

Bishop McGuinness Catholic High School of the Roman Catholic Diocese of Charlotte

Financial Statements as of and for the
Years Ended June 30, 2020 and 2019, and
Independent Auditors' Report

**BISHOP MCGUINNESS CATHOLIC HIGH SCHOOL
OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Statements of Functional Expenses	7-8
Notes to Financial Statements	9-18



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INDEPENDENT AUDITORS' REPORT

To the Most Reverend Peter J. Jugis, Bishop of Charlotte,
and the Bishop McGuinness Catholic High School Board of Education:

We have audited the accompanying financial statements of Bishop McGuinness Catholic High School of the Roman Catholic Diocese of Charlotte (BMCHS) (an affiliated entity of the Roman Catholic Diocese of Charlotte), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audit 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 auditor's 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 BMCHS' 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 BMCHS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BMCHS as of June 30, 2020 and 2019, and the changes in its net assets, its functional expenses and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 18, 2020

**BISHOP MCGUINNESS CATHOLIC HIGH SCHOOL
OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

**STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 1,259,958	\$ 385,705
DEPOSITS WITH DL CATHOLIC	4,516,284	4,458,468
ACCOUNTS RECEIVABLE:		
Tuition receivable—net of allowance for doubtful accounts of \$40,345 and \$40,500 in 2020 and 2019, respectively	50,965	13,639
Parish subsidies receivable and other	17,382	13,683
PROPERTY AND EQUIPMENT—Net	8,436,008	8,925,656
RIGHT-OF-USE ASSETS—Operating leases	-	3,083
INTEREST IN NET ASSETS OF TRIAD AREA CATHOLIC SCHOOLS EDUCATION FOUNDATION	-	39,828
INVESTMENTS HELD BY THE DIOCESAN FOUNDATION	372,520	408,038
OTHER ASSETS	<u>10,095</u>	<u>18,165</u>
TOTAL	<u>\$14,663,212</u>	<u>\$14,266,265</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and other accrued expenses	\$ 60,225	\$ 102,471
Accrued salaries and benefits	331,053	234,009
Lease obligation	-	192,620
Unearned revenue—advance tuition	664,928	531,006
Notes payable—PPP loan	<u>87,110</u>	<u>-</u>
Total liabilities	<u>1,143,316</u>	<u>1,060,106</u>
NET ASSETS:		
Net assets without donor restrictions:		
Undesignated	12,493,032	12,302,688
Designated	<u>431,802</u>	<u>220,237</u>
Total net assets without donor restrictions	12,924,834	12,522,925
Net assets with donor restrictions	<u>595,062</u>	<u>683,234</u>
Total net assets	<u>13,519,896</u>	<u>13,206,159</u>
TOTAL	<u>\$14,663,212</u>	<u>\$14,266,265</u>

See notes to financial statements.

**BISHOP MCGUINNESS CATHOLIC HIGH SCHOOL
OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT:			
Tuition and fees—net	\$ 3,790,838	\$ -	\$ 3,790,838
Capital Fees	205,525	-	205,525
Parish subsidy	362,259	-	362,259
Donations and gifts	22,922	88,434	111,356
Transportation income	110,016	-	110,016
Donations—TRIAD Area Catholic Schools Education Foundation	78,602	-	78,602
Net income on investments held by the Diocesan Foundation	(2)	4,984	4,982
Interest income	83,433	-	83,433
Government awards	575,623	-	575,623
Other	393,366	500	393,866
Net assets released from restrictions	<u>182,090</u>	<u>(182,090)</u>	<u> </u>
Total revenues and other support	<u>5,804,672</u>	<u>(88,172)</u>	<u>5,716,500</u>
EXPENSES:			
Program:			
Salaries and benefits	2,369,430	-	2,369,430
Instructional expenses	406,281	-	406,281
Other program expenses	116,130	-	116,130
Administrative:			
Salaries and benefits	870,470	-	870,470
Facilities	470,580	-	470,580
Interest expense	577	-	577
Transportation expense	60,021	-	60,021
Depreciation and amortization expenses	550,639	-	550,639
Other	459,788	-	459,788
Fundraising	<u>98,847</u>	<u>-</u>	<u>98,847</u>
Total expenses	<u>5,402,763</u>	<u>-</u>	<u>5,402,763</u>
CHANGE IN NET ASSETS	401,909	(88,172)	313,737
NET ASSETS:			
Beginning of year	<u>12,522,925</u>	<u>683,234</u>	<u>13,206,159</u>
End of year	<u>\$ 12,924,834</u>	<u>\$ 595,062</u>	<u>\$ 13,519,896</u>

See notes to financial statements.

