established March 16, 2017 and matures March 15, 2026. As of June 30, 2019 and 2018, there were no borrowings outstanding. As of June 30, 2019 and 2018, the unused portion of the standby letter of credit was \$181,700.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 4 • NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Pastoral	\$ 858,756	\$ 1,051,337
St. Joseph Church and Parish	22,753,612	-
Educational	683,929	972,490
Supplementary benefits to retired priests	24,979	839,584
Low income housing	377,910	386,455
Property - Bishop's discretion	1,260,123	24,979
Bishop Houck Archive Fund	8,774	8,774
Grant writer time restriction	-	36,000
	<u>\$ 25,968,083</u>	<u>\$ 3,319,619</u>

NOTE 5 • LONG-TERM LIABILITIES

Details of long-term liabilities as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Long-term debt:		
Note payable to Citizens National Bank with interest rate of 5.00 percent payable in monthly installments of \$28,268 maturing August 23, 2023, note is collateralized by money market account.	\$ 1,276,184	\$ -
Note payable to BancorpSouth with interest rate of 4.49 percent payable in monthly installments of \$9,334 maturing August 2, 2023, note is collateralized by real estate.	424,338	-
Note payable to BancorpSouth with interest rate of 3.25 percent payable in monthly installments of \$9,785 maturing May 15, 2021, note is collateralized by real estate.	725,255	817,147
Note payable to Mississippi Development Authority with interest rate of 1.5 percent payable in monthly installments of \$1,631 maturing May 1, 2026, note is collateralized by real estate.	127,079	144,607

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 5 • LONG-TERM LIABILITIES (continued)

	2019	2018
Note payable to Bank Plus with interest rate of 3.5 percent payable in monthly installments of \$4,844 maturing August 30, 2021, note is collateralized by real estate.	\$ 577,830	\$ 614,911
Note payable to BancorpSouth with interest rate of 3.99 percent payable in monthly installments of \$13,282 maturing March 30, 2022, note is collateralized by real estate.	816,341	935,288
Less: current maturities	(660,058)	(270,968)
	\$ 3,286,969	\$ 2,240,985

Future payments on long-term debt required as of June 30, 2019 are as follows:

Year Ending June 30,		
2020		\$ 660,058
2021		1,220,754
2022		1,487,897
2023		457,326
2024		85,497
Thereafter		35,495
		\$ 3,947,027

NOTE 6 • RETIREMENT PLANS

Pension Plan for Employees

The Chancery participates with Catholic Charities, Inc. in the Pension Plan for Employees of the Catholic Diocese of Jackson (the "Plan"), which is a multi-employer defined benefit Plan. The Plan is an insured non-contributory Plan that covers lay employees who have attained the age of 21 and completed one year of service. Effective June 30, 2014, the Diocese closed the Plan to new participants and froze the benefit accruals of all participants. The risks of participating in multi-employer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer Plan by one employer may be used to provide benefits to employees of other participating employers.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 6 • RETIREMENT PLANS (continued)

Pension Plan for Employees (continued)

- If a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be borne by the remaining participating employers.
- If an employer chooses to stop participating in some of its multi-employer Plans, the employer may be required to pay those Plans an amount based on the underfunded status of the Plan, referred to as a withdrawal liability.

Employees are fully vested after seven years of service based on a graduated vesting schedule and the normal retirement age is defined as the employee's 65th birthday, but the Plan also provides for early retirement, disability, and death benefits.

Benefits are provided through an insurance contract and are based on years of service and average monthly earnings. Funding is accomplished through annual actuarially determined employer contributions based on the anticipated funding of employees' pension benefits spread over the period from their dates of employment to their dates of retirement.

As of June 30, 2019 and 2018, the Plan assets totaled \$6,428,877 and \$6,681,907 respectively. The annual contributions by the Chancery for the years ended June 30, 2019 and 2018 totaled \$218,915 and \$379,809 respectively. For the years ended, June 30, 2019 and 2018, the Plan's accumulated benefit obligation totaled \$12,182,134 and \$12,160,994 respectively. The financial health of the multi-employer pension plan is indicated by the zone status, as defined by the Pension Protection Act of 2006, which represents the funded status of the Plan as certified by the plan's actuary. Plans in the red zone are less than 65 percent funded, the yellow zone are between 65 percent and 80 percent funded and the green zone are at least 80 percent funded. The Plan was in the red zone for years ended June 30, 2019 and 2018. Because the Plan is a church plan and is not subject to ERISA requirements, a funding improvement plan is not required.

Pension Plan for Priests

The Chancery participates with The Catholic Diocese of Biloxi in the Association of Priests of the Dioceses of Biloxi/Jackson Retirement Plan (the "Plan"), which is a multi-employer defined benefit Plan. As discussed above, the risks of participating in multi-employer plans are different from single-employer plans.

Employees are fully vested after seven years of service based on a graduated vesting schedule and the normal retirement age is defined as the employee's 65th birthday, but the Plan also provides for early retirement, and disability.

Funding is accomplished through annual actuarially determined employer contributions based on the anticipated funding of employees' pension benefits spread over the period from their dates of employment to their dates of retirement.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 6 • RETIREMENT PLANS (continued)

Pension Plan for Priests (continued)

As of June 30, 2019 and 2018, the Plan assets totaled \$5,517,094 and \$6,067,559, respectively. The annual contributions by the Chancery for the years ended June 30, 2019 and 2018 totaled \$292,500 and \$306,000, respectively. For the years ended, June 30, 2019 and 2018, the Plan's accumulated benefit obligation totaled \$7,764,068 and \$7,736,761, respectively. The financial health of the multi-employer pension plan is indicated by the zone status, as defined by the Pension Protection Act of 2006, which represents the funded status of the Plan as certified by the plan's actuary. Plans in the red zone are less than 65 percent funded, the yellow zone are between 65 percent and 80 percent funded and the green zone are at least 80 percent funded. The Plan was in the yellow zone for years ended June 30, 2019 and June 30, 2018. Because the Plan is a church plan and is not subject to ERISA requirements, a funding improvement plan is not required.