**BISHOP MCGUINNESS CATHOLIC HIGH SCHOOL
OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT:			
Tuition and fees—net	\$ 3,639,608	\$ -	\$ 3,639,608
Capital fees	200,340	-	200,340
Parish subsidy	357,191	-	357,191
Donations and gifts	9,533	174,924	184,457
Transportation income	108,183	-	108,183
Donations—TRIAD Area Catholic Schools Education Foundation	39,828	-	39,828
Net income on investments held by the Diocesan Foundation	434	34,096	34,530
Interest income	109,975	-	109,975
Other	382,478	16,500	398,978
Net assets released from restrictions	<u>205,027</u>	<u>(205,027)</u>	<u>-</u>
Total revenues and other support	<u>5,052,597</u>	<u>20,493</u>	<u>5,073,090</u>
EXPENSES:			
Program:			
Salaries and benefits	2,228,644	-	2,228,644
Instructional expenses	461,385	-	461,385
Other program expenses	128,661	-	128,661
Administrative:			
Salaries and benefits	779,582	-	779,582
Facilities	524,817	-	524,817
Interest expense	7,660	-	7,660
Transportation expense	59,651	-	59,651
Depreciation and amortization expenses	549,510	-	549,510
Other	705,880	-	705,880
Fundraising	<u>36,104</u>	<u>-</u>	<u>36,104</u>
Total expenses	<u>5,481,894</u>	<u>-</u>	<u>5,481,894</u>
CHANGE IN NET ASSETS	(429,297)	20,493	(408,804)
NET ASSETS:			
Beginning of year	<u>12,952,222</u>	<u>662,741</u>	<u>13,614,963</u>
End of year	<u>\$ 12,522,925</u>	<u>\$ 683,234</u>	<u>\$ 13,206,159</u>

See notes to financial statements.

**BISHOP MCGUINNESS CATHOLIC HIGH SCHOOL
OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 313,737	\$ (408,804)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Contributions with donor restrictions—endowments	(500)	(16,500)
Depreciation and amortization	550,639	549,510
Gain on disposal of property and equipment	(3,200)	(2,347)
Net income on investments held by the Diocesan Foundation	(4,982)	(34,530)
Change in interest in net assets of TRIAD Area Catholic Schools Education Foundation	39,828	7,862
Changes in operating assets and liabilities:		
Accounts receivable—net	(41,025)	1,195
Other assets	8,070	(194)
Accounts payable and other accrued expenses	(42,246)	13,620
Accrued salaries and benefits	97,044	11,812
Unearned revenue—advance tuition	<u>133,922</u>	<u>(16,878)</u>
Net cash provided by operating activities	<u>1,051,287</u>	<u>104,746</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(60,991)	(35,405)
Proceeds from sale of equipment	3,200	4,695
Redemption of investments	41,000	82,204
Additions to corpus	(500)	(16,500)
Change in deposits with DL Catholic	<u>(57,816)</u>	<u>(54,124)</u>
Net cash used in investing activities	<u>(75,107)</u>	<u>(19,130)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions with donor restrictions—endowments	500	16,500
Notes payable - PPP loan	87,110	-
Principal payment of finance lease obligation	<u>(189,537)</u>	<u>(182,729)</u>
Net cash used in financing activities	<u>(101,927)</u>	<u>(166,229)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	874,253	(80,613)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>385,705</u>	<u>466,318</u>
End of year	<u>\$ 1,259,958</u>	<u>\$ 385,705</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 577</u>	<u>\$ -</u>

See notes to financial statements.

**BISHOP MCGUINNESS CATHOLIC HIGH SCHOOL
OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	Personnel Costs	Occupancy Costs	Office/ Program Expenses	Professional Services	Travel & Professional Development	Other	Total
Programs and support services:							
Instructional salaries and benefits	\$2,369,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,369,430
Other instructional expenses	-	-	406,281	-	-	-	406,281
Other program expenses	-	-	116,130	-	-	-	116,130
Administrative salaries and benefits	870,470	-	-	-	-	-	870,470
Facilities	140,917	329,663	-	-	-	-	470,580
Interest expense	-	-	-	-	-	577	577
Transportation expenses	24,642	-	35,379	-	-	-	60,021
Depreciation and amortization expenses	-	550,639	-	-	-	-	550,639
Other	-	112,740	103,666	227,107	10,889	5,386	459,788
Fundraising	-	-	98,847	-	-	-	98,847
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses included in the expense section on the statement of activities	<u>\$3,405,459</u>	<u>\$ 993,042</u>	<u>\$760,303</u>	<u>\$227,107</u>	<u>\$10,889</u>	<u>\$ 5,963</u>	<u>\$5,402,763</u>

See notes to financial statements.

**BISHOP MCGUINNESS CATHOLIC HIGH SCHOOL
OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Personnel Costs	Occupancy Costs	Office/ Program Expenses	Professional Services	Travel & Professional Development	Other	Total
Programs and support services:							
Instructional salaries and benefits	\$2,228,644	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,228,644
Other instructional expenses	-	-	461,385	-	-	-	461,385
Other program expenses	-	-	128,661	-	-	-	128,661
Administrative salaries and benefits	779,582	-	-	-	-	-	779,582
Facilities	137,233	387,584	-	-	-	-	524,817
Interest expense	-	-	-	-	-	7,660	7,660
Transportation expenses	26,833	-	32,818	-	-	-	59,651
Depreciation and amortization expenses	-	549,510	-	-	-	-	549,510
Other	-	107,975	105,144	456,246	11,165	25,350	705,880
Fundraising	-	-	36,104	-	-	-	36,104
	<u>-</u>	<u>-</u>	<u>36,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,104</u>
Total expenses included in the expense section on the statement of activities	<u>\$3,172,292</u>	<u>\$1,045,069</u>	<u>\$764,112</u>	<u>\$456,246</u>	<u>\$11,165</u>	<u>\$33,010</u>	<u>\$5,481,894</u>

See notes to financial statements.

BISHOP MCGUINNESS CATHOLIC HIGH SCHOOL OF THE ROMAN CATHOLIC DIOCESE OF CHARLOTTE

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1. ORGANIZATION

Bishop McGuinness Catholic High School of the Roman Catholic Diocese of Charlotte ("BMCHS") was established in 1959 and organized for the purpose of providing Catholic education at the secondary school level.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation—The financial statements have been prepared under the accrual basis in accordance with accounting principles generally accepted in the United States of America as set forth in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), including FASB ASC 958, *Not-for-Profit Entities*. FASB ASC 958 requires the reporting of total assets, liabilities, and net assets in a statement of financial position; reporting the change in net assets in a statement of activities; and reporting the sources and uses of cash in a statement of cash flows.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in accordance 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 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.

Functional Expenses—The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs are attributed to more than one program or supporting function and, therefore, require allocation among the programs and supporting services benefited. We believe our allocations are done on a reasonable and consistent basis. Occupancy costs are allocated on a square footage basis. Most personnel costs, office expenses, professional services, travel and professional development costs, and grants and other assistance are identified with a specific program or supporting function at the time they are incurred and are reported accordingly. However, some of these expenses require allocation, which is done on the basis of estimates of time and effort.

Cash and Cash Equivalents—BMCHS considers all highly liquid instruments with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value. Cash and cash equivalents consist primarily of funds held in bank accounts. At various times throughout the year, BMCHS' bank account balances exceeded the FDIC-insured limit.