401(k) Plan

Effective July 1, 2014, the Chancery established a defined contribution 401(k) plan with Mutual of America ("the 401(k) Plan"). The 401(k) Plan covers all full-time employees except relief staff. The Chancery matches 100% of the elective contributions not to exceed 4% of compensation received during the plan year. In addition, the Chancery makes an employer base contribution equal to 2% of compensation for the plan year.

Participants must be at least 21 years of age and have completed one year of service or at least 501 hours of service within that twelve-month period to receive employer matching contributions. The 401(k) Plan offers both pre-tax and Roth options. For the years ended June 30, 2019 and 2018, employer contributions made to the 401(k) Plan were \$235,429 and \$90,221, respectively. This has been included in employee benefits on the Statement of Activities.

NOTE 7 • SELF-INSURANCE PROGRAM

The Chancery provides self-insurance for the various Catholic parishes, schools and Catholic entities located within the Diocese. Administered by the Administration and Finance Department of the Diocese, the program generally provides uniform, all-risk coverage for individual losses subject to deductibles dependent on the nature of the loss. Losses in excess of the deductibles are absorbed and paid for by an independent insurance carrier.

The net assets of the insurance fund resulting from excess revenues (premiums from parishes, schools, etc.) over expenses (premiums, claims paid and administration), are retained to fund future losses, to reduce the cost of premiums to the parishes and schools until such time that the directors determine that sufficient revenues are available to allow the Chancery to adopt a program of total self-insurance. The net assets are held in trust for the entities covered by the insurance program.

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 8 • COMMITMENTS AND CONTINGENCIES

Litigation

The Chancery is involved in litigation arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the Chancery's future financial position or on the results of its future operations.

Unasserted Claims

The Chancery may be potentially liable for unasserted claims arising in the normal course of business. Based on consultations with legal counsel, it is not possible at this time to evaluate the likelihood an unfavorable outcome on ongoing matters, or to estimate the amount or material adverse effect on the Chancery's future financial position or on the results of its future operations.

Religious Order and Indian priest retirement

During the year ending 2018, the Chancery began outsourcing priests from the Religious Orders and the Diocese of India. The Chancery is committed to pay funds towards those individuals health care and insurance. As of June 30, 2019 and 2018, the Chancery paid \$22,500 towards the 15 priests from the Religious Orders and paid \$54,000 toward the priests from the Diocese of India.

Benefit Association

In 2016, the Chancery began setting aside funds for a supplemental retirement for priests in the Diocese of Jackson as a designation called the Benefits Association. After June 30, 2018, the Benefits Association became a separate legal entity of the Diocese. As of June 30, 2018, the Chancery has paid \$50,000 towards the Benefits Association. At July 1, 2018, the Chancery transferred assets totaling \$2,121,999 to the Benefit Association.

NOTE 9 • RESTATEMENT OF FISCAL YEAR 2018 FINANCIAL STATEMENTS

The June 30, 2018 financial statements have been restated to reflect the correction of errors related to the beginning net assets as of July 1, 2017, the ending net assets as of June 30, 2018 and the release of net assets from restrictions for the year ending June 30, 2018. The beginning net assets for the year ended June 30, 2018 were understated due to incorrectly recording deferred revenue of \$603,500 for the year ending June 30, 2017 and was corrected by restating the beginning net assets reported on the statement of activities for the year ended June 30, 2018. Accounts payable and accrued expenses and ending net assets as of June 30, 2018 were overstated and understated, respectively, by incorrectly recording deferred revenue of \$447,500 for the year then ended and was corrected by adjusting accounts payable and accrued expenses reported on the statement of financial position as of June 30, 2018 and Catholic Service Appeal contributions (net of the impact of correcting the beginning net assets) reported in the statement of activities for the year ended June 30, 2018. The release of net assets from restrictions was misstated due to an error in not identifying certain net assets

CHANCERY OFFICE OF THE CATHOLIC DIOCESE OF JACKSON

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

NOTE 9 • RESTATEMENT OF FISCAL YEAR 2018 FINANCIAL STATEMENTS (continued)

released from restrictions of \$122,958 and was corrected by adjusting the release of net assets from restrictions reported in the statement of activities for the year ended June 30, 2018. Consequently, the 2018 financial statement were restated as follows (the restatement of beginning net assets is presented on the statement of activities for the year ended June 30, 2018):

	2018 As Previously Reported	Effect Increase/ (Decrease)	Restated 2018
STATEMENT OF FINANCIAL POSITION			
Current liabilities			
Accounts payable and accrued expenses	\$ 1,354,320	\$ (447,500)	\$ 906,820
Net assets			
Without donor restrictions	\$ (623,696)	\$ 570,458	\$ (53,238)
With donor restrictions	3,442,577	(122,958)	3,319,619
	<u>\$ 2,818,881</u>	<u>\$ 447,500</u>	<u>\$ 3,266,381</u>
STATEMENT OF ACTIVITIES			
Revenue, support and reclassifications			
Catholic service appeal	\$ 1,144,504	\$ (156,000)	\$ 988,504
Net assets released from restrictions			
Without donor restrictions	\$ 890,113	\$ (122,958)	\$ 1,013,071
With donor restrictions	(890,113)	122,958	(1,013,071)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>