Deposits with DL Catholic—A portion of BMCHS' cash may be swept nightly into the cash concentration account of DL Catholic, Inc. ("DL Catholic"), an affiliated diocesan entity which administers a pooled cash arrangement and savings and investment programs for entities of the Roman Catholic Diocese of Charlotte (the "Diocese"). Funds on deposit in the DL Catholic cash concentration and savings program accounts earn interest at the

prime rate, less 3.5%, with a minimum rate of 0.5%, which can be withdrawn at any time. Funds on deposit in the DL Catholic investment program earn interest at the prime rate, less 2.5%, with a minimum rate of 1.0%, which are subject to a minimum 18-month investment period. The prime rate was 3.5% and 5.5% at June 30, 2020 and 2019, respectively. Deposits held with DL Catholic are measured at cost which approximates fair value.

Property and Equipment—Property and equipment are stated at cost. Depreciation expense is determined using the straight-line method over the estimated useful lives of the assets.

BMCHS reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future net undiscounted cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment charges related to property and equipment were recognized during fiscal years 2020 or 2019.

The major classes of property and equipment as of June 30, 2020 and 2019, are as follows:

	2020	2019	Life (in Years)
Land	\$ 2,204,630	\$ 2,204,630	N/A
Land improvements	1,094,966	1,094,966	5–15
Buildings	11,326,032	11,326,032	40
Furniture and equipment	1,493,517	1,473,526	3–10
Vehicles	293,176	330,446	5
Building improvements	398,818	357,818	10
Right-of-use assets (finance lease)	<u>521,781</u>	<u>529,551</u>	3
	17,332,920	17,316,969	
Less accumulated depreciation	<u>(8,896,912)</u>	<u>(8,391,313)</u>	
Property and equipment—net	<u>\$ 8,436,008</u>	<u>\$ 8,925,656</u>	

Accumulated depreciation related to right-of-use (ROU) assets totaled \$521,781 and \$353,897 at June 30, 2020 and 2019, respectively.

Interest in Net Assets of Triad Area Catholic Schools Education Foundation (the “Foundation”)—The interest in net assets of the Foundation included in the accompanying statements of financial position represents amounts donated to and held by the Foundation on behalf of BMCHS that have not yet been distributed to BMCHS. The Foundation was dissolved during fiscal 2020 and all net assets distributed to its beneficiary entities.

Accrued Salaries and Benefits—Faculty salaries and benefits are recognized over the school year (10 months) in which they are earned. Accrued salaries and benefits payable

at June 30, 2020 and 2019, include faculty summer pay for those instructors who opted to receive their salaries over a 12-month period.

Notes Payable—PPP Loan—BMCHS applied for and received a Paycheck Protection Program (PPP) loan from the Small Business Administration under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in May 2020 for the amount of \$662,733. As of June 30, 2020, \$575,623 of the proceeds of this loan were expended for expenses that qualify for forgiveness under the provisions of the PPP, and as such, is reported as Government awards in the accompanying Statements of Activities. The remaining balance of \$87,110 is reported as Notes payable as of June 30 2020 on the accompanying Statements of Financial Position. It is management’s intention to expend this amount on expenses that qualify for forgiveness within the prescribed timeframe.

Net Assets—Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets consist of the following:

Without Donor Restrictions—Net assets without donor restrictions consist of all resources that have no donor-imposed restrictions. BMCHS has designated \$431,802 and \$220,237 of net assets without donor restrictions as of June 30, 2020 and 2019, respectively, primarily for future expenses, as follows:

	2020	2019
Various clubs	\$ 25,937	\$ 19,897
Capital initiatives	<u>405,865</u>	<u>200,340</u>
	<u>\$431,802</u>	<u>\$220,237</u>

With Donor Restrictions—Net assets subject to donor-imposed restrictions stipulating how, when and/or if the net assets are available for expenditure. Some donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Others are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Net assets are released from restriction and reclassified to net assets without donor restrictions when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the (long-lived)

assets are placed in service. Net assets with donor restrictions consist of the following at June 30, 2020 and 2019:

	2020	2019
Subject to expenditure for donor specified purposes:		
Alumni association	\$ 57,898	\$ 51,574
Athletics	18,826	26,231
Tuition assistance	13,642	27,720
Drama	11,424	16,797
Pavilion project	15,855	15,855
George L. Repass scholarship	27,006	27,906
Technology	72,148	78,687
Other activities/projects and scholarships	<u>12,428</u>	<u>38,002</u>
	229,227	282,772
Amounts in excess of endowment corpus amounts subject to expenditure for donor specified purposes	61,514	57,500
Amounts in excess of endowment corpus amounts available for any activities of the organization, but not yet appropriated	50,921	90,062
To be held in perpetuity to generate income for donor specified purposes	<u>253,400</u>	<u>252,900</u>
	<u>\$595,062</u>	<u>\$683,234</u>

Tuition and Fees—Net, Parish Subsidy and Related Fees—Tuition and fees represent amounts paid by students’ families, net of applied tuition assistance, and are recognized over the school year (10 months) in which they are earned. Amounts received in the current year for the following school year’s tuition and fees are recorded as unearned revenue in the accompanying statements of financial position. Parish Subsidy revenue primarily represents contributions made by participating parishes of the Diocese, specifically for tuition assistance. Transportation income represents payments for bus ridership by students during the school year.

Income Taxes—BMCHS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally exempt from federal and state income taxes.

Accounting principles generally accepted in the United States of America prescribe a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. Although these principles are primarily applicable to taxable business enterprises, an uncertain tax position may also include the characterization of income, such as a characterization of income as passive, a decision to exclude reporting taxable income in a tax return, or a decision to classify a transaction, entity, or other position in a tax return as exempt. The tax benefit from uncertain tax positions is recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

BMCHS had no unrecognized tax positions as of and during the years ended June 30, 2020 and 2019. Fiscal year 2017 and thereafter are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Interest and penalties related to uncertain tax positions, if any, would be recognized in the financial statements as income tax expense.

COVID-19 Impact— On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (“COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. As of June 30, 2020, BMCHS believes the current impacts of the COVID-19 pandemic has not had significant impacts on BMCHS’s results of operations. However, BMCHS cannot reasonably estimate the length or severity of this pandemic, or the extent to which a disruption may materially impact BMCHS’s financial position, results of operations or cash flows for the year ending June 30, 2021.

Subsequent Events—BMCHS has evaluated subsequent events from the end of the most recent fiscal year through September 18, 2020, the date the financial statements were available to be issued.

New Accounting Standards—The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”) in May of 2014. The ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU was originally effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The effective date was subsequently deferred by one year with the issuance of ASU 2020-05, issued in June of 2020. BMCHS early adopted the ASU on July 1, 2019. Adoption of this standard did not result in a material impact to its revenue recognition, financial position or results of operations.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date (June 30, 2020 and 2019), comprise the following:

	2020	2019
Cash and cash equivalents	\$ 1,259,958	\$ 385,705
Deposits with DL Catholic, Inc.	4,516,284	4,458,468
Accounts receivable, due within one year	68,347	27,322
Distributions from interest in net assets of Triad Foundation	-	39,828
Endowment investments available for general purposes and for distribution in accordance with the Foundation spending rate policy	<u>38,408</u>	<u>61,389</u>
	5,882,997	4,972,712
Less amounts unavailable for general expenditures:		
Required to satisfy donor restrictions	229,228	282,772
Required to satisfy management designations	<u>431,802</u>	<u>220,237</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,221,967</u>	<u>\$ 4,469,703</u>

BMCHS' endowment funds consist of donor-restricted endowments and funds designated by management as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of amounts available for general use. Donor-restricted endowment funds are not available for general expenditure and, thus, are not included above.

All endowments are subject to an annual spending rate of 5% of the most recent 12-quarter market value average, as prescribed by the Foundation. Only the funds available for distribution in accordance with the Foundation spending rate policy are included above.

BMCHS manages its liquidity by developing and adopting annual operating and capital budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they come due. Actual performance is reported and monitored monthly in comparison to the budgets. Adjustments are made to plan as needed to ensure adequate liquidity. As part of BMCHS's liquidity management plan, DL Catholic, Inc. invests cash balances in short-term investments on BMCHS's behalf.

4. INVESTMENTS HELD BY THE DIOCESAN FOUNDATION

BMCHS has established endowments with the Diocesan Foundation, consisting of both donor-restricted funds and management designated funds. BMCHS classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent contributions to the permanent endowment, and (c) other accumulations to the permanent endowment as required by donor gift instruments. Gains (losses) on the investments of donor-restricted endowment funds are recorded as additions to (reductions of) net assets with donor restrictions, until

those amounts are appropriated for expenditure consistent with the donor’s wishes, at which time they are reclassified to net assets without donor restrictions.

There were no donor restricted endowments in which cumulative investment losses exceed cumulative investment gains (“underwater” endowments) as of June 30, 2020 and 2019.

At June 30, 2020, the endowments established by BMCHS totaled \$312,906, which consist of cumulative contributions of \$255,900 and accumulated investment income of \$57,006. At June 30, 2019, the endowments established by BMCHS totaled \$352,612, which consist of cumulative contributions of \$255,400 and accumulated investment income of \$97,212. There were no additional investments by BMCHS with the Diocesan Foundation during fiscal years 2020 or 2019. Accumulated investment income is available for distribution, subject to the Diocesan Foundation’s distribution policy. These endowments are recorded as investments held by the Diocesan Foundation in the accompanying statements of financial position.

BMCHS is also the beneficiary of endowments, held by the Diocesan Foundation, that have been established by third parties. As a beneficiary, BMCHS is the designated recipient of the earnings on the endowments. Cumulative undistributed investment income of \$59,613 and \$55,426 as of June 30, 2020 and 2019, respectively, is recorded as investments held by the Diocesan Foundation in the accompanying statements of financial position. Accumulated investment income is available for distribution, subject to the Diocesan Foundation’s distribution policy.

The endowment net asset composition by fund type as of June 30, 2020 and 2019, is as follows:

	Endowment Net Asset Composition by Fund Type as of June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowments established by BMCHS:			
Designated	\$6,685	\$	\$ 6,685
Donor-restricted		306,222	306,222
Endowment gifts to the Diocesan Foundation for the benefit of BMCHS	<u> </u>	<u>59,613</u>	<u>59,613</u>
Total funds	<u>\$6,685</u>	<u>\$365,835</u>	<u>\$372,520</u>

**Endowment Net Asset Composition
by Fund Type as of June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Endowments established by BMCHS:			
Designated	\$7,575	\$ -	\$ 7,575
Donor-restricted	-	345,037	345,037
Endowment gifts to the Diocesan Foundation for the benefit of BMCHS	-	55,426	55,426
Total funds	\$7,575	\$400,463	\$408,038

5. LEASES

Operating Leases—BMCHS is the lessee in operating leases for various office equipment. These leases have fixed lease payments and do not contain options to extend or terminate early. Operating lease costs for BMCHS totaled \$3,123 and \$7,925 for the years ended June 30, 2020 and 2019, respectively.

Finance Leases—BMCHS entered into a finance lease for computer equipment that commenced during fiscal year 2018. The lease obligation was \$0 and \$189,537 as of June 30, 2020 and 2019, respectively. Total lease costs related to this lease were \$176,231 for the year ended June 30, 2020, of which \$175,654 is amortization of the right-of-use asset and \$577 is interest expense on lease liabilities. Total lease costs related to this lease were \$182,881 for the year ended June 30, 2019, of which \$175,221 is amortization of the right-of-use asset and \$7,660 is interest expense on lease liabilities.

Future Minimum Lease Payments—As of June 30, 2020, BMCHS had fulfilled its rental commitments under its non-cancelable operating and finance leases and, as such, had no future rental commitments. As of June 30, 2019, BMCHS had lease liabilities of \$3,083 and \$189,537 for operating and finance leases, respectively, totaling \$192,620.

ROU assets related to operating leases are included as a separate line item in the accompanying statement of financial position at June 30, 2019. The ROU assets related to the finance lease are included in PPE in the accompanying statement of financial position at June 30, 2020 and 2019 (see Note 2).

6. CENTRAL ADMINISTRATION AND DL CATHOLIC PROVIDED SERVICES

Interest Income and Expense—DL Catholic paid BMCHS \$82,816 and \$108,856 in fiscal years 2020 and 2019, respectively, for interest on cash balances on deposit with DL Catholic. The interest income earned from these cash investments is reported as interest income in the accompanying statements of activities.

Insurance Programs—The Central Administration provides certain health benefits for the employees of BMCHS. BMCHS reported expenses related to this program of \$589,842 and \$552,448 in fiscal years 2020 and 2019, respectively, which are reported within expenses in the accompanying statements of activities.

BMCHS is also insured with regard to property and casualty losses and workers' compensation through the Central Administration. BMCHS reported expenses related to

this program of \$112,741 and \$107,977 in fiscal years 2020 and 2019, respectively, which are reported within expenses in the accompanying statements of activities.

Employee Retirement Plans—The Central Administration sponsors a noncontributory defined benefit pension plan (the “Lay Plan”) for all eligible diocesan lay employees, including the employees of BMCHS. The Lay Plan provides for benefits based on an employee’s years of service and compensation. The plan was frozen in fiscal 2017; however, employees who are participants in the plan retained benefits accumulated up to January 1, 2018, based on credited service and eligible earnings, in accordance with the terms of the plan.

During fiscal years 2020 and 2019, each diocesan entity was assessed a percentage of lay employees’ salaries to fund the contribution to the Lay Plan and certain other employee benefits. The assessment rate was 5.6% during fiscal years 2020 and 2019. It is the intent of the Central Administration for the minimum funding to be the actuarially recommended contribution amount.

The Central Administration also sponsors a tax-deferred defined contribution plan under Section 403(b) of the Internal Revenue Code for all eligible diocesan employees, including the employees of BMCHS. Employer-matching contributions to the plan are based on a percentage of employee contributions and are paid directly to the plan. Matching contributions totaled \$38,820 and \$33,776 in fiscal years 2020 and 2019, respectively, and are reported in salaries and benefits expenses. Starting in January 2018, in conjunction with the Lay Plan freeze, BMCHS also began contributing 5% of eligible salaries (basic contribution) on behalf of each eligible employee. The basic contribution is being held by the Central Administration until the end of the calendar year, at which time, participant eligibility for the basic contribution will be determined based on an employee’s hours worked in the calendar year.

BMCHS’s Lay Plan and 403(b) retirement contributions remitted to the Central Administration amounted to \$234,127 and \$207,230 in fiscal years 2020 and 2019, respectively, and are reported in salaries and benefits expenses.

Grants—The Central Administration provided grants for tuition assistance totaling \$18,116 and \$12,469 for the years ended June 30, 2020 and 2019, respectively. The grants are recorded in other donations and gifts with donor restrictions in the accompanying statement of activities.

Support Services—The Central Administration assesses all diocesan schools for support services provided by the Catholic Schools Office. Total expense to the Central Administration for these services was \$7,896 and \$7,425 in fiscal years 2020 and 2019, respectively, and is reported in the accompanying statements of activities.

Advertisement Expenses—BMCHS utilizes the Catholic News Herald, an affiliated entity of the Diocese, for various advertising, promotion, and marketing services. Total advertising expense to the *Catholic News Herald* for the years ended June 30, 2020 and 2019, was \$965 and \$1,275, respectively, and is reported in the accompanying statements of activities.

7. FAIR VALUE MEASUREMENTS

In accordance with accounting principles generally accepted in the United States of America, certain assets and liabilities are required to be measured at fair value on a

recurring basis. For BMCHS, the assets that are measured at fair value on a recurring basis are limited to the investments held by the Diocesan Foundation. BMCHS has no liabilities recorded at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1—Valuations based on unadjusted quoted prices for identical instruments in active markets that are available as of the measurement date.

Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investments held by the Diocesan Foundation are recorded at fair value based on BMCHS' interest in the Diocesan Foundation's investment pool, which consists of investments that are classified within Level 1 and Level 2 of the fair value hierarchy. As BMCHS does not have a direct ownership in the underlying securities of the investment pool, BMCHS classifies investments held by the Diocesan Foundation as Level 2 within the fair value hierarchy.

There were no transfers of investments between levels during 2020 or 2019.

Accounting principles generally accepted in the United States of America also require that certain assets and liabilities be measured at fair value on a nonrecurring basis, generally as a result of impairment charges. BMCHS had no assets or liabilities adjusted to fair value on a nonrecurring basis as of June 30, 2020 or 2019.

